



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

# Quarterly Report April - June 2023



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This first Quarterly Report of the Securities and Futures Commission for financial year 2023-24 covers the period from 1 April to 30 June 2023.

# Highlights

## Regulatory enhancements

### Virtual assets

We published consultation conclusions on the regulatory requirements for licensed virtual asset trading platform (VATP) operators and issued guidelines for them. The new licensing regime for VATPs took effect on 1 June 2023.

### RA 13 regime

Following the publication of the consultation conclusions on the RA 13 regime and the completion of the legislative process, the new regime will take effect on 2 October 2024 after a transition period.

### Position limit regime

We concluded our further consultation on proposed changes to the position limit regime for the derivatives market. Subject to the legislative process, we expect the amended rules to take effect in December 2023.

### Takeovers rules

We completed a consultation on amending the Codes on Takeovers and Mergers and Share Buy-backs to clarify some provisions. A conclusions paper will be issued in due course.

## Listing regulation

### Listing applications

We processed 50 new listing applications, including one from a company with a weighted voting rights structure, five from pre-profit biotech companies and one from a specialist technology company.

### Corporate conduct

We issued section 179 directions<sup>1</sup> to request information in 16 cases, as part of our ongoing review of corporate disclosures.



**50**  
new listing  
applications

<sup>1</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.



## Highlights

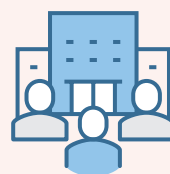
### Intermediaries

#### Licensing

As at 30 June, there were 48,165 licensees and registrants, which included 3,245 licensed corporations. Among the licensed corporations approved during the quarter, Type 9 (asset management) regulated activity (RA) accounted for 51% and Type 4 (advising on securities) for 37%. The number of firms licensed for Type 9 increased by 11 to 2,096.

#### Supervision

We conducted on-site inspections of 51 licensed corporations to review their compliance with regulatory requirements.



# 48,165

licensees and  
registrants

### Products

#### Product authorisations and registrations

During the quarter, we authorised 28 unit trusts and mutual funds (including 12 Hong Kong-domiciled funds), 10 investment-linked assurance schemes, nine mandatory provident fund pooled investment funds and 47 unlisted structured investment products for public offering in Hong Kong. As at 30 June, there were 152 registered open-ended fund companies, of which 21 were newly registered during the quarter.

#### Fund flows

As at 30 June, assets under management of Hong Kong-domiciled funds decreased 2% from the previous quarter to US\$170.7 billion. During the quarter, net fund inflows of about US\$1.4 billion were recorded.



# US\$1.4 billion

net fund inflows

### Markets

#### Stock Connect

The Stock Connect trading calendar was enhanced to enable investors to trade eligible stocks on all trading days when both the Hong Kong and Mainland markets are open.

#### Swap Connect

Swap Connect, the first Connect programme for financial derivatives products, launched for northbound trading in May. This allows overseas investors from

Hong Kong and other jurisdictions to participate in the Mainland interbank interest rate swap market.

#### RMB counters

The renminbi (RMB) counters of 24 stocks were launched for trading in June. The dual counter market making programme brings in market makers to ensure liquidity and minimise gaps between Hong Kong dollar (HKD) and RMB share prices. RMB stock prices have closely tracked the corresponding HKD prices.

## Highlights

### Enforcement

#### Disciplinary actions

We disciplined three corporations and two individuals during the quarter, resulting in total fines of \$9.2 million.

#### Market surveillance

We made 1,227 requests for trading and account records triggered by untoward price and turnover movements.

#### Cooperation with the CSRC

We held the 14th high-level meeting on enforcement cooperation with the China Securities Regulatory Commission (CSRC).

#### Joint operation with the Police

We conducted a joint operation with the Police against fraudulent activities in securities transactions and illegal short selling.

### Regulatory engagement

#### International

Our Chief Executive Officer (CEO) Ms Julia Leung and senior executives attended the International Organization of Securities Commissions' (IOSCO) 48th Annual Meeting in Bangkok and participated in discussions on crypto assets, sustainable finance, supervisory cooperation and other topics.

#### Mainland

We joined the Financial Secretary of the HKSAR's visit to Beijing and met senior Mainland officials to enhance financial sector cooperation. We also held the 13th high-level meeting with the CSRC on cross-boundary cooperation.

### Sustainability


#### Carbon neutrality

We announced our commitment to become a carbon-neutral organisation by 2050, in line with the HKSAR Government's climate strategy. Our interim target is to reduce 50% of our total carbon emissions by 2030.

#### Climate-related disclosures

Following discussion with the SFC, the Stock Exchange of Hong Kong Limited in April launched a three-month consultation on climate-related reporting requirements for listed companies in Hong Kong. The Green and Sustainable Finance Cross-Agency Steering Group welcomed the International Sustainability Standards Board's new standards.



**50%**   
in our total  
carbon emissions  
by 2030

## Highlights

### Communications

#### Virtual asset-related outreach

We helped the industry better understand the new VATP licensing regime through TV infotainment programmes, publications, our dedicated webpage and extensive outreach. Jointly with the Hong Kong Monetary Authority, we held two roundtables to facilitate communication between banks and the virtual asset sector. Partnering with Investor and Financial Education Council, we issued a series of materials to warn the public against trading on unregulated platforms.

#### Industry outreach

Our senior executives engaged our stakeholders through major industry bodies and associations to communicate our priorities and strategies, and listen to their views. During the quarter, they spoke at over 35 local and international events on virtual assets, sustainable finance, asset management and other topics.



# Operational Review

## Corporates

### Gatekeeping listing applications

During the quarter, we processed 154 listing applications, of which we cleared 53. This included 50 new listing applications, comprising one from a company with a weighted voting rights structure under Chapter 8A of the Listing Rules, five from pre-profit biotech companies and one from a specialist technology company. One overseas listed company achieved dual-primary listing on the Main Board.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued two requisition letters directly to two listing applicants during the quarter. Amongst our concerns were the accuracy and completeness of the information in the listing application documentation and the sufficiency of the sponsors' independent due diligence work.



**154**

listing applications processed<sup>1</sup>



Average processing time<sup>2</sup>:

**94**

business days<sup>3</sup>

### Paperless listing regime

Following the SFC's approval, the Stock Exchange of Hong Kong Limited (SEHK) in June 2023 published the conclusions to its public consultation on proposals to expand the paperless listing regime along with Listing Rules amendments which will take effect on 31 December 2023.

<sup>1</sup> Including 50 new listing applications and 104 cases brought forward from the previous reporting period.

<sup>2</sup> Including SFC vetting time and response time by the listing applicants or their advisers.

<sup>3</sup> For the 53 listing applications cleared.

## Corporates

### Overseas listings by Mainland enterprises

In February 2023, the China Securities Regulatory Commission (CSRC) published new regulations for a filing regime to require Mainland enterprises to register their direct and indirect overseas listings and securities offerings with the CSRC. At the same time, it was announced that the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies and the Mandatory Provisions for the Articles of Association of Companies Listing Overseas would be repealed with effect from 31 March 2023. Subsequently, SEHK conducted a consultation on proposed amendments to the Listing Rules to reflect these changes. The consultation period ended in March 2023 and the consultation conclusions were published in July 2023.

### Takeovers and Share Buy-backs

In May, we launched a consultation on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs which mainly clarify some provisions and codify existing practices of the Takeovers Executive. The consultation paper also introduced initiatives to reduce the environmental impact of documents published under the Codes. The consultation ended in June and a conclusions paper will be published in due course.

### Tackling corporate misconduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions<sup>4</sup> to request for information in 16 cases.

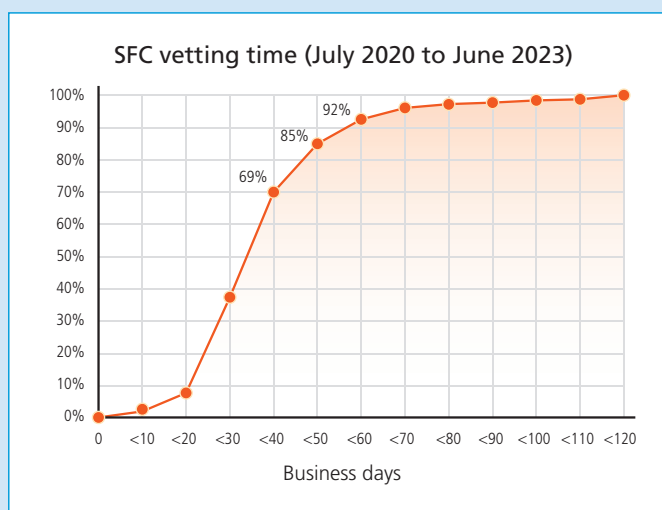
### Listing applications and takeovers activities

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
Listing applications	50	46	8.7	69	-27.5
Takeovers and share buy-backs transactions	66	64	3.1	79	-16.5

#### Vetting time of listing applications

During the three years ended 30 June 2023, we cleared 389 cases, and 92% of these were cleared in less than 60 business days.

