

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
Income			
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
Expenses			
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
Deficit and total comprehensive income for the quarter		(101,061)	(94,810)

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

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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
Non-current assets			
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
Current assets			
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
Current liabilities			
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
Net current assets		4,840,887	4,724,977
Total assets less current liabilities		8,448,109	8,583,336
Non-current liabilities			
Lease liabilities		546,673	581,156
Provisions for reinstatement cost		88,364	88,047
		635,037	669,203
Net assets		7,813,072	7,914,133
Funding and reserves			
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.

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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	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the quarter	–	–	(101,061)	(101,061)
Balance at 30 June 2023	42,840	3,375,000	4,395,232	7,813,072

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

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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
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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)
Net increase/(decrease) in cash and cash equivalents		472,839	(637,374)
Cash and cash equivalents at the beginning of the quarter		407,901	973,151
Cash and cash equivalents at the end of the quarter	3	880,740	335,777

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
	880,740	335,777

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

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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).

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Notes to the condensed consolidated 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 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).

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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.

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Notes to the condensed consolidated financial statements

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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	–