



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

Quarterly Report July - September 2023





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This second Quarterly Report of the Securities and Futures Commission for financial year 2023-24 covers the period from 1 July to 30 September 2023.

Highlights

Listing regulation

Listing applications

We processed 39 new listing applications, including one from a special purpose acquisition company (SPAC)¹, one from a company with a weighted voting rights structure seeking listing by way of a de-SPAC transaction, and four from pre-profit biotech companies.

Corporate conduct

We issued section 179 directions² to request information in five cases, as part of our ongoing review of corporate disclosures.

Review of SEHK's work

We published a report on our review of the performance of the Stock Exchange of Hong Kong Limited (SEHK) in its regulation of listing matters during 2021 and identified areas for enhancement.



39
new listing
applications

¹ A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

² 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 September, there were 48,362 licensees and registrants, which included 3,236 licensed corporations. Among the corporate licences approved during the quarter, Type 9 (asset management) regulated activity (RA) accounted for 44% and Type 4 (advising on securities) for 36%.

Supervision

We inspected 63 licensed corporations on site to review their compliance with regulatory requirements.

Virtual assets

We issued a statement in August to warn virtual asset trading platforms (VATPs) of the legal and regulatory consequences of misrepresenting their SFC licence application status and launching non-compliant services and products. In September, we published another statement to warn the public of suspicious practices of an unregulated VATP, social media influencers and over-the-counter virtual asset money changers. We also stepped up our information dissemination in relation to VATPs by publishing on our website several VATP lists, including a dedicated list of suspicious VATPs



48,362

licensees and registrants

and a list of applicants, in response to a suspected large-scale fraudulent scheme involving active marketing of virtual asset services without an SFC licence.

SFC-HKMA joint product survey

Our annual joint survey with the Hong Kong Monetary Authority (HKMA) showed that the total transaction amount of non-exchange traded investment products declined by 24% year-on-year in 2022, largely in line with the turnover decrease in other major stock markets, while a significant proportion of sales shifted from bond funds and equity funds to money market funds.

Markets

Stock Connect enhancements

We reached a consensus with the China Securities Regulatory Commission (CSRC) to introduce block trading (manual trades) to further enhance trading efficiency and promote the mutual development of the Mainland and Hong Kong capital markets.

Wealth Management Connect enhancements

We issued a joint announcement with the relevant authorities and financial regulators of the Mainland, Hong Kong and Macao on enhancements to the Wealth Management Connect scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. These included expanding the scope of eligible products and allowing eligible brokers to participate in the scheme.

Highlights

Products

Product authorisations and registrations

During the quarter, we authorised 29 unit trusts and mutual funds (including 19 Hong Kong-domiciled funds) and 122 unlisted structured investment products for public offering in Hong Kong. As at 30 September, there were 187 registered open-ended fund companies, of which 36 were newly registered during the quarter.

Fund flows

As at 30 September, assets under management (AUM) of Hong Kong-domiciled funds decreased 3% from the previous quarter to \$1,299.8 billion (US\$166 billion). During the quarter, net fund inflows of about \$11.7 billion (US\$1.5 billion) were recorded.



\$11.7 billion
net fund inflows

Asset management survey

Our latest asset and wealth management activities survey showed that the AUM of Hong Kong's asset and wealth management business stood at \$30,541 billion as at end-2022, down 14% year-on-year. The decrease was similar to the drop for worldwide regulated funds and slightly outran major market indices.

Enforcement

Disciplinary actions

We disciplined five corporations and five individuals during the quarter and these actions resulted in total fines of \$28.9 million.

Market surveillance

We made 1,036 requests for trading and account records triggered by untoward price and turnover movements.

Cooperation with AFRC

We issued the first joint statement with the Accounting and Financial Reporting Council (AFRC) on combatting misconduct by listed issuers.

Joint operation with ICAC

We conducted a joint operation with the Independent Commission Against Corruption (ICAC) in a case of suspected market manipulation involving the shares of two Hong Kong-listed companies.

Highlights

Regulatory enhancements

Risk management guidelines

We concluded our consultation on risk management guidelines for licensed persons dealing in futures contracts. The guidelines set out a comprehensive risk management framework for futures brokers and will become effective on 25 February 2024.

Takeovers rules

Our proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs took effect on 29 September after public consultation. They mainly codified existing practices of the Takeovers Executive³ and clarified the Codes where necessary.

Enforcement

We published our consultation conclusions on proposed amendments to enforcement-related provisions of the Securities and Futures Ordinance, which will broaden the scope of the insider dealing provisions⁴.

OTC derivatives

We concluded a joint consultation with the HKMA on proposed amendments to the Clearing Rules⁵ for over-the-counter (OTC) derivative transactions. The amendments were in line with the global interest rate benchmark reform.

Regulatory engagement

International

Our Chief Executive Officer (CEO) Ms Julia Leung and senior executives participated in a meeting of the Board of the International Organization of Securities Commissions (IOSCO) which discussed decentralised finance and private finance. We also hosted the IOSCO Assessment Committee meeting, which progressed its current monitoring reviews about the technological challenges related to effective market surveillance and IOSCO's core principles on the perimeter of regulation and ways to address systemic risks.

Mainland

We visited the CSRC, People's Bank of China, National Administration of Financial Regulation and State Administration of Foreign Exchange in Beijing to discuss further developments of mutual market access schemes. We also visited Guangzhou, Shenzhen and Shanghai to meet with the local bureaux of the CSRC, stock exchanges, futures exchanges and clearing houses there to discuss cross-boundary regulatory cooperation and market development initiatives.

³ This refers to the Executive Director of the SFC's Corporate Finance Division or any delegate of the Executive Director.

⁴ The scope will be broadened to cover insider dealing perpetrated in Hong Kong with respect to overseas-listed securities or their derivatives, as well as insider dealing perpetrated outside of Hong Kong which involves Hong Kong-listed securities or their derivatives.

⁵ The Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.



Highlights

Sustainability

Corporate sustainability disclosures

The Corporate Reporting Workstream of IOSCO's Sustainable Finance Task Force, co-chaired by our CEO, spearheaded IOSCO's review of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board. The review informed IOSCO's endorsement of those standards in July.

The Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the HKMA, announced its key priorities including establishing world-class regulation through alignment with global standards. The Steering Group also set up a working group⁶ on sustainability disclosures to advance the development of a comprehensive Hong Kong roadmap on adopting the IFRS Sustainability Disclosure Standards as appropriate.