Note: In the chart, "SFC vetting time" refers to the total number of business days we spent to process and clear a listing application, which includes a number of rounds of comments. The figure excludes the response time of the listing applicants or their advisers.



<sup>4</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.



# Intermediaries

## Licence applications

In the quarter, we received 1,784 licence applications<sup>1</sup> comprising 1,737 individuals and 47 corporations, a 0.3% decrease from the previous quarter and 17.6% up from the same quarter last year.

As at 30 June, there were 48,165 licensees and registrants, of which 3,245 were licensed corporations and 113 were registered institutions. During the quarter, the number of new licensees and registrants totalled 2,623<sup>2</sup>, amongst which 2,582 were individuals, and 41 were licensed corporations and registered institutions. Among the licensed corporations approved during the quarter, Type 9 (asset management) regulated activity<sup>3</sup> (RA) accounted for 51% and Type 4 (advising on securities) for 37%. The number of firms licensed for Type 9 (asset management) increased by 11 to 2,096.

## Virtual asset regime launched

In May, we published consultation conclusions on the regulatory requirements for licensed virtual asset trading platform (VATP) operators together with Guidelines for Virtual Asset Trading Platform Operators to provide greater clarity on our expected standards for the new VATP licensing regime introduced under the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022 which took effect on 1 June.



Applications for SFC licences<sup>4</sup>

▲ 17.6%

To help the industry better understand the new requirements, we issued a wide range of publications including a Licensing Handbook for Virtual Asset Trading Platform Operators, circulars on the new regime's implementation and transitional arrangements, and frequently asked questions on licensing and conduct matters. To facilitate licence applications, useful materials including online application forms are grouped under a new dedicated webpage on the SFC's website.

Following our announcement of the new regime's commencement at a media briefing in May, we conducted extensive market outreach, including attending interviews and speaking at panel discussions, seminars and webinars organised by InvestHK, industry associations, media outlets and professional firms. More information about our stakeholder engagement efforts can be found in Communications and Education on pages 23-25.



SFC Chief Executive Officer Ms Julia Leung speaks to the Fintech community in Bangkok at an InvestHK event



SFC media stand-up for the launch of the new VATP licensing regime

<sup>1</sup> The figure does not include applications for provisional licences.

<sup>2</sup> Including provisional licensed representatives.

<sup>3</sup> Each licensed corporation may have multiple RA licences.

<sup>4</sup> Change from 30 June 2022 to 30 June 2023. Does not include applications for provisional licences.

## Intermediaries

### Anti-money laundering

In May, we issued a circular to inform the industry of key changes we made to our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to incorporate provisions and guidance related to the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022. These include revisions to the statutory provisions for politically exposed persons and beneficial owners of a trust as well as for the use of recognised digital identification systems. We also added a new chapter on virtual assets. The guidelines were gazetted in May and took effect on 1 June. Our frequently asked questions for AML/CFT were also updated to include information about virtual assets.



# 51

on-site inspections

### Restriction notice

In June, we issued a restriction notice to Global Group Securities Limited owing to suspected misappropriation of client assets. We considered it desirable in the interest of the company's clients and the investing public to subject the company to the prohibitions imposed by the restriction notice.

### Licensees and registrants

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Licensed corporations	3,245	3,254	-0.3	3,261	-0.5
Registered institutions	113	112	0.9	111	1.8
Licensed individuals	44,807	44,928	-0.3	45,161	-0.8
<b>Total</b>	<b>48,165</b>	<b>48,294</b>	<b>-0.3</b>	<b>48,533</b>	<b>-0.8</b>

### Licensing applications

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
Applications to conduct new regulated activity	6,221	6,084	2.3	5,927	5.0
Applications for SFC licences <sup>^</sup>	1,784	1,790	-0.3	1,517	17.6

<sup>^</sup> Figures do not include applications for provisional licences. During the quarter, we received 891 provisional licence applications compared with 1,025 in the same quarter last year.

### Inspections of licensed corporations

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
On-site inspections commenced <sup>^</sup>	51	59	-13.6	60	-15.0

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



# Products

## Authorisations

During the quarter, we authorised 28 unit trusts and mutual funds (including 12 Hong Kong-domiciled funds), 10 investment-linked assurance schemes (ILAS), nine mandatory provident fund (MPF) pooled investment funds and 47 unlisted structured investment products for public offering in Hong Kong.

## OFC registrations

As at 30 June, there were 152 registered open-ended fund companies (OFCs), of which 21<sup>1</sup> were newly registered during the quarter.

## Hong Kong-domiciled funds

As at 30 June, the assets under management (AUM) of Hong Kong-domiciled funds decreased 2% from the previous quarter to US\$170.7 billion. During the quarter, net fund inflows of about US\$1.4 billion were recorded.

## ETF Connect

Southbound ETF<sup>2</sup> trading has maintained strong momentum through the debut year for ETF Connect. Its average daily turnover increased 20 times from \$216 million in July 2022 to \$4.64 billion in June 2023, which contributed 18.4% of the eligible Hong Kong ETFs' turnover during the month. ETF Connect has played a vital role in driving an aggregate inflow of \$42.5 billion into eligible ETFs since their inclusion, representing 22% of their total AUM as at 30 June. Under the scheme, there are currently six Hong Kong ETFs eligible for southbound trading and 131 Mainland ETFs (including 76 on the Shanghai Stock Exchange and 55 on the Shenzhen Stock Exchange) eligible for northbound trading.

## Mutual recognition of funds (MRF)

Under the Mainland-Hong Kong MRF scheme, we had authorised a total of 44 Mainland funds as at 30 June, whilst the China Securities Regulatory Commission had approved 37 Hong Kong funds.

The cumulative net subscription amounted to about RMB1.08 billion for Mainland funds and about RMB15.11 billion for Hong Kong funds as at 30 June.



ETF Connect: Average daily turnover in June 2023

▲ 20 times from July 2022

and contributed

18.4%

of eligible Hong Kong ETFs' turnover

During the quarter, Mainland funds recorded a net subscription of about RMB14.98 million, down from RMB42.69 million in the previous quarter. Hong Kong funds recorded a net subscription of about RMB443.59 million this quarter, down from RMB3.12 billion in the last quarter.

## ESG funds

As at 30 June, there were 195 SFC-authorised ESG<sup>3</sup> funds with total AUM of US\$156.5 billion (representing quarter-on-quarter increases of 3.7% and 3.2% respectively).

## New regulated activity 13 for depositaries of SFC-authorised collective investment schemes (RA 13)

After we released the further consultation conclusions on the RA 13 regime, the amended rules were gazetted and tabled at the Legislative Council. The legislative process was completed on 17 May and the new regime will take effect on 2 October 2024 after a transition period.

To help the depositary industry transition towards this regime, we provided detailed guidance on the key requirements and licensing process at a seminar in June hosted by the Hong Kong Trustees' Association. Representatives of the Hong Kong Monetary Authority also joined the event.

<sup>1</sup> All of the 21 OFCs are private OFCs.

<sup>2</sup> Exchange-traded funds.

<sup>3</sup> Environmental, social and governance.

## Products

### Authorised collective investment schemes

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	908 <sup>a</sup>	913	-0.5	868	4.6
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,420	1,417	0.2	1,382	2.7
ILAS	315	305	3.3	300	5.0
Pooled retirement funds	32	32	0.0	32	0.0
MPF schemes	26	26	0.0	26	0.0
MPF pooled investment funds	191	221	-13.6	219	-12.8
Others	25 <sup>b</sup>	25	0.0	25	0.0
Total	2,917	2,939	-0.7	2,852	2.3

a This figure includes 111 approved pooled investment funds (retail APIFs) which MPFs may invest in and may also be offered to the public in Hong Kong.

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

### Registered OFCs

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
OFCs	152 <sup>^</sup>	131	16.0	78	94.9

<sup>^</sup> This figure includes 131 private OFCs.

### Authorised unlisted structured investment products

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Unlisted structured investment products <sup>^</sup>	273	231	18.2	228	19.7

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



## Products

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

	As at 30.6.2023
<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	58
Unlisted funds (non-RMB denominated) with RMB share classes	391
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	44
Unlisted structured investment products issued in RMB <sup>b</sup>	272
ILAS with policy currency in RMB	6
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	50
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	16
RMB leveraged and inverse products	3
RMB gold ETFs <sup>c</sup>	1
RMB REITs	1

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

b The number is on a "one product per key facts statement" basis.

c Only includes gold ETFs denominated in RMB.



# Markets

## Swap Connect

Swap Connect, the first Mainland-Hong Kong mutual market access programme for financial derivatives products, was launched on 15 May with the introduction of northbound trading, allowing investors from Hong Kong and other jurisdictions to participate in the Mainland interbank interest rate swap market. On the launch day, 27 overseas investors participated and interest rate swaps with a notional value of about RMB8.3 billion were executed. Swap Connect deepens the connectivity between the Mainland and overseas capital markets and bolsters Hong Kong's position as a risk management hub. As of end-June, a total of 540 Mainland interbank interest rate swap contracts were traded under Swap Connect, with a gross notional amount of about RMB129 billion or a daily average of about RMB3.9 billion.

## Stock Connect

Following enhancements to the Stock Connect trading calendar<sup>1</sup> implemented on 24 April, investors can trade eligible stocks through Stock Connect on all trading days when both the Hong Kong and Mainland markets are open. Trading, clearing, settlement and risk management in support of trading all proceeded smoothly on the additional trading days during the quarter<sup>2</sup>.

## RMB counters

We worked with the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Limited (HKEX) to prepare a Hong Kong dollar (HKD)-renminbi (RMB) dual-counter model for Hong Kong-listed securities. We completed our review and approval of HKEX's proposed rule amendments and

relevant documents for introducing the dual-counter model and dual-counter market making programme. On 19 June, the RMB counters of 24 stocks were launched for trading on the Stock Exchange of Hong Kong Limited (SEHK). Since the launch, nine dual-counter market makers have participated in market making activities for these 24 RMB counters, which help promote liquidity and minimise price differences between the RMB and HKD counters. RMB counters closely track the corresponding HKD counters and contribute to the liquidity and trading volume of RMB-denominated securities in Hong Kong.

During the period from 19 to 30 June, average daily trading of the 24 RMB counters totalled RMB193.9 million, equivalent to 10 times the average daily trading in the RMB-denominated products listed on SEHK prior to 19 June. This initiative helps promote the internationalisation of the RMB by increasing its use as an investment currency and also consolidates Hong Kong's role as the prime offshore RMB centre. The SFC is liaising with the Mainland authorities on the southbound inclusion of RMB counters into Stock Connect.

## Position limit regime

In June, we concluded our further consultation on proposed changes to the position limit regime for the derivatives market. These included further amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules which relate to the position limits and reporting requirements for funds and the proposed enhancements of HKEX to its position limit regime. Subject to the legislative process, we expect the amended rules to take effect in December 2023.

<sup>1</sup> The enhancements were announced in press releases issued by the SFC and the China Securities Regulatory Commission on 24 February 2023.

<sup>2</sup> The first two additional southbound trading days were 27 and 28 April and the first additional northbound trading day was 25 May.



## Markets

### OTC derivatives

In April, we launched a joint consultation with the HKMA on the annual update to the list of financial services providers<sup>3</sup> under the over-the-counter (OTC) derivatives clearing regime. We issued consultation conclusions in June and the updated list will be gazetted in the fourth quarter of 2023 for implementation on 1 January 2024.

### Automated trading services

As of 30 June, the number of automated trading services (ATS) providers<sup>4</sup> authorised under Part III of the Securities and Futures Ordinance (SFO) was 52, whilst 28 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

### ATS providers

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Under Part III	52	51	2.0	50	4.0
Under Part V	28	28	0.0	26	7.7

<sup>3</sup> The list includes entities which meet two criteria: (a) they belong to a group of companies appearing on the list of global systemically important banks published by the Financial Stability Board, or on the list of dealer groups which undertook to the OTC Derivatives Supervisors Group to work collaboratively with central counterparties, infrastructure providers and global supervisors to make structural improvements to the global OTC derivatives markets; and (b) they are clearing members of the largest central counterparties offering clearing for interest rate swaps in the United States, Europe, Japan and Hong Kong.

<sup>4</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

During the quarter, the Court of First Instance (CFI) granted disqualification orders under section 214 of the Securities and Futures Ordinance (SFO) against five individuals.

- Lau Chi Yuen Joseph and Chung Man Wai, former directors of Luxey International (Holdings) Limited, were disqualified from being a director or taking part in the management of any corporation in Hong Kong for eight years and five years, respectively, for their misconduct in a corporate acquisition.
- Liu Yong, a former executive director of National Agricultural Holdings Limited (NAH), and Chiu Kam Hing Kathy and Fan Chung Yue William, both former independent non-executive directors of NAH, were disqualified from being a director or taking part in the management of any corporation in Hong Kong for three years, 20 months and 20 months, respectively, after they admitted to having breached their directors' duties to NAH.

The CFI granted an interim injunction order under section 213 of the SFO against Tsang Ching Yi and Barry Kwok Sze Lok for suspected insider dealing in the shares of I.T Limited, prohibiting them from removing assets up to the value of \$8,246,496 from Hong Kong.

We commenced legal proceedings in the CFI under section 214 of the SFO to seek disqualification orders against eight individuals, including former directors

of China Candy Holdings Limited and its former chief financial controller, for permitting, acquiescing or turning a blind eye to falsified bank and accounting records, breach of directors' duties and other misconduct.

The Eastern Magistrates' Courts convicted Sze Chun Wai for making false and misleading representations in his licence application to the SFC and ordered him to pay a fine of \$8,000 and the SFC's investigation costs.

Following our earlier joint operation with the Hong Kong Police Force against a large-scale, sophisticated ramp and dump syndicate, 10 more suspects, including key members and a suspected ringleader, were brought to the Eastern Magistrates' Courts on charges of various criminal offences, including conspiracy to perpetrate fraud or deception in transactions involving securities provided in section 300 of the SFO and related money laundering offences. Further hearings were scheduled.

## Market Misconduct Tribunal

We commenced proceedings in the Market Misconduct Tribunal against Wu Kam Shing, a former executive deputy general manager of China CITIC Bank International Limited, for alleged insider dealing in the shares of Bloomage BioTechnology Corporation Limited.

## Disciplinary actions

We disciplined three corporations and two individuals during the quarter, resulting in total fines<sup>1</sup> of \$9.2 million. Details of the breaches are as follows:

## Unlicensed activities

Company	Breaches	Action
Ninety One Hong Kong Limited	Dealing in futures contracts without the required licence	Reprimanded and fined \$1.4 million

## Internal control deficiencies

Company	Breaches	Action
Taiping Securities (HK) Co Limited	Failed to put in place adequate and effective internal controls to monitor employee dealings	Reprimanded and fined \$1.3 million

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



## Enforcement

### Other regulatory breaches

Company/Name	Breaches	Action
China On Securities Limited	Failed to act within the scope of client's authority and adequately safeguard the client's assets when acting as placing agent of shares in Hon Corporation Limited	Reprimanded and fined \$6 million
Xie Yangxiong	Provided false and misleading financial information to the SFC in support of the licence applications of two firms and failure to sufficiently maintain the firms' liquid capital and notify the SFC of the firms' liquid capital deficits	Banned from re-entering the industry for life
Law Chi Kin Peter	Took part in a stock manipulation scheme	Banned from re-entering the industry for 10 years and fined \$535,500

### Restriction Notices

We issued restriction notices to three brokers prohibiting them from dealing with or processing certain assets held in their respective client accounts of three individuals who are suspected of committing misconduct and breaching their duties towards FingerTango Inc.

We also issued restriction notices to 10 other brokers prohibiting them from dealing with or processing certain assets held in 31 trading accounts which are related to a suspected online ramp and dump scam.

### Joint operation with the Police

We conducted a joint operation with the Police against fraudulent activities in securities transactions and illegal short selling. Four suspects were charged with offences of fraud, with alternative charges of illegal short selling.

### Enforcement cooperation with the CSRC

During the quarter, we and the China Securities Regulatory Commission (CSRC) held the 14th high-level meeting on enforcement cooperation at which we reached consensus on collaboration on a range of issues<sup>2</sup>.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 1,227 requests for trading and account records from intermediaries in the quarter.

<sup>2</sup> See Regulatory Engagement on pages 20-22.

## Enforcement

### Enforcement activities

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
S179 <sup>a</sup> inquiries commenced	9	5	80.0	5	80.0
S181 <sup>b</sup> inquiries commenced (number of letters sent)	43 (1,227)	58 (1,164)	5.4	40 (1,392)	-11.9
S182 <sup>c</sup> directions issued	40	33	21.2	24	66.7
Investigations started	40	34	17.6	24	66.7
Investigations completed	33	19	73.7	44	-25.0
Individuals and corporations charged in criminal proceedings	15	17	-11.8	3	400.0
Criminal charges laid	39	20	95.0	47	-17.0
Notices of Proposed Disciplinary Action <sup>d</sup> issued	7	7	0.0	6	16.7
Notices of Decision <sup>e</sup> issued	7	7	0.0	6	16.7
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	188	180	4.4	169	11.2
Compliance advice letters issued	39	28	39.3	23	69.6
Cases with search warrants executed	4	9	-55.6	11	-63.6

a 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 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.