Communications

Virtual asset-related outreach

Our ongoing outreach and investor education efforts helped market participants better understand the new licensing regime for VATPs and reminded the public of the risks of trading on unregulated platforms. We used a mix of channels, including a media briefing, a televised interview, meetings with industry associations, as well as participation in conferences and seminars.

Industry outreach

We proactively explained our policy initiatives through industry events and other engagements. Our senior executives spoke at over 15 local and international events on virtual assets, asset management, mutual market access and other topics.

⁶ Co-chaired by the Financial Services and the Treasury Bureau and the SFC.

Operational Review

Corporates

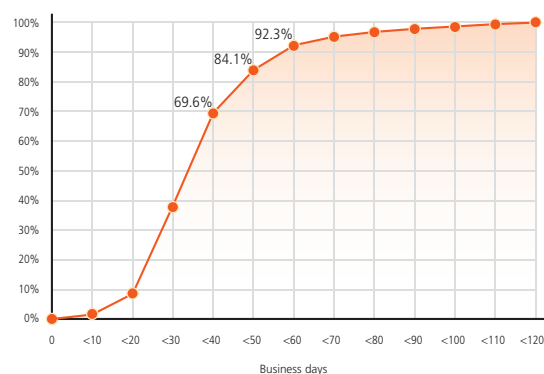
Gatekeeping listing applications

During the quarter, we cleared 52 listing applications out of a total of 147 which we processed. The processed applications included 39 new listing applications, of which one was from a special purpose acquisition company (SPAC)¹, one from a company with a weighted voting rights structure seeking a listing by way of a de-SPAC transaction, and four from pre-profit biotech companies.

Vetting time of listing applications

During the three years ended 30 September 2023, we cleared 378 cases, and 92% of these were cleared in less than 60 business days. The average processing time for the 52 cleared listing applications was 89 business days².

SFC vetting time (October 2020 to September 2023)



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.

¹ A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

² Including SFC vetting time and response time by the listing applicants or their advisers.

Corporates

Reviewing SEHK's performance in listing regulation

In July, we published a report on our review of the performance of the Stock Exchange of Hong Kong Limited (SEHK) in its regulation of listing matters during 2021 and identified areas for SEHK to enhance its performance. The report examined SEHK's performance in reviewing business valuations for large acquisitions and disposals, its administration of the Placing Guidelines for initial public offerings (IPO) and its review of IPO placee lists. We also looked into the processes of the Listing Operation Governance Committee, the Listing Compliance function, as well as the management of conflicts of interest for listing committee members and other staff.

Reviewing GEM listing regime

Following discussion with the SFC, SEHK launched in September a consultation on proposals to address key issues about GEM listings identified during its engagement with stakeholders. The proposals included introducing a new listing route for companies heavily engaged in research and development, removing the mandatory quarterly reporting requirement and streamlining the process for qualifying GEM issuers to transfer to the Main Board.

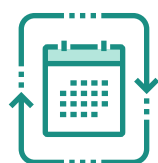
Tackling corporate misconduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions⁴ to request information in five cases.



147

listing applications processed³



Average processing time:

89

business days

Takeovers and share buy-backs

In September, we published our consultation conclusions on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs. The revised codes took effect on 29 September and consequential changes were made to a number of Practice Notes.

The amendments mainly codified existing practices of the Takeovers Executive⁵ and clarified the codes where necessary. These included revisions of important terms, streamlining of processes and introduction of green initiatives. They were well received by the market and all were adopted with minor modifications.

Listing applications and takeovers activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Listing applications	39	89	98	-9.2
Takeovers and share buy-backs transactions	112	178	160	11.3

³ Including 39 new listing applications and 108 cases brought forward from the previous reporting period.

⁴ 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.

⁵ This refers to the Executive Director of the SFC's Corporate Finance Division or any delegate of the Executive Director.

Intermediaries

Growth in licensed corporations and individuals

In the quarter, we received 2,017 licence applications¹, comprising 1,972 individuals and 45 corporations, a 13% increase from the previous quarter and up 6% from the same quarter last year.

As at 30 September, there were 48,362 licensees and registrants, of which 3,236 were licensed corporations and 112 were registered institutions. During the quarter, the number of new licensees and registrants totalled 3,094², amongst which 3,061 were individuals and 33 were licensed corporations and registered institutions. Among the 33 corporate licences granted during the quarter, Type 9 (asset management) regulated activity³ (RA) accounted for 44% and Type 4 (advising on securities) for 36%. The number of SFC licence applications increased 11.3% year-on-year⁴.



Applications for SFC licences

▲ 11.3%

Virtual assets: platform licensing, warning and information dissemination

During the quarter, we approved two SFC-licensed virtual asset trading platforms (VATPs) to provide services to retail investors. We also addressed the public on virtual asset-related matters through different channels.

VATP lists

We published several lists of VATPs on our website to disseminate related information in a clear, transparent and timely manner in response to a suspected large-scale fraudulent scheme involving active marketing of virtual asset services without an SFC licence. These include lists of VATP applicants, closing-down VATPs and a dedicated list of suspicious VATPs.

Statements and press release

In August, we issued a statement to warn VATPs of the legal and regulatory consequences of misrepresenting their SFC licence application status and launching services and products not compliant with our requirements for licensed VATPs. We repeatedly alerted investors to the risks of trading on unregulated VATPs.

Subsequently, to warn the public about a number of suspicious practices of an unregulated VATP, social media influencers or key opinion leaders and over-the-counter virtual asset money changers, we issued another statement in September. We made it clear that none of the entities within the unregulated VATP group were licensed by the SFC or had made any licence applications to the SFC to operate a VATP in Hong Kong.

We also issued a press release in September to communicate our plans and measures to reinforce information dissemination and investor education in light of recent public concerns about unregulated VATPs.

Press conference and media briefing

In September, we held a joint press conference with the Hong Kong Police Force and an SFC media briefing to update the public on the SFC's work relating to an unregulated VATP, as well as information dissemination and investor education on unregulated platforms and fraud.

We continue to make efforts to disseminate information to the public effectively and enhance investor education on the risks associated with virtual assets and potential fraud.

¹ The figure does not include applications for provisional licences under the Securities and Futures Ordinance, but includes applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

² The figure includes provisional licensed representatives.

³ Each licensed corporation may have multiple RA licences.

⁴ Change from 30 September 2022 to 30 September 2023. This does not include applications for provisional licences.

Intermediaries

Promoting fintech

Together with the Hong Kong Monetary Authority (HKMA) and Insurance Authority, the SFC published a new Fintech Promotion Roadmap in August to further drive fintech adoption in the financial services sector. The roadmap sets out a series of initiatives to be undertaken by the three regulators over the next 12 months, including regular showcase events, roundtables, seminars, practical guidelines, as well as a new Fintech Knowledge Hub.

Regulating depositaries of SFC- authorised CISs

In July, we began to accept applications for carrying on Type 13 RA under a new regime which will bring top-level trustees and custodians (ie, depositaries) of SFC-
authorised collective investment schemes (CISs) under our direct supervision. The new regime will take effect on 2 October 2024. Depositaries operating in Hong Kong are expected to apply on or before 30 November 2023.

Also in July, we issued a circular to provide the industry with additional guidance on the scope and transitional arrangements of the new regime.

Suitability obligations for dealing with sophisticated professional investors

We issued a joint circular with the HKMA in July to provide guidance for applying a streamlined approach to comply with the suitability obligations when dealing with sophisticated professional investors. The approach seeks to front-load intermediaries' know-your-client measures when onboarding clients or during regular reviews to ascertain a client's financial situation, investment experience, investment objectives and risk tolerance. For clients who exhibit the degree of sophistication, loss absorption ability and risk profile of a sophisticated professional investor, they would be allowed to specify the types of product and amount they wish to trade without going through the intermediaries' routine assessment and disclosure processes.



63

on-site inspections

This streamlined approach makes it more flexible and efficient for these investors to invest within acceptable parameters. To provide an appropriate degree of investor protection, intermediaries are required to establish and maintain effective systems and controls to ensure the streamlined approach operates properly within predefined parameters, and that the Code of Conduct⁵ requirements continue to apply in full force when dealing with a sophisticated professional investor.

Risk management guidelines for dealing in futures contracts

In August, we published the consultation conclusions on risk management guidelines for licensed persons dealing in futures contracts. The guidelines set out a comprehensive risk management framework for futures brokers and include requirements for funding liquidity risk management, safeguarding client assets, trading in futures markets outside Hong Kong and stress testing. Futures brokers have a transitional period of six months to comply with the guidelines, which will become effective on 25 February 2024.

Cybersecurity review

In September, we issued a circular to inform the industry that we will commence a cybersecurity review of selected licensed corporations. As part of the review, we will conduct a survey of these corporations with follow-up discussions and meetings, and perform on-site inspections for a deep-dive review and compliance assessment of their information technology and related management controls. The review will cover cybersecurity management and incident reporting, cloud security controls and governance, vendor risk management and remote access controls, amongst others. The findings of the cybersecurity review will form the basis for us to issue further industry guidance.

⁵ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Joint product survey with HKMA

In September, we and the HKMA published a report on our annual joint survey on the sale of non-exchange traded investment products. We surveyed 371 licensed corporations and registered institutions which engaged in the sale of investment products in 2022, with the participation of over 800,000 clients. The report aims to help both regulators better understand market trends, identify potential risks and address areas of common concern.

The survey showed that the total transaction amount declined by 24% year-on-year to \$3,799 billion, largely in

line with the decrease in turnover observed in other major stock markets. However, the overall manpower deployed by firms to conduct selling activities remained stable. For CISs, there was a noticeable shift in transactions from bond funds and equity funds to money market funds, the proportion amount of which jumped to 61% from 33% in 2021. On debt securities, investors shifted their interest to sovereign bonds, such as the HKSAR Government bonds (including Green Bonds and Silver Bonds). Sovereign bonds accounted for 29% of total debt securities sold, up from 15% in 2021. The number of firms distributing investment products online increased 19% year-on-year to 83.

Licensees and registrants

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Licensed corporations	3,236	3,254	-0.6	3,274	-1.2
Registered institutions	112	112	0.0	111	0.9
Licensed individuals	45,014	44,928	0.2	45,584	-1.3
Total	48,362	48,294	0.1	48,969	-1.2

Licensing applications

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Applications to conduct new regulated activity	7,753	13,974	13,439	4.0
Applications for SFC licences [^]	2,017	3,801	3,414	11.3

[^] Figures do not include applications for provisional licences but include applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance. During the quarter, we received 1,235 provisional licence applications compared with 1,350 in the same quarter last year.

Inspections of licensed corporations

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
On-site inspections commenced [^]	63	114	113	0.9

[^] Including inspections conducted remotely in light of the COVID-19 pandemic.

Products

Cross-boundary Wealth Management Connect (WMC) scheme

To deepen financial market connectivity in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), financial regulators of the Mainland, Hong Kong and Macao jointly announced enhancements to the scheme in September. Measures include expansion of the scope of eligible investment products, allowing eligible brokers to operate the scheme, enhancing promotion and sales arrangements, as well as initiatives to increase individual investor quota and support greater participation by GBA residents. Implementation details and operational guidance will be issued later.

Asset and Wealth Management Activities Survey

The *Asset and Wealth Management Activities Survey for 2022*, released in August 2023, showed that the total assets under management (AUM) of Hong Kong's asset and wealth management business amounted to \$30,541 billion (US\$3,912 billion) as at end-2022 and net fund inflows of \$88 billion (US\$11 billion) were recorded.

The AUM saw a 14% year-on-year decrease, which was similar to the 15% drop for the AUM of worldwide regulated funds and slightly outran major market indices.

ETFs

As at 30 September, 175 SFC-authorized exchange-traded funds (ETFs) were listed on the Stock Exchange of Hong Kong Limited (SEHK), including 25 leveraged and inverse products, and had a total market capitalisation of \$369.5 billion (US\$47.2 billion). During the quarter, net inflows of \$16.2 billion (US\$2.1 billion) to these ETFs were recorded. Their average daily turnover increased 12% quarter-on-quarter to \$14.8 billion (US\$1.9 billion).

As at 30 September, six ETFs are eligible for southbound trading. During the quarter, southbound ETF trading had an average daily turnover of \$3,586.5 million (US\$458 million) and contributed 15% of the eligible Hong Kong ETFs' turnover during the period.

Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, we had authorised a total of 44 Mainland funds as at 30 September, whilst the China Securities Regulatory Commission had approved 38 Hong Kong funds.

The cumulative net subscription amounted to about RMB1.06 billion for Mainland funds and about RMB16.45 billion for Hong Kong funds as at 30 September. During the quarter, Mainland funds and Hong Kong funds recorded net redemptions of about RMB16.45 million and net subscriptions of about RMB1.34 billion respectively.

Authorisations

During the quarter, we authorised 29 unit trusts and mutual funds (including 19 Hong Kong-domiciled funds) and 122 unlisted structured investment products for public offering in Hong Kong.