# Sustainability

We lead efforts to advance Hong Kong's position as an international sustainable finance hub and develop an effective regulatory framework to transition the financial system towards carbon neutrality.

In April, we announced our commitment to become a carbon-neutral organisation before 2050, in line with the HKSAR Government's climate strategy. We also set an interim target to reduce 50% of our total carbon emissions by 2030.

## Spearheading international work

At the International Organization of Securities Commissions (IOSCO), our Chief Executive Officer Ms Julia Leung co-chairs the Corporate Reporting Workstream of the Sustainable Finance Task Force (STF). The workstream spearheaded IOSCO's review of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) on 26 June. We contributed to the technical analysis of these standards to ensure that they are fit for purpose and meet IOSCO's expectations. The analysis would ultimately inform IOSCO's decision to endorse<sup>1</sup> the standards for potential global adoption by more than 130 member jurisdictions.

As a member of the other IOSCO STF workstreams, we are active in the discussions about carbon markets, sustainability reporting for listed issuers, assurance and digital reporting of sustainability information, and promoting good practices for asset management and environmental, social, and governance (ESG) ratings and data products providers.

We also lead the Sustainable Finance Working Group<sup>2</sup> of the IOSCO Asia Pacific Regional Committee, which finalised in April its workplan to promote consistent supervisory approaches for asset management and providers of ESG ratings and data products. This group will also promote knowledge sharing and capacity building on corporate sustainability disclosures and carbon markets in the region.

During the quarter, we continued to participate actively in other international initiatives<sup>3</sup>.

## Disclosure standards and local policy initiatives

We collaborate with the Stock Exchange of Hong Kong Limited (SEHK) to develop climate-related reporting requirements for listed companies in Hong Kong with reference to the ISSB's standards. In April, SEHK launched a three-month public consultation on proposals to mandate climate-related disclosures.

We engage with the China Securities Regulatory Commission to ensure that our approach considers the pace of regulatory developments on the Mainland, given the large proportion of Mainland-based listed companies in Hong Kong.

In June, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)<sup>4</sup>, co-chaired by the SFC and the Hong Kong Monetary Authority, announced its support for the IFRS Sustainability Disclosure Standards published by the ISSB. The Steering Group will also engage with the ISSB on Hong Kong's sustainability reporting journey and capacity building work.

<sup>1</sup> IOSCO announced its endorsement on 25 July 2023. We announced our support for the IOSCO endorsement also in July.

<sup>2</sup> Our Senior Director and Head of International Affairs and Sustainable Finance, Ms Christine Kung, leads this working group.

<sup>3</sup> We represent IOSCO in the Financial Stability Board's Working Group on Climate Risk. We are a supporter of the Task Force on Climate-Related Financial Disclosures Recommendations and a member of the International Platform on Sustainable Finance. We also participate in the Advisory Group on Carbon Markets of the United Nations Sustainable Stock Exchanges Initiative and contribute to the Network of Central Banks and Supervisors for Greening the Financial System.

<sup>4</sup> The Steering Group was established in May 2020. Other members include the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

## Sustainability

### Building a green ecosystem for Hong Kong

During the quarter, the Steering Group continued to work towards its 2023-25 priorities which include: world-class regulation, data and technology for transition, market opportunities and product innovation, as well as communication, capacity building and collaboration with the Mainland, regional and global markets.

In April, we co-hosted the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) Green Finance Cooperation Meeting with the Financial Services and the Treasury Bureau. Representatives of GBA authorities<sup>5</sup> met with Steering Group members to discuss potential cross-boundary initiatives to further deepen regional collaboration and foster a comprehensive sustainable finance ecosystem.

These initiatives focus on aligning corporate sustainability disclosure requirements with global standards, exchange of emissions and ESG data, development of carbon markets and capacity building.

In May, the Steering Group met with financial market participants, academia and technology firms to exchange views on the latest developments in transition finance and green fintech, as well as how to promote Hong Kong as an international sustainable finance hub.

<sup>5</sup> Participants included representatives from the Shenzhen Municipal Financial Regulatory Bureau, the Guangzhou Municipal Local Financial Supervision and Administration Bureau and the Monetary Authority of Macao.



# Regulatory Engagement

## Strengthening global regulatory collaboration

We maintain close working relationships with our overseas regulatory counterparts and play an active role in global policy initiatives and efforts to promote international cooperation and capacity building.

### IOSCO

We actively participate in the work of the International Organization of Securities Commissions (IOSCO) and all task forces of the IOSCO Board. We contribute to all eight IOSCO policy committees, including holding leadership positions in its Committee on Investment Management and Committee on Enforcement and the Exchange of Information<sup>1</sup>.

In June, our Chief Executive Officer (CEO) Ms Julia Leung and senior executives attended IOSCO's 48<sup>th</sup> Annual Meeting in Bangkok and participated in the meetings of the IOSCO Board and Presidents Committee, which discussed crypto assets, sustainable finance and non-bank financial intermediation. We also held bilateral meetings with more than 20 regulators and industry participants, where we shared the latest regulatory developments in Hong Kong.

Also in June, our CEO and senior executives participated in the IOSCO Asia-Pacific Regional Committee meeting which discussed the activities of its working groups for sustainable finance, fintech and regional supervisory cooperation.

During the quarter, we participated in the meetings of the Committee on Emerging Risks, as well as the Assessment Committee, which focused on finalising a new implementation monitoring survey for the IOSCO

Principles 6 and 7 for regulators, and thematic review of technological challenges to effective market surveillance. We also took part in IOSCO's capacity building programme on corporate sustainability disclosures<sup>2</sup> hosted by the IOSCO Asia Pacific Hub<sup>3</sup> in May.

Ms Christina Choi, our Executive Director of Investment Products, is serving a second term as Chair of the Committee on Investment Management. She led the committee's exchange-traded funds (ETFs) workgroup which issued a final report on good practices for ETFs in May. She also leads the committee's core experts group which supports IOSCO's Financial Stability Engagement Group<sup>4</sup>. The core experts group is preparing a consultation on liquidity management tools, in particular, anti-dilution liquidity management tools.

### FSB and other work

Ms Choi also co-chairs the Open-ended Funds Working Group under the Financial Stability Board (FSB) Standing Committee on Supervisory and Regulatory Cooperation, which is revising the 2017 FSB policy recommendations to address financial stability risks arising from liquidity mismatches in open-ended funds. She presented the group's work to the IOSCO Board at the IOSCO Annual Meeting in June.

During the quarter, Mr Rico Leung, our Executive Director of Supervision of Markets, and SFC representatives participated in meetings of the FSB Standing Committee on Standards Implementation and the Regional Consultative Group for Asia.

Throughout the quarter, we engaged with overseas regulators via supervisory colleges and on-site reviews as part of the supervision of global systemically important financial institutions.

<sup>1</sup> Mr Kenneth Lai, Director of Enforcement, is Vice-Chair.

<sup>2</sup> The programme focused on the standards developed by the International Sustainability Standards Board and published as the International Financial Reporting Standards Sustainability Disclosure Standards on 26 June 2023.

<sup>3</sup> Ms Julia Leung is a member of the Management Committee of the IOSCO Asia Pacific Hub.

<sup>4</sup> The Financial Stability Engagement Group coordinates IOSCO's role in addressing financial stability matters and liaises with the FSB. The SFC is a member of this group, including its Steering Group.

## Regulatory Engagement

### Advancing Mainland-Hong Kong cooperation

In April, we joined the Financial Secretary of the HKSAR's visit to Beijing where we met with senior officials from Mainland authorities<sup>5</sup> to exchange views on issues of mutual regulatory concern and ways to enhance cooperation between the Mainland and Hong Kong financial sectors.

In June, the SFC held the 13th high-level meeting with the China Securities Regulatory Commission (CSRC) to exchange views on the current state of the capital markets, recent achievements in cross-boundary regulatory and enforcement cooperation, and ongoing market development and regulatory cooperation initiatives. We and the CSRC reached consensus on further enhancing and expanding the Mainland-Hong Kong mutual market access schemes, including Stock Connect, Wealth Management Connect and Mutual

Recognition of Funds. We also agreed to further strengthen cooperation on the derivatives market and asset management industry, and explore new initiatives to promote the healthy development of the Mainland and Hong Kong capital markets.

During the quarter, we arranged a study tour for the CSRC's senior executives to visit the SFC, other Hong Kong regulatory authorities and industry associations to enhance their understanding of Hong Kong's financial markets and the latest regulatory developments.

We engaged with other Mainland authorities on a number of cooperation initiatives during the quarter to promote the inclusion of RMB-denominated securities under southbound trading of Stock Connect and further develop the initiatives under the Guangdong-Hong Kong-Macao Greater Bay Area Development Plan, including the Wealth Management Connect pilot scheme.