OFC registrations

As at 30 September, there were 187 registered open-ended fund companies (OFCs), of which 36¹ were new OFCs registered during the quarter.

ETF Connect – Southbound trading and fund flow of eligible Hong Kong ETFs^a

Six months ended	Number of eligible Hong Kong ETFs as at period end	Market capitalisation as at period end (\$ million)	Southbound trading turnover (\$ million)	As % of the eligible ETFs' total turnover (%)	Fund inflow/ (outflow) (\$ million)
30.9.2023	6	203,005	3,217	14.0	13,777
31.3.2023	5	203,835	1,561	7.0	17,231
30.9.2022 ^b	4	154,064	433	3.0	23,540

^a Based on data from Hong Kong Exchanges and Clearing Limited.

^b ETF Connect was launched on 4 July 2022.

¹ The figure includes 33 private OFCs.

Products

Hong Kong-domiciled funds

As at 30 September, the AUM of Hong Kong-domiciled funds decreased 3% from the previous quarter to \$1,299.8 billion (US\$166 billion). Net fund inflows of about \$11.7 billion (US\$1.5 billion) were recorded.

ESG funds

As at 30 September, there were 209 SFC-authorized ESG² funds with total AUM of \$1,247.3 billion (US\$159.3 billion), representing quarter-on-quarter increases of 7.2% and 1.8%, respectively.

Authorised collective investment schemes

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	923 ^a	913	1.1	882	4.6
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,416	1,417	-0.1	1,393	1.7
ILAS	314	305	3.0	301	4.3
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 ^b	25	0.0	25	0.0
Total	2,927	2,939	-0.4	2,878	1.7

^a This figure includes 113 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 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
OFCs	187 [^]	131	42.7	100	87.0

[^] This figure includes 163 private OFCs.

Authorised unlisted structured investment products

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Unlisted structured investment products [^]	277	231	19.9	234	18.4

[^] On a "one product per key facts statement" basis, including equity-linked investments and deposits.

² Environmental, social and governance.

Products

Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type^a (US\$ million)

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of \$23.5 billion (US\$3 billion), which was primarily attributed to index funds and money market funds.

	Six months ended 30.9.2023			Six months ended 31.3.2023			Six months ended 30.9.2022		
	Subscription	Redemption	Net subscription/(redemption) ^b	Subscription	Redemption	Net subscription/(redemption) ^b	Subscription	Redemption	Net subscription/(redemption) ^b
Bond	5,649	5,722	(73)	6,389	5,538	850	3,534	6,507	(2,973)
Equity	6,275	8,640	(2,364)	7,124	6,220	904	6,504	7,703	(1,199)
Mixed	2,542	4,335	(1,792)	2,534	3,085	(551)	4,779	5,746	(967)
Money market	24,775	21,771	3,003	22,072	17,206	4,866	11,221	9,428	1,793
Feeder funds ^c	0	0	0	1	3	(3)	2	1	2
Index ^d	35,565	31,355	4,211	36,276	34,911	1,365	29,136	25,374	3,763
Guaranteed	0	3	(3)	0	2	(2)	0	2	(2)
Other specialised ^e	3	15	(12)	78	65	12	0	0	0
Total^b	74,809	71,840	2,969^f	74,474	67,033	7,442	55,176	54,760	416

^a Based on data reported by funds domiciled in Hong Kong.

^b Figures may not add up to total due to rounding.

^c The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded to better reflect the total fund flows.

^d Including ETFs and leveraged and inverse products.

^e Including virtual asset futures ETFs.

^f This figure includes net outflows of \$24 billion (US\$3.1 billion) reported by retail approved pooled investment funds which MPFs may invest in and may also be offered to the public in Hong Kong.

Mainland-Hong Kong MRF scheme – fund flows^a (RMB million)

	Six months ended 30.9.2023			Six months ended 31.3.2023			Six months ended 30.9.2022		
	Subscription	Redemption	Net subscription/(redemption) ^b	Subscription	Redemption	Net subscription/(redemption) ^b	Subscription	Redemption	Net subscription/(redemption) ^b
Mainland funds	201	202	(1)	182	165	16	296	333	(37)
Hong Kong funds	5,984	4,201	1,782	7,360	4,146	3,215	2,047	2,790	(743)

^a Based on data from the State Administration of Foreign Exchange.

^b Figures may not add up to total due to rounding.

Products

SFC-authorised renminbi (RMB) investment products

	As at 30.9.2023
Unlisted products	
Unlisted funds primarily investing in onshore Mainland securities markets ^a or offshore RMB bonds, fixed-income instruments or other securities	58
Unlisted funds (non-RMB denominated) with RMB share classes	405
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	44
Unlisted structured investment products issued in RMB ^b	276
ILAS with policy currency in RMB	6
Listed products	
ETFs primarily investing in onshore Mainland securities markets ^a or offshore RMB bonds, fixed-income instruments or other securities	53
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	18
RMB leveraged and inverse products	3
RMB gold ETFs ^c	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

Further enhancing Stock Connect

We have reached a consensus with the China Securities Regulatory Commission to introduce block trading (manual trades) under Stock Connect, on which we issued a joint announcement in August. This initiative will further enhance trading efficiency and promote the mutual development of the Mainland and Hong Kong capital markets.

Once implemented, offshore investors will be able to conduct block trades on the Shanghai Stock Exchange and Shenzhen Stock Exchange through the northbound trading link, whilst Mainland investors can use the southbound trading link to conduct manual trades on the Stock Exchange of Hong Kong Limited. The exchanges and clearing houses on both sides are working together on the implementation details. The official launch date will be announced in due course.

Amending rules for position limit regime

Following our further consultation conclusions on proposed changes to the position limit regime for the derivatives market published in June, we are working on legislative amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules. We expect the amended rules to take effect in December 2023, subject to the legislative process.

OTC derivatives

Consultation conclusions on clearing rules

We concluded a joint consultation with the Hong Kong Monetary Authority in August on proposed amendments to the Clearing Rules¹ for over-the-counter (OTC) derivative transactions. The proposals are in line with the global interest rate benchmark reform, particularly the transition from the use of interbank offered rates to alternative reference rates. We received broad support for our proposals. Subject to the legislative process, we aim to implement the proposed changes in July 2024.

Implementation of Transactions Reporting Regime

The OTC Securities Transactions Reporting Regime became effective on 25 September. We issued a circular in August to remind Relevant Regulated Intermediaries² about the testing and preparation work for reporting under the new regime.

Automated trading services

As of 30 September, there were 53 automated trading services (ATS) providers³ authorised under Part III of the Securities and Futures Ordinance (SFO), while 29 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Under Part III	53	51	3.9	51	3.9
Under Part V	29	28	3.6	27	7.4

¹ The Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

² These refer to SFC-licensed corporations and registered institutions subject to the OTC Securities Transactions Reporting Regime under paragraph 5.7 of the Code of Conduct for Persons Licensed by or Registered with the SFC.

³ 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

Combatting market misconduct

Surveillance

Our surveillance of untoward price and turnover movements resulted in 1,036 requests for trading and account records from intermediaries during the quarter. We also received and assessed 71 notifications from intermediaries¹ regarding suspicious equity and derivative trading.

Market manipulation

Two suspected core members of a large-scale and sophisticated ramp and dump syndicate suspected of market manipulation were charged at the Eastern Magistracy with the offence of conspiracy to defraud or deceive in transactions involving securities. This is contrary to section 300 of the Securities and Futures Ordinance (SFO) and sections 159A and 159C of the Crimes Ordinance.

A case was transferred from the Eastern Magistracy to the District Court for trial after four suspects were charged with fraud under section 16A of the Theft Ordinance and alternative offences of illegal short selling under section 170 of the SFO in June. The case stemmed from an earlier joint operation with the Hong Kong Police Force to combat ramp and dump scams on social media.

Corporate fraud and related misbehaviour

We obtained an interim-interim notification injunction at the Court of First Instance (CFI) against Leung Anita Fung Yee Maria, former chief executive officer and executive director of SMI Culture & Travel Group Holdings Limited, requiring her to inform us of any sale of her specified properties in Hong Kong and Canada, in order to preserve assets for a compensation order which may be imposed under section 214 of the SFO. Subsequently, she notified us of the sale of her two properties and, upon our further application for injunction, provided a voluntary undertaking to the court not to complete the sale pending the substantive determination of the injunction application.

Acting against intermediary misconduct

During the quarter, we disciplined five corporations and five individuals and these actions resulted in total fines² of \$28.9 million. Key disciplinary actions are shown in the following tables.

Sponsor failures

Company/Name	Breaches	Action/Fine
Changjiang Corporate Finance (HK) Limited	Failed in discharging its duties as the sponsor in six applications to list on the Stock Exchange of Hong Kong Limited (SEHK)	Reprimanded and fined \$20 million Licence partially suspended to act as a sponsor for listing applications on SEHK for one year, or until we are satisfied with controls and procedures of its sponsor-related business, whichever is later
Tsang Kwong Fai	Failed to discharge his duties as a sponsor principal, responsible officer (RO) and senior management member of RaffAello Capital Limited	Banned from re-entering the industry for two years

¹ Intermediaries are required to report clients' suspected market misconduct to the SFC.

² Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.



Enforcement

Internal control deficiencies

Company/Name	Breaches	Action/Fine
Chee Tak Securities Limited (Chee Tak)	Internal control deficiencies and regulatory breaches	Reprimanded and fined \$2 million
Kevin Chiu Koon Yu	Failed to discharge his duties as an RO and a member of the senior management of Chee Tak	Suspended for 10 months
China Industrial Securities International Brokerage Limited	Internal control failures relating to the monitoring of suspicious trading activities and recording of client order instructions	Reprimanded and fined \$3.5 million
Changjiang Asset Management (HK) Limited	Regulatory breaches and internal control failures in relation to segregation of client money and provision of account statements to clients	Reprimanded and fined \$3.4 million

Other regulatory breaches

Company/Name	Breaches	Action
Lo Wai Ming	Failed to comply with the firm's internal procedures when placing clients' orders and to maintain proper records of clients' order instructions	Banned from re-entering the industry for seven months
Axial Capital Management Limited (Axial)	Repeated failures to comply with the SFO, the Securities and Futures (Financial Resources) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct)	Revoked licence
Eugene Chung	Failed to discharge his duties as an RO and a member of the senior management of Axial	Suspended for five years

Other notable cases

The Securities and Futures Appeals Tribunal affirmed our decision to ban Calvin Choi Chi Kin, a former managing director of UBS AG, from re-entering the industry for two years for breaching the Code of Conduct and the Corporate Finance Adviser Code of Conduct.

We obtained an order from the CFI to appoint two administrators to administer the property of Vantage New Generation Securities Limited³ and that held by the firm on behalf of its clients or third parties, as well as to manage the affairs of the firm.

Mayer Holdings Limited and nine of its former senior executives were found by the Market Misconduct Tribunal (MMT) to be late in disclosing inside information as required under the SFO. The case had been remitted to the MMT for re-hearing following an appeal allowed by the Court of Appeal against the MMT's earlier determination.

Unlicensed activities

The Eastern Magistrates' Court convicted:

- Ben Ngai Ping Kuen for holding himself out as performing a regulated function in relation to dealing in securities without a licence from the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.
- Cheung Wing Hung for holding himself out as performing a regulated function in relation to dealing in securities as an agent of entities not licensed by the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.

³ Formerly known as Global Group Securities Limited, a corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. For Type 4 regulated activity, licensees should only provide services to professional investors.

Enforcement

Cooperation with ICAC and AFRC

ICAC

We conducted a joint operation with the Independent Commission Against Corruption (ICAC) in a case of suspected market manipulation involving the shares of two Hong Kong-listed companies. During the joint operation, 14 premises were searched and the ICAC arrested one core member of the suspected syndicate. We also issued restriction notices to six brokers to freeze assets held in eight trading accounts related to suspected market manipulation of the shares of one of the two listed companies.

AFRC

In July, we issued the first joint statement with the Accounting and Financial Reporting Council (AFRC) as part of our enhanced collaboration in the regulation of the securities and futures markets in Hong Kong.

The joint statement addresses an observable increase in cases of listed issuers channelling a company's funds to third parties as "loans" in dubious circumstances. These loans were often approved without sufficient commercial rationale or appropriate documentation. Listed issuers suffered significant losses when these loans became unrecoverable. The joint statement also provides our observations on listed issuers granting dubious loans and sets out the conduct standards and practices that listed issuers, their directors, audit committees and auditors should follow in relation to loans and similar arrangements.

We will continue to work with the AFRC to maintain the integrity of Hong Kong's capital market and protect the interests of the investing public.