13th CSRC-SFC high-level meeting in June

<sup>5</sup> Including the CSRC, People's Bank of China, China Banking and Insurance Regulatory Commission (now reformed as the National Administration of Financial Regulation), Ministry of Finance, Office of the Central Commission for Financial and Economic Affairs, Hong Kong and Macao Affairs Office of the State Council, Ministry of Science and Technology, and the Ministry of Industry and Information Technology.

## Regulatory Engagement



Enforcement cooperation with the CSRC

During the quarter, our Enforcement Division and the CSRC's Enforcement Bureau held the 14th high-level meeting on enforcement cooperation, at which we reached consensus on collaboration on a range of issues. Further, we and the CSRC also exchanged views with the Hong Kong Police Force and the Independent Commission Against Corruption and they concurrently issued press releases after the meeting. This sent a positive signal to the markets of both jurisdictions of stepped-up enforcement collaboration between the enforcement agencies.

Significant progress was made in two areas: 1) We and the CSRC initiated the first coordinated investigation on a high impact case affecting both jurisdictions. Cooperation was smooth and laid a good foundation for establishing an effective, coordinated investigation mechanism. 2) We also made progress in exploring effective pathways for the securities regulators and police in both jurisdictions to jointly combat cross-boundary violations of securities laws.

During the quarter, enforcement officers from the CSRC participated in a two-month training programme in Hong Kong and shared their experience with our enforcement officers. The training helped staff of both sides better understand one another's enforcement framework and enhanced the efficiency of mutual investigatory assistance.



# Communications and Education

## Industry outreach

### Roundtables and meetings

To foster a close dialogue with the securities industry, we hold regular meetings with industry associations to share regulatory updates and supervisory initiatives. In a June meeting, we discussed with broker associations the updated risk management guidelines for futures brokers and trends in the demographics of our licensees. We also invited representatives from the Hong Kong Police Force to provide tips on detecting investment scams.

Jointly with the Hong Kong Monetary Authority, we held two roundtables to facilitate communication between the banking industry and the virtual asset sector on the provision of banking services to licensed virtual asset trading platforms (VATPs).

### Speaking engagements

During the quarter, our senior executives spoke at over 35 local and international events on a wide range of topics including virtual assets, sustainable finance and asset management. We were a supporting organisation for four industry events.

Our Chief Executive Officer (CEO) Ms Julia Leung spoke about the SFC's priorities at the April Bloomberg Policy Series as well as the June Caixin Summer Summit. She also shared the SFC's regulatory vision for Fintech and Hong Kong's new licensing regime for VATPs at the SEC Thailand Public Conference 2023 and at an event organised by the Hong Kong Economic and Trade Office in Bangkok, Office for Attracting Strategic Enterprises and InvestHK. Both events were held in Thailand in June.



Bloomberg Policy Series

In the same month, she discussed the strategy to reconnect with China in the post-COVID era as well as the need for a proportionate implementation of global climate reporting standards in Hong Kong at the ASIFMA China Capital Markets Conference. Separately, Ms Leung spoke at the Hong Kong Investment Funds Association's 16th Annual Conference, along with our Director of Licensing and Head of Fintech unit, Ms Elizabeth Wong and Director of Intermediaries Supervision, Mr Anthony Wong. In her keynote speech, Ms Leung urged the fund industry to "reflect, reset and refocus" in challenging times, and laid out the SFC's four-pronged game plan to build Hong Kong into an asset and wealth management hub. She outlined strategies to promote fund onshoring, connect with Mainland markets, diversify investment products and drive innovation. She also expressed support for fund tokenisation to promote industry efficiency.

In addition, Ms Wong explained the new VATP regime at a June conference organised by the South China Morning Post. She also attended the June meeting of the Panel on Financial Affairs to discuss initiatives to support the development of Fintech in Hong Kong. Besides, our Fintech unit spoke at several seminars organised by a range of stakeholders to facilitate understanding of the new regime.



Network of Family Office Service Providers Launch Ceremony

At an InvestHK event to mark the launch of the Network of Family Office Service Providers, Mr Wilson Lo, Senior Director of Licensing, spoke about our efforts to help the industry understand the regulatory requirements for family offices. The June event was attended by over 100 representatives of family office service providers. In addition, our executives presented at a Hong Kong Trustees' Association's seminar to provide an overview of the new RA 13<sup>1</sup> regime for over 150 participants from depositaries and related firms.

<sup>1</sup> Type 13 regulated activity is for depositaries of SFC-authorised collective investment schemes.

## Communications and Education

Also in June, Senior Director and Head of International Affairs and Sustainable Finance Ms Christine Kung discussed the latest developments in corporate sustainability reporting at the EU-Hong Kong Policy Discussion Series co-organised by InvestHK and the European Union Office to Hong Kong and Macao.

### Education

We stepped up our investor education efforts on VATPs including those through televised interviews by Radio Television Hong Kong (RTHK). We also launched a new round of investor education programmes with the Investor and Financial Education Council (IFEC), the SFC's wholly-owned subsidiary. Both initiatives sought to warn the investing public of the risks of trading on unregulated platforms, and that most platforms currently accessible by the public are not regulated by the SFC. A list published on our dedicated webpage provides a handy resource for the public to find information about the regulatory status of VATPs.



RTHK interview

The IFEC's annual campaign, Hong Kong Money Month, was launched in March under the theme "Be a Digital Hero". At a Money Month webinar, our Executive Director of Investment Products Ms Christina Choi spoke about the development of virtual asset products and protections for retail investors.



IFEC Hong Kong Money Month 2023

### Other publications and communications

We proactively engage with a wide range of stakeholders to provide them with regulatory updates and explain our work.

During the quarter, we released the SFC's *Annual Report 2022-23* which summarised our key regulatory work, corporate developments and financial information during the year. The June issue of the *Takeovers Bulletin* featured updates relating to takeovers in Hong Kong.

During the quarter, we issued 10 circulars providing guidance on a variety of matters, including the licensing regime for VATPs, financial returns, and anti-money laundering and counter-financing of terrorism. We also published 61 posts on the SFC's social media platforms to promote awareness and alert the public of a range of matters, including updates on mutual market access schemes and our sustainability-related initiatives.

## Communications and Education

### Publications and other communications

	Quarter ended 30.6.2023
Press releases	44
Consultation papers	2
Consultation conclusions	3
Industry-related publications	1
Codes and guidelines <sup>a</sup>	7
Circulars to industry	10
Corporate website average daily page views <sup>b</sup>	65,353
General enquiries	765

a Includes updates to previous versions.

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





# Corporate Developments

## Board

Ms Lisa Chen Ping was appointed as Executive Director of Legal Services for a term of three years, effective 22 May 2023.

Mr Michael Wong Yick-kam and Mr Nicky Lo Kar-chun were reappointed as Non-Executive Directors for two years, effective 1 April 2023 and 24 April 2023, respectively.

## Advisory Committee and regulatory committees

New appointments and reappointments by the Financial Secretary of members to the SFC Advisory Committee<sup>1</sup> became effective from 1 June for a two-year term.

In addition, new appointments and reappointments to the following regulatory committees<sup>2</sup> took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Committee on Real Estate Investment Trusts
- Disciplinary Chair Committee
- Public Shareholders Group
- SFC (HKEC Listing) Committee
- Share Registrars' Disciplinary Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

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

## Finance

Our income for the quarter was \$413 million, 33% lower than the previous quarter and 4% higher than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$98 billion, 21% lower than the \$124 billion recorded in the previous quarter. Our expenditure for the quarter was \$514 million, 5% lower than last quarter and 4% higher than the same quarter last year. We recorded a deficit of \$101 million for the quarter.

After setting aside \$3.4 billion for the potential future acquisition of office premises, our reserves stood at \$4.4 billion as of 30 June.

## Staffing

As of 30 June, we had 934 staff members, up from 923 a year ago.

<sup>1</sup> The Advisory Committee was established under the Securities and Futures Ordinance to offer insight and advice on policy matters related to the performance of the SFC's functions.

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

## Corporate Developments

### Information technology

During the quarter, we expanded the digital submission capability on our fully digitalised licensing platform, WINGS<sup>3</sup>, by adding 11 new licence application forms.

Under a new regulatory regime<sup>4</sup> which took effect on 1 June, applications for an SFC licence as an operator of virtual asset trading platform must be made using these forms.

### Finance

(\$ million)	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Quarter ended 30.6.2022	YoY change (%)
Income	413	614	399	3.5
Expenses including depreciation	514	540	494	4.0
(Deficit)/surplus	(101)	74	(95)	6.3

<sup>3</sup> Web-based INtegrated Service.

<sup>4</sup> See Intermediaries on pages 8-9.