Enhancing our powers to curb misconduct

In August, we published the consultation conclusions on proposed amendments to enforcement-related provisions of the SFO. If approved by the Legislative Council, the changes will broaden the SFO's scope to cover insider dealing perpetrated in Hong Kong related to overseas-listed securities or their derivatives, as well as insider dealing perpetrated outside of Hong Kong which involves Hong Kong-listed securities or their derivatives. Considering the complex implementation issues raised by the respondents to the consultation, we concluded that, pending further review, we will put on hold the other two proposed amendments, which concern the professional investor exemption and injunctions and other orders. We will continue to monitor market developments and consider a full range of options to enhance investor protection as necessary.



Enforcement

Enforcement activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
S179 ^a inquiries commenced	13	22	17	29.4
S181 ^b inquiries commenced (number of letters sent)	54 (1,036)	97 (2,263)	86 (3,321)	-31.9
S182 ^c directions issued	53	93	63	47.6
Investigations started	54	94	67	40.3
Investigations completed	49	82	83	-1.2
Individuals and corporations charged in criminal proceedings	4	19	7	171.4
Criminal charges laid	6	45	80	-43.8
Notices of Proposed Disciplinary Action ^d issued	7	14	12	16.7
Notices of Decision ^e issued	8	15	12	25.0
Individuals and corporations subject to ongoing civil proceedings ^f	193	193	173	11.6
Compliance advice letters issued	37	76	43	76.7
Cases with search warrants executed	8	12	20	-40.0

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

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

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

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

^e A notice 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 support transition and sustainable finance.

Spearheading international work

At the International Organization of Securities Commissions (IOSCO), our Chief Executive Officer (CEO) Ms Julia Leung is a vice-chair of the Sustainable Finance Task Force (STF) and co-chairs its Corporate Reporting Workstream. The workstream led IOSCO's continuous discussions with the International Sustainability Standards Board (ISSB) for over two years and spearheaded the review of the ISSB's IFRS Sustainability Disclosure Standards, which informed IOSCO's endorsement of those standards in July.

As a member of other IOSCO STF workstreams, we are active in discussions about assurance and digital reporting of sustainability information, and promoting good practices on asset management and environmental, social, and governance (ESG) ratings and data products providers. We also contributed to the final report on compliance carbon markets published in July.

We lead the Sustainable Finance Working Group¹ of the IOSCO Asia Pacific Regional Committee. This group seeks to promote alignment of regulatory approaches, knowledge sharing and capacity building in corporate sustainability disclosures and carbon markets in the region.

During the quarter, we continued to participate actively in other international initiatives on sustainable finance².

Local policy initiatives

In August, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)³, co-chaired by the SFC and the Hong Kong Monetary Authority, announced its key priorities. These include establishing world-class regulation through alignment with global standards, exploring opportunities for public-private partnerships to promote the development of technology-driven solutions, developing a Hong Kong green fintech map, and exploring ways to further support financial institutions and corporates in their transition planning and reporting.

The Steering Group established a working group on sustainability disclosures, co-chaired by the Financial Services and the Treasury Bureau and the SFC. The aim is to advance the development of a comprehensive roadmap on adopting the IFRS Sustainability Disclosure Standards, taking into account Hong Kong's position on the global green finance map, local regulatory expectations and circumstances.

Climate-related disclosures

The Stock Exchange of Hong Kong Limited's (SEHK) consultation on proposed climate-related disclosure requirements for listed companies in Hong Kong ended in mid-July. SEHK is formulating the next steps in light of the responses received, the final ISSB standards and the adoption guide to be issued by the ISSB.

¹ Our Senior Director and Head of International Affairs and Sustainable Finance, Ms Christine Kung, leads this working group.

² 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.

³ 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 Mandatory Provident Fund Schemes Authority.

Regulatory Engagement

Strengthening global regulatory collaboration

We maintain a close working relationship with our regulatory counterparts to develop global policy initiatives and promote international cooperation and capacity building.

IOSCO and FSB

We contribute to all eight policy committees of the International Organization of Securities Commissions (IOSCO) and hold leadership positions in the Committee on Investment Management and the Committee on Enforcement and the Exchange of Information¹. During the quarter, we participated in meetings of the Committee on Emerging Risks, the Assessment Committee, Fintech Task Force, Sustainable Finance Task Force, and the Financial Stability Engagement Group.

In September, our Chief Executive Officer Ms Julia Leung and senior executives participated in a meeting of the IOSCO Board to discuss decentralised finance and private finance. In the same month, we hosted the IOSCO Assessment Committee meeting which discussed the importance of implementation monitoring in areas such as sustainability reporting and crypto assets. The Committee also progressed its current reviews about the technological challenges related to effective market surveillance and IOSCO's core Principles 6 and 7, which focus on identifying, monitoring, mitigating and managing systemic risks, as well as reviewing the regulatory perimeter.



IOSCO Assessment Committee meeting in Hong Kong

Ms Christina Choi, our Executive Director of Investment Products, is serving a second term as Chair of the IOSCO's Committee on Investment Management. She also leads the committee's core experts group and co-chairs the Financial Stability Board (FSB) Open-Ended Funds Working Group. During the quarter, IOSCO published a consultation report on proposed guidance for anti-dilution liquidity management tools. FSB also published a consultation report on revisions to its 2017 policy recommendations to address structural vulnerabilities from liquidity mismatch in open-ended funds. In July, IOSCO and FSB jointly organised a launch event for these reports, which was attended by over 300 market participants from around the world.

During the quarter, Mr Rico Leung, our Executive Director of Supervision of Markets, and other SFC representatives participated in a meeting of the FSB Standing Committee on Standards Implementation to discuss its 2024 work priorities.

Other work

In July, we hosted a visit by the representatives of the Takeovers Regulation Panel of South Africa. During the visit, the two sides shared experiences and exchanged views on supervising takeovers in the two jurisdictions.

Advancing Mainland-Hong Kong cooperation

During the quarter, we continued to work closely with our Mainland counterparts and relevant authorities to push forward various cooperation initiatives.

In July, we visited China Securities Regulatory Commission (CSRC), People's Bank of China, National Administration of Financial Regulation (NAFR) and State Administration of Foreign Exchange in Beijing to discuss further development of various mutual market access schemes, including ETF² Connect expansion, inclusion of REITs³ under Stock Connect, and enhancements to the Mutual Recognition of Funds arrangement and the Cross-boundary Wealth Management Connect (WMC) pilot scheme.

¹ Mr Kenneth Lai, Director of Enforcement, is Vice-Chair.

² Exchange-traded funds.

³ Real estate investment trusts.

Regulatory Engagement

In September, enhancements to the WMC pilot scheme⁴ were jointly announced by relevant authorities and financial regulators of the Mainland, Hong Kong and Macao. Implementation details are being formulated to roll out the enhancements as soon as practicable.

We also visited Guangzhou, Shenzhen and Shanghai to meet with the local bureaux of the CSRC, stock exchanges, futures exchanges and clearing houses there to discuss cross-boundary regulatory cooperation and market development initiatives.

In addition, we received delegations of the Shenzhen Stock Exchange, Beijing Stock Exchange, Guangzhou Futures Exchange and China Association for Public Companies, who discussed with us the coordinated development of Mainland and Hong Kong securities and futures markets.

In July, we had bilateral meetings with the CSRC and NAFR to exchange supervisory information of licensed firms whose parents are regulated by the CSRC or NAFR.

During the quarter, our Enforcement Division continued to maintain close cooperation with the Enforcement Bureau of the CSRC. In addition to providing mutual assistance in significant cases, the two enforcement units actively discussed and formulated the operating mechanism for cross-boundary enforcement cooperation. This is pursuant to the memorandum of understanding signed in February 2023 regarding the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (MoU). The implementation of the MoU provisions will improve the efficiency of information exchange in enforcement cooperation and reinforce our joint efforts to combat cross-boundary securities violations.

We also actively discussed and comprehensively optimised some key processes in handling requests for investigatory assistance. Significant improvement is expected in the accuracy and efficiency of handling requests from investigators in both enforcement units.



CEO visit to Shenzhen Stock Exchange
(left: President of Shenzhen Stock Exchange
Ms Sha Yan)



CEO visit to Shanghai Stock
Exchange (left: President of Shanghai
Stock Exchange Mr Cai Jianchun)

⁴ See Products on pages 12-15.

Communications and Education

Industry outreach

We are proactive in explaining our policy initiatives through industry events and other engagements. During the quarter, our senior executives spoke at over 15 local and international events on topics ranging from virtual assets to asset management and mutual market access. We were a supporting organisation for two industry events.

At a July forum on doing business in Hong Kong organised by the Law Society of Hong Kong, our Chairman Mr Tim Lui highlighted the significance of our agile regulatory approach in supporting market developments and keeping pace with new market trends.



Chairman Mr Tim Lui speaks at the Law Society of Hong Kong's forum

Also in July, when speaking at a Hong Kong Securities and Investment Institute regulatory roundtable luncheon, our Chief Executive Officer Ms Julia Leung emphasised the need to maintain a healthy ecosystem for small-cap stocks and highlighted the problems prevalent in the small and medium enterprise segment of the listing market. She also elaborated the SFC's efforts to tackle market manipulation and other misconduct particularly in that segment. In the same month, Ms Leung discussed the importance of adopting global sustainability standards in Hong Kong and taking a steady and proportionate approach relevant to local circumstances, as she spoke

at the CPA Congress hosted by the Hong Kong Institute of Certified Public Accountants. In addition, she spoke on how the Mainland and Hong Kong can navigate a challenging global environment by expanding mutual market access and deepening cross-boundary financial collaboration at the 2023 Bund Summit held in Shanghai in September.

In a July interview with the official publication of the Hong Kong Securities Association, Ms Leung shared the SFC's priorities and approach to addressing emerging issues, including licensing of virtual asset trading platforms (VATPs), security tokens and risk management controls for futures brokers.

Our other senior executives also shared their views on specific topics on various occasions in the period. Executive Director of Investment Products Ms Christina Choi explained the SFC's approach to enabling innovation in the asset management industry at the Bloomberg Buy-Side Forum Hong Kong 2023. At the ISDA Derivatives Trading Forum, Executive Director of Supervision of Markets Mr Rico Leung spoke about how Mainland-Hong Kong mutual market access schemes supported the growth of the city's derivatives market. At the Directors' Symposium 2023 organised by the Hong Kong Institute of Directors, Mr Christopher Wilson, Executive Director of Enforcement, highlighted company directors' duties in promoting effective corporate governance and a management culture that reduces misconduct. Mr Wilson also elaborated the SFC's holistic strategy to combat market misconduct in an interview with the official publication of the Law Society of Hong Kong.



Industry publication interviews

Communications and Education

Other publications and communications

We provide stakeholders with regulatory updates and explain our work through a variety of publications. During the quarter, we released the SFC's *April-June 2023 Quarterly Report* which summarised our key regulatory work, corporate developments and financial information. In August, we published the report on our annual *Asset and Wealth Management Activities Survey*, which found that Hong Kong's asset and wealth management business remained resilient in 2022 amid the challenges faced by the industry globally. In our *Half-yearly Review of the Global and Local Securities Markets* published in August, we provided reviews of global and local securities market performances during the first half of 2023 and an update on trading activity and short positions in Hong Kong. We also published in September the *Financial Review of the Securities Industry* for the first half of 2023 and the quarterly *Takeovers Bulletin*.

We published 55 posts on the SFC's social media platforms to promote awareness and bring the public's attention to a range of matters, including unregulated and suspicious VATPs, sustainable finance and mutual market access initiatives.

Explaining VATP regulation

To help market participants understand the new licensing regime for VATPs which took effect on 1 June 2023, we keep up our outreach and investor education efforts to inform stakeholders of the regulatory requirements under the new regime and remind the public of the risks of trading on unregulated platforms.

We participated in a wide range of conferences and seminars to engage with local and international industry participants including those at the events organised by the Hong Kong Financial Services Development Council, InvestHK and the Hong Kong Economic and Trade Office in Seoul. We also met with industry associations to explain our requirements.

In a televised interview by Phoenix TV in August, we explained the investor guardrails embedded in the new regime. Through a media briefing and an accompanying press release in September, we communicated our plans and measures to reinforce information dissemination and investor education to further raise awareness about unregulated VATPs.

Publications and other communications

	Quarter ended 30.9.2023	Six months ended 30.9.2023
Press releases	41	85
Policy statements and announcements	5	5
Consultation papers	0	2
Consultation conclusions	4	7
Industry-related publications	7	8
Codes and guidelines ^a	3	10
Circulars to industry	13	23
Corporate website average daily page views ^b	64,769	65,060
General enquiries	1,021	1,786

^a Includes updates to previous versions.

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



Corporate Developments

Finance

Our income for the quarter was \$387 million, 6% lower than the previous quarter and 19% higher than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$93 billion, 5% lower than the \$98 billion recorded in the previous quarter. Our expenditure for the quarter was \$510 million, 1% lower than the prior quarter and 1% higher than the same quarter last year. We recorded a deficit of \$123 million for the quarter.

After setting aside \$3.4 billion for the potential future acquisition of office premises, our reserves stood at \$4.3 billion as of 30 September.