# Operational Data

**Table 1 Takeovers activities**

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>					
General and partial offers under Code on Takeovers and Mergers	5	7	-28.6	7	-28.6
Privatisations	2	3	-33.3	0	N/A
Whitewash waiver applications	6	8	-25.0	4	50.0
Other applications under Code on Takeovers and Mergers <sup>1</sup>	50	44	13.6	64	-21.9
Off-market and general offer share buy-backs	3	2	50.0	3	0.0
Other applications under Code on Share Buy-backs <sup>1</sup>	0	0	0.0	1	-100.0
<b>Total</b>	<b>66</b>	<b>64</b>	<b>3.1</b>	<b>79</b>	<b>-16.5</b>
<b>Executive Statements</b>					
Sanctions imposed with parties' agreement <sup>2</sup>	0	0	0.0	1	-100.0
<b>Takeovers and Mergers Panel</b>					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	-100	0	0.0

<sup>1</sup> Including stand-alone applications and those made during the course of a code-related transaction.

<sup>2</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

## Operational Data

**Table 2 Breaches noted during on-site inspections<sup>1</sup>**

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022 <sup>5</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	3	1	200.0	2	50.0
Failure to safekeep client securities	9	9	0.0	4	125.0
Failure to maintain proper books and records	3	7	-57.1	2	50.0
Failure to safekeep client money	9	9	0.0	7	28.6
Unlicensed dealing and other registration issues	5	1	400.0	5	0.0
Breach of licensing conditions	0	2	-100.0	2	-100.0
Breach of requirements of contract notes/statements of account/receipts	8	15	-46.7	13	-38.5
Breach of margin requirements	0	0	0.0	1	-100.0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>2</sup>	59	45	31.1	48	22.9
Breach of Corporate Finance Adviser Code of Conduct	5	5	0.0	2	150.0
Breach of Fund Manager Code of Conduct	28	25	12.0	34	-17.6
Breach of regulation of on-line trading	4	0	N/A	4	0.0
Non-compliance with anti-money laundering guidelines	72	29	148.3	54	33.3
Breach of other rules and regulations of the Exchanges <sup>3</sup>	2	0	N/A	1	100.0
Internal control weaknesses <sup>4</sup>	100	94	6.4	106	-5.7
Others	16	14	14.3	26	-38.5
<b>Total</b>	<b>323</b>	<b>256</b>	<b>26.2</b>	<b>311</b>	<b>3.9</b>

<sup>1</sup> Including inspections conducted remotely in light of the COVID-19 pandemic.

<sup>2</sup> Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and information for or about clients and reasonable advice.

<sup>3</sup> The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

<sup>4</sup> 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.

<sup>5</sup> Figures have been adjusted for the period.



## Operational Data

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

a) Number of funds by type	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Bond	171	173	-1.2	167	2.4
Equity	204	206	-1.0	201	1.5
Mixed	110	112	-1.8	110	0.0
Money market	56	49	14.3	40	40.0
Feeder funds	47	48	-2.1	46	2.2
Index <sup>1</sup>	164	169	-3.0	163	0.6
Guaranteed	1	1	0.0	1	0.0
Other specialised <sup>2</sup>	3	3	0.0	0	N/A
Sub-total	756	761	-0.7	728	3.8
Umbrella structures	152	152	0.0	140	8.6
<b>Total</b>	<b>908</b>	<b>913</b>	<b>-0.5</b>	<b>868</b>	<b>4.6</b>

b) Assets under management by type	Total NAV (US\$ million) as at 30.6.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.6.2022	YoY change (%)
Bond	26,563	26,396	0.6	27,073	-1.9
Equity	48,919	50,530	-3.2	50,380	-2.9
Mixed	27,473	28,384	-3.2	30,039	-8.5
Money market	17,359	16,542	4.9	9,826	76.7
Feeder funds <sup>3</sup>	19	20	-5.2	22	-13.8
Index <sup>1</sup>	50,292	52,578	-4.3	52,300 <sup>5</sup>	-3.8
Guaranteed	32	34	-4.8	37	-12.5
Other specialised <sup>2</sup>	46	44	4.5	0	N/A
<b>Total<sup>4</sup></b>	<b>170,703</b>	<b>174,527</b>	<b>-2.2</b>	<b>169,677<sup>5</sup></b>	<b>0.6</b>

<sup>1</sup> Including exchange-traded funds and leveraged and inverse products.

<sup>2</sup> Including virtual asset futures exchange-traded funds.

<sup>3</sup> 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.

<sup>4</sup> Figures may not add up to total due to rounding.

<sup>5</sup> These figures differ from those disclosed in the Quarterly Report April – June 2022 due to a revised figure reported after the report's issuance.

## Operational Data

**Table 4 Non-Hong Kong-domiciled authorised funds**

a) Number of funds by origin	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Luxembourg	1,065	1,063	0.2	1,034	3.0
Ireland	254	250	1.6	242	5.0
United Kingdom	29	29	0.0	29	0.0
Mainland China	46	49	-6.1	49	-6.1
Bermuda	1	1	0.0	1	0.0
Cayman Islands	20	20	0.0	22	-9.1
Others	5	5	0.0	5	0.0
<b>Total</b>	<b>1,420</b>	<b>1,417</b>	<b>0.2</b>	<b>1,382</b>	<b>2.7</b>

b) Assets under management by origin	Total NAV (US\$ million) as at 30.6.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.6.2022	YoY change (%)
Luxembourg	1,132,133	1,119,869	1.1	1,094,097	3.5
Ireland	226,159	222,462	1.7	214,093 <sup>2</sup>	5.6
United Kingdom	68,097	65,319	4.3	64,051	6.3
Mainland China	20,513	22,786	-10.0	26,953	-23.9
Bermuda	121	116	4.1	143	-15.6
Cayman Islands	1,324	1,446	-8.4	1,733	-23.6
Others	61,195	63,634	-3.8	65,960	-7.2
<b>Total<sup>1</sup></b>	<b>1,509,541</b>	<b>1,495,633</b>	<b>0.9</b>	<b>1,467,031<sup>2</sup></b>	<b>2.9</b>

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

<sup>2</sup> These figures differ from those disclosed in the Quarterly Report April – June 2022 due to a revised figure reported after the report's issuance.



## Operational Data

c) Number of funds by type	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Bond	358	358	0.0	358	0.0
Equity	779	774	0.6	756	3.0
Mixed	154	155	-0.6	144	6.9
Money market	12	12	0.0	12	0.0
Feeder funds	3	3	0.0	3	0.0
Index <sup>1</sup>	26	26	0.0	25	4.0
Hedge	1	1	0.0	1	0.0
Sub-total	1,333	1,329	0.3	1,299	2.6
Umbrella structures	87	88	-1.1	83	4.8
<b>Total</b>	<b>1,420</b>	<b>1,417</b>	<b>0.2</b>	<b>1,382</b>	<b>2.7</b>

d) Assets under management by type	Total NAV (US\$ million) as at 30.6.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.6.2022	YoY change (%)
Bond	427,727	432,041	-1.0	440,563	-2.9
Equity	809,715	791,354	2.3	757,703	6.9
Mixed	156,218	156,729	-0.3	158,399 <sup>4</sup>	-1.4
Money market	9,771	9,724	0.5	8,626	13.3
Feeder funds <sup>2</sup>	0	0	0.0	0	0.0
Index <sup>1</sup>	105,989	105,669	0.3	101,597	4.3
Hedge	121	116	4.1	143	-15.6
<b>Total<sup>3</sup></b>	<b>1,509,541</b>	<b>1,495,633</b>	<b>0.9</b>	<b>1,467,031<sup>4</sup></b>	<b>2.9</b>

<sup>1</sup> Including exchange-traded funds.

<sup>2</sup> 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.

<sup>3</sup> Figures may not add up to total due to rounding.

<sup>4</sup> These figures differ from those disclosed in the Quarterly Report April – June 2022 due to a revised figure reported after the report's issuance.

## Operational Data

**Table 5 Complaints against intermediaries and market activities**

	Quarter ended 30.6.2023	Quarter ended 31.3.2023	Change (%)	Quarter ended 30.6.2022	YoY change (%)
Conduct of licensees	132	156	-15.4	215	-38.6
Conduct of registered institutions	0	1	-100.0	15	-100.0
Listed companies and disclosure of interests	150	162	-7.4	188	-20.2
Market misconduct <sup>1</sup>	91	85	7.1	74	23.0
Product disclosure	0	2	-100.0	2	-100.0
Unlicensed activities	75	22	240.9	19	294.7
Breach of offers of investments	7	5	40.0	7	0.0
Boiler rooms and suspicious websites	40	44	-9.1	58	-31.0
Scams and frauds <sup>2</sup>	128	60	113.3	165	-22.4
Other financial activities not regulated by the SFC <sup>3</sup>	81	54	50.0	94	-13.8
<b>Total</b>	<b>704</b>	<b>591</b>	<b>19.1</b>	<b>837</b>	<b>-15.9</b>

<sup>1</sup> Primarily, alleged market manipulation and insider dealing.

<sup>2</sup> Such as identity fraud and impersonation.

<sup>3</sup> For example, bullion trading and banking services.

# Securities and Futures Commission

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

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	NOTE	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Income</b>			
Levies		352,256	441,998
Fees and charges		24,904	25,409
Net investment income/(loss)			
Investment income/(loss)		45,339	(77,922)
Less: custody and advisory expenses		(2,856)	(2,576)
Recoveries from the Investor Compensation Fund	7(a)	1,520	1,484
Exchange (loss)/gain		(8,555)	9,440
Other income		744	1,371
		413,352	399,204
<b>Expenses</b>			
Staff costs and directors' emoluments	7(b)	392,331	378,558
Depreciation			
Fixed assets		25,255	26,996
Right-of-use assets		36,620	36,522
Other premises expenses		8,914	8,707
Finance costs		1,542	1,781
Other expenses		49,751	41,450
		514,413	494,014
<b>Deficit and total comprehensive income for the quarter</b>		<b>(101,061)</b>	<b>(94,810)</b>

The notes on pages 38 to 41 form part of these condensed consolidated financial statements.



## Securities and Futures Commission

### Condensed consolidated statement of financial position

As at 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Non-current assets</b>			
Fixed assets		202,827	216,366
Right-of-use assets		665,785	700,776
Deposits for leases		37,911	37,609
Financial assets at amortised costs – debt securities	8	2,700,699	2,903,608
		3,607,222	3,858,359
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	8	607,670	381,528
Financial assets at fair value through profit or loss			
Debt securities	8	397,033	403,649
Pooled funds	8	1,040,302	1,045,571
Debtors, deposits and prepayments		249,321	283,492
Fixed deposits with banks	3	2,825,238	2,845,253
Cash held for Grant Scheme	4	114,697	124,205
Cash at bank and in hand	3	68,217	66,647
		5,302,478	5,150,345
<b>Current liabilities</b>			
Fees received in advance		7,993	8,378
Creditors and accrued charges		311,317	274,732
Lease liabilities		141,408	141,385
Provisions for reinstatement cost		873	873
		461,591	425,368
<b>Net current assets</b>		4,840,887	4,724,977
<b>Total assets less current liabilities</b>		8,448,109	8,583,336
<b>Non-current liabilities</b>			
Lease liabilities		546,673	581,156
Provisions for reinstatement cost		88,364	88,047
		635,037	669,203
<b>Net assets</b>		7,813,072	7,914,133
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,375,000	3,375,000
Accumulated surplus		4,395,232	4,496,293
		7,813,072	7,914,133

The notes on pages 38 to 41 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2023 (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 2022	42,840	3,250,000	4,722,183	8,015,023
Deficit and total comprehensive income for the quarter	–	–	(94,810)	(94,810)
Balance at 30 June 2022	42,840	3,250,000	4,627,373	7,920,213
Balance at 1 April 2023	<b>42,840</b>	<b>3,375,000</b>	<b>4,496,293</b>	<b>7,914,133</b>
Deficit and total comprehensive income for the quarter	–	–	<b>(101,061)</b>	<b>(101,061)</b>
Balance at 30 June 2023	<b>42,840</b>	<b>3,375,000</b>	<b>4,395,232</b>	<b>7,813,072</b>

The notes on pages 38 to 41 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of cash flows

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Cash flows from operating activities</b>			
Deficit for the quarter		(101,061)	(94,810)
Adjustments for:			
Depreciation – Fixed assets		25,255	26,996
Depreciation – Right-of-use assets		36,620	36,522
Finance costs		1,542	1,781
Interest income on deposits for leases		(73)	(72)
Investment (income)/loss		(45,339)	77,922
Exchange loss/(gain)		8,491	(9,456)
Loss/(gain) on disposal of fixed assets		8	(3)
		(74,557)	38,880
Increase in right-of-use assets		(1)	–
Decrease in debtors, deposits and prepayments		35,102	53,750
Decrease/(increase) in cash held for Grant Scheme		9,508	(81,406)
Decrease in fees received in advance		(385)	(37)
Increase in creditors and accrued charges		37,544	128,303
Net cash generated from operating activities		7,211	139,490
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		490,805	(703,619)
Interest received		57,188	28,085
Debt securities at fair value through profit or loss purchased		(66,811)	(78,901)
Debt securities at fair value through profit or loss sold or redeemed		67,128	69,569
Pooled funds sold		1,547	1,385
Debt securities at amortised cost purchased		(77,499)	(66,743)
Debt securities at amortised cost redeemed at maturity		43,266	31,423
Fixed assets purchased		(12,683)	(20,817)
Proceeds from fixed assets disposal		–	9
Net cash generated from/(used in) investing activities		502,941	(739,609)
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(35,771)	(35,474)
Interest element of lease payments		(1,542)	(1,781)
Net cash used in financing activities		(37,313)	(37,255)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>472,839</b>	<b>(637,374)</b>
Cash and cash equivalents at the beginning of the quarter		407,901	973,151
<b>Cash and cash equivalents at the end of the quarter</b>	3	<b>880,740</b>	<b>335,777</b>

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

	Unaudited	
	At 30 Jun 2023 \$'000	At 30 Jun 2022 \$'000
Fixed deposits with banks	812,523	259,944
Cash at bank and in hand	68,217	75,833
	<b>880,740</b>	<b>335,777</b>

The notes on pages 38 to 41 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2023 (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 2023. 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 2023 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, the Investor Compensation Company Limited (ICC) and the Investor and Financial Education Council (IFEC), are made up to 30 June 2023. 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 2023 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2023.

### 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.

As at 30 June 2023, 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 \$95,091,000 (as at 31 March 2023: \$116,105,000). The total notional contract amount was \$95,003,000 (as at 31 March 2023: \$115,967,000).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2023 \$'000</b>	<b>Audited At 31 Mar 2023 \$'000</b>
Cash at bank and in hand	68,217	66,647
Fixed deposits with banks	2,825,238	2,845,253
Amounts shown in the condensed consolidated statement of financial position	2,893,455	2,911,900
Less: Amounts with an original maturity beyond three months	(2,012,715)	(2,503,999)
Cash and cash equivalents in the condensed consolidated statement of cash flows	880,740	407,901

#### 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 are solely restricted for the use of such subsidies and are 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 USD denominated financial assets.

#### 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 June 2023, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2023: \$0.2).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

#### 7. Related party transactions

The Group has related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund and the 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 and balances.

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

During the period, \$1,520,000 was recovered from the ICF for the ICC's expenses (30 June 2022: \$1,484,000). As at 30 June 2023, the ICC had an amount due to the ICF of \$125,000 (as at 31 March 2023: amount due from the ICF of \$208,000).

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

	Unaudited quarter ended	
	30 Jun 2023 \$'000	30 Jun 2022 \$'000
Directors' fees and salaries, allowances and benefits in kind	7,481	6,703
Retirement scheme contributions	654	576
	8,135	7,279

The total remuneration is included in "staff costs and directors' emoluments" on page 34. 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 was nil (30 June 2022: \$88,000) for the period under normal commercial terms and conditions.

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2023 (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 2023.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 June 2023 (Unaudited)</u>				
Debt securities	–	397,033	–	397,033
Pooled funds	1,040,302	–	–	1,040,302
	1,040,302	397,033	–	1,437,335
<u>At 31 March 2023 (Audited)</u>				
Debt securities	–	403,649	–	403,649
Pooled funds	1,045,571	–	–	1,045,571
	1,045,571	403,649	–	1,449,220

During the quarter ended 30 June 2023 and year ended 31 March 2023, 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.

The fair value of debt securities is based on evaluated prices at the end of the reporting period using current bid prices without any deduction for transaction costs. The fair value of the investment in the pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active market.

##### (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 were not materially different from their fair values as at 30 June 2023 and 31 March 2023 except for the following financial instruments, for which their carrying amount, fair value and the level of fair value hierarchy were disclosed below.

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 30 June 2023 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,308,369	3,071,701	–	3,071,701	–
<u>At 31 March 2023 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,285,136	3,066,896	–	3,066,896	–





# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report together with the unaudited condensed financial statements for the quarter ended 30 June 2023.

## Establishment of the Investor Compensation Fund

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

## Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 43 to 48.

## Members of the Committee

The members of the Committee during the reporting 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

9 August 2023

## Investor Compensation Fund

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

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Income</b>			
Interest income		26,535	6,283
Exchange (loss)/gain		(2,409)	2,718
		24,126	9,001
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	1,520	1,484
Auditor's remuneration		57	55
		1,577	1,539
<b>Surplus and total comprehensive income for the quarter</b>		<b>22,549</b>	<b>7,462</b>

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



## Investor Compensation Fund

### Condensed statement of financial position

As at 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Current assets</b>			
Interest receivable		47,465	47,392
Amount due from the Investor Compensation Company Limited		125	–
Fixed deposits with banks	3	2,501,021	2,472,685
Cash at bank	3	646	847
		2,549,257	2,520,924
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		179	274
Amount due to the Investor Compensation Company Limited		–	208
		3,573	3,876
<b>Net current assets</b>		2,545,684	2,517,048
<b>Net assets</b>		2,545,684	2,517,048
Representing:			
<b>Compensation fund</b>		2,545,684	2,517,048

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

## Investor Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Unaudited					
	Contributions from the Unified Exchange Compensation Fund \$'000	Contributions from the Commodity Exchange Compensation Fund \$'000	Contributions from the Securities Dealers' Deposits Fund (note 5) \$'000	Contributions from the Commodities Dealers' Deposits Fund (note 5) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2022	994,718	108,923	–	–	1,351,263	2,454,904
Surplus and total comprehensive income for the quarter	–	–	–	–	7,462	7,462
Balance at 30 June 2022	994,718	108,923	–	–	1,358,725	2,462,366
Balance at 1 April 2023	<b>994,718</b>	<b>108,923</b>	–	–	<b>1,413,407</b>	<b>2,517,048</b>
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	–	–	<b>5,470</b>	<b>617</b>	–	<b>6,087</b>
Surplus and total comprehensive income for the quarter	–	–	–	–	<b>22,549</b>	<b>22,549</b>
Balance at 30 June 2023	<b>994,718</b>	<b>108,923</b>	<b>5,470</b>	<b>617</b>	<b>1,435,956</b>	<b>2,545,684</b>

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



## Investor Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		22,549	7,462
Adjustments for:			
Interest income		(26,535)	(6,283)
Exchange loss/(gain)		2,409	(2,718)
		(1,577)	(1,539)
Change in amount due from/to the Investor Compensation Company Limited		(333)	(281)
Decrease in creditors and accrued charges		(95)	(97)
Net cash used in operating activities		(2,005)	(1,917)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(79,869)	(152,804)
Interest received		26,392	2,515
Net cash used in investing activities		(53,477)	(150,289)
<b>Cash flows from financing activities</b>			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
<b>Net cash generated from financing activities</b>		6,087	–
Net decrease in cash and cash equivalents		(49,395)	(152,206)
<b>Cash and cash equivalents at the beginning of the quarter</b>		164,980	451,903
<b>Cash and cash equivalents at the end of the quarter</b>	3	115,585	299,697

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

	Unaudited	
	At 30 Jun 2023 \$'000	At 30 Jun 2022 \$'000
Fixed deposits with banks	114,939	299,401
Cash at bank	646	296
	115,585	299,697

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

# Investor Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2023 (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.

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 the financial position and performance of the Investor Compensation Fund (the Fund) since the annual financial statements for the year ended 31 March 2023. 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 2023 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 2023 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2023.

### 2. ICC 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 of investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2023, the ICC incurred costs of \$1,520,000 for its operation (for the quarter ended 30 June 2022: \$1,484,000).

### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2023 \$'000</b>	<b>Audited At 31 Mar 2023 \$'000</b>
Cash at bank	646	847
Fixed deposits with banks	2,501,021	2,472,685
Amounts shown in the condensed statement of financial position	2,501,667	2,473,532
Less: Amounts with an original maturity beyond three months	(2,386,082)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	115,585	164,980



# Investor Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2023 (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 is \$150,000 per claimant for each default case occurring on or before 31 December 2019 or \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 June 2023 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2023: \$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 is expected to be paid within one year.

### 5. Contributions from the SDD and the CDD

Under Section 76 (11) of Schedule 10 of the Securities and Futures Ordinance, the SFC shall pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund (SDD) and the Commodities Dealers' Deposits Fund (CDD) after repaying the dealers' deposits and any money due to the registered dealers.

During the quarter ended 30 June 2023, the SFC paid \$5,470,000 and \$617,000 into the Fund from the SDD and the CDD respectively (for the quarter ended 30 June 2022: nil).

### 6. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the Unified Exchange Compensation Fund, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2023 and 2022.

### 7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 14 outstanding claims as at 30 June 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,430,000 (as at 31 March 2023: \$2,430,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

### 8. 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 quarters ended 30 June 2023 and 2022, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.



# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report together with the unaudited condensed financial statements for the quarter ended 30 June 2023.

## Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2023, 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 reporting period ended 30 June 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 50 to 55.

## Members of the Committee

The members of the Committee during the reporting period and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)  
Ms Kwok Hom Siu Sally  
Ms Lai Chun Mei Hilda (appointed on 1 July 2023)  
Mr Yiu Ka Yan Wilfred (retired on 30 June 2023)  
Dr Lin, James C.  
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

1 August 2023



## Unified Exchange Compensation Fund

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

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Income</b>		
Interest income	904	134
<b>Expenses</b>		
Recoveries re-distributed	–	22
Auditor's remuneration	27	27
	27	49
<b>Surplus and total comprehensive income for the quarter</b>	<b>877</b>	<b>85</b>

The notes on pages 54 and 55 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
<b>Current assets</b>			
Interest receivable		466	454
Fixed deposits with banks		97,856	96,869
Cash at bank		387	491
		98,709	97,814
<b>Current liabilities</b>			
Creditors and accrued charges		10,293	10,325
Relinquished trading rights payable to SEHK	4	2,400	1,650
		12,693	11,975
<b>Net current assets</b>		86,016	85,839
<b>Net assets</b>		86,016	85,839
Representing:			
<b>Compensation fund</b>		86,016	85,839

The notes on pages 54 and 55 form part of these condensed financial statements.



## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2023 (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 the ICF \$'000	Total \$'000
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725
Net contributions to SEHK	(50)	–	–	–	–	–	(50)
Surplus and total comprehensive income for the quarter	–	–	–	–	85	–	85
Balance at 30 June 2022	54,250	353,787	630,000	6,502	35,939	(994,718)	85,760
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(700)	–	–	–	–	–	(700)
Surplus and total comprehensive income for the quarter	–	–	–	–	877	–	877
Balance at 30 June 2023	51,450	353,787	630,000	6,502	38,995	(994,718)	86,016

The notes on pages 54 and 55 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		877	85
Adjustment for:			
Interest income		(904)	(134)
		(27)	(49)
Decrease in creditors and accrued charges		(32)	(37)
Increase in relinquished trading rights payable to SEHK		750	150
Net cash generated from operating activities		691	64
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		6,479	26,364
Interest received		892	90
Net cash generated from investing activities		7,371	26,454
<b>Cash flows from financing activities</b>			
Net contribution to SEHK		(700)	(50)
Net cash used in financing activities		(700)	(50)
<b>Net increase in cash and cash equivalents</b>		7,362	26,468
Cash and cash equivalents at the beginning of the quarter		69,384	71,486
<b>Cash and cash equivalents at the end of the quarter</b>	3	76,746	97,954

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

	Unaudited	
	At 30 Jun 2023 \$'000	At 30 Jun 2022 \$'000
Fixed deposits with banks	76,359	97,760
Cash at bank	387	194
	76,746	97,954

The notes on pages 54 and 55 form part of these condensed financial statements.

# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2023 (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. 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 the financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2023. 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 2023 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 2023 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2023.

### 2. Equity securities received under subrogation

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

As at 30 June 2023, the equity securities received under subrogation amounted to \$77 (as at 31 March 2023: \$30). The balances as at 30 June 2023 and 31 March 2023 are too small to present on the condensed statement of financial position which is expressed in thousands of dollars.

## Unified Exchange Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	387	491
Fixed deposits with banks	97,856	96,869
Amounts shown in the condensed statement of financial position	98,243	97,360
Less: Amounts with an original maturity beyond three months	(21,497)	(27,976)
Cash and cash equivalents in the condensed statement of cash flows	76,746	69,384

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

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the quarter, a deposit of \$50,000 in respect of a new trading right was received from SEHK. As at 30 June 2023, 48 trading rights totalling \$2,400,000 were relinquished but not yet refunded (as at 31 March 2023: 33 trading rights totalling \$1,650,000 were relinquished but not yet refunded).

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

	Unaudited quarter ended	
	30 Jun 2023 \$'000	30 Jun 2022 \$'000
Balance at the beginning of the quarter	52,150	54,300
Add: new trading rights issued	50	100
Adjustment for: net increase in relinquished trading rights payable to SEHK	(750)	(150)
Balance at the end of the quarter	51,450	54,250

#### 5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2023 and 2022.



## **Securities and Futures Commission**

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