Staffing

As of 30 September, we had 934 staff members, up from 909 a year ago.

Information technology

During the quarter, we enhanced our digitalised licensing platform WINGS¹ to support the over-the-counter securities transaction reporting (OTCR) regime, which commenced in September. Under the regime, a relevant regulated intermediary (RRI) is required to report to the SFC when it transfers shares in connection with an OTC securities transaction, and when it deposits or withdraws a physical share certificate. The RRI is required to produce a report using the resources² available on WINGS and submit it to the SFC³.

We also expanded the digital submission capability on WINGS to support the Type 13 Regulated Activity regime for depositaries of SFC-authorised collective investment schemes, which will come into effect on 2 October 2024.

Finance

(\$ million)	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Income	387	800	724	10.5
Expenses including depreciation	510	1,024	997	2.7
Deficit	(123)	(224)	(273)	-17.9

¹ Web-based Integrated Service.

² Reports should be prepared in accordance with the OTCR technical information paper or by using the OTCR reporting file template.

³ Reports can be submitted via: 1) the OTCR WebApp service on WINGS; or 2) system automation through the OTCR Secure File Transfer Protocol service.

Operational Data

Table 1 Takeovers activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	8	13	19	-31.6
Privatisations	8	10	4	150.0
Whitewash waiver applications	4	10	7	42.9
Other applications under Code on Takeovers and Mergers ¹	91	141	126	11.9
Off-market and general offer share buy-backs	1	4	3	33.3
Other applications under Code on Share Buy-backs ¹	0	0	1	-100.0
Total	112	178	160	11.3
Executive Statements				
Sanctions imposed with parties' agreement ²	0	0	1	-100.0
Takeovers and Mergers Panel				
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	2	-100.0
Statements issued by the Panel ³	0	0	2	-100.0

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

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

³ Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.



Operational Data

Table 2 Breaches noted during on-site inspections¹

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022 ⁵	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	5	5	0.0
Failure to safekeep client securities	11	20	9	122.2
Failure to maintain proper books and records	5	8	8	0.0
Failure to safekeep client money	12	21	12	75.0
Unlicensed dealing and other registration issues	6	11	6	83.3
Breach of licensing conditions	0	0	4	-100.0
Breach of requirements of contract notes/statements of account/receipts	9	17	20	-15.0
Failure to make filing/notification	0	0	1	-100.0
Breach of margin requirements	7	7	3	133.3
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	102	161	119	35.3
Breach of Corporate Finance Adviser Code of Conduct	2	7	8	-12.5
Breach of Fund Manager Code of Conduct	16	44	46	-4.3
Breach of regulation of on-line trading	4	8	6	33.3
Non-compliance with anti-money laundering guidelines	85	157	111	41.4
Breach of other rules and regulations of the Exchanges ³	2	4	1	300.0
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	4	-100.0
Internal control weaknesses ⁴	124	224	206	8.7
Others	17	33	36	-8.3
Total	404	727	605	20.2

¹ Including inspections conducted remotely in light of the COVID-19 pandemic.

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

³ The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

⁴ Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

⁵ Figures have been adjusted for the period.

Operational Data

Table 3 Hong Kong-domiciled authorised funds

a) Number of funds by type	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Bond	172	173	-0.6	168	2.4
Equity	205	206	-0.5	203	1.0
Mixed	112	112	0.0	111	0.9
Money market	59	49	20.4	42	40.5
Feeder funds	50	48	4.2	46	8.7
Index ¹	165	169	-2.4	167	-1.2
Guaranteed	1	1	0.0	1	0.0
Other specialised ²	3	3	0.0	0	N/A
Sub-total	767	761	0.8	738	3.9
Umbrella structures	156	152	2.6	144	8.3
Total	923	913	1.1	882	4.6

b) Assets under management by type	Total NAV (US\$ million) as at 30.9.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.9.2022	YoY change (%)
Bond	24,907	26,396	-5.6	24,450	1.9
Equity	44,883	50,530	-11.2	42,337	6.0
Mixed	24,873	28,384	-12.4	26,307	-5.5
Money market	19,967	16,542	20.7	11,284	76.9
Feeder funds ³	18	20	-10.0	20	-10.0
Index ¹	50,826	52,578	-3.3	44,378	14.5
Guaranteed	30	34	-11.8	33	-9.1
Other specialised ²	27	44	-38.6	0	N/A
Total⁴	165,532	174,527	-5.2	148,810	11.2

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

¹ Including exchange-traded funds and leveraged and inverse products.

² Including virtual asset futures exchange-traded funds.

³ 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.

⁴ Figures may not add up to total due to rounding.



Operational Data

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Luxembourg	1,064	1,063	0.1	1,049	1.4
Ireland	251	250	0.4	239	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	21	-4.8
Others	5	5	0.0	5	0.0
Total	1,416	1,417	-0.1	1,393	1.7

b) Assets under management by origin	Total NAV (US\$ million) as at 30.9.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.9.2022	YoY change (%)
Luxembourg	1,070,678	1,119,869	-4.4	993,690	7.7
Ireland	217,248	222,462	-2.3	196,741	10.4
United Kingdom	65,422	65,319	0.2	56,494	15.8
Mainland China	19,273	22,786	-15.4	23,144	-16.7
Bermuda	117	116	0.9	145	-19.3
Cayman Islands	1,204	1,446	-16.7	1,412	-14.7
Others	56,995	63,634	-10.4	54,885	3.8
Total¹	1,430,936	1,495,633	-4.3	1,326,511	7.9

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

¹ Figures may not add up to total due to rounding.

Operational Data

c) Number of funds by type	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Bond	357	358	-0.3	360	-0.8
Equity	774	774	0.0	759	2.0
Mixed	156	155	0.6	147	6.1
Money market	12	12	0.0	12	0.0
Feeder funds	3	3	0.0	3	0.0
Index ¹	26	26	0.0	26	0.0
Hedge	1	1	0.0	1	0.0
Sub-total	1,329	1,329	0.0	1,308	1.6
Umbrella structures	87	88	-1.1	85	2.4
Total	1,416	1,417	-0.1	1,393	1.7

d) Assets under management by type	Total NAV (US\$ million) as at 30.9.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 30.9.2022	YoY change (%)
Bond	410,187	432,041	-5.1	404,154	1.5
Equity	758,898	791,354	-4.1	678,146	11.9
Mixed	150,314	156,729	-4.1	145,889	3.0
Money market	10,497	9,724	7.9	8,973	17.0
Feeder funds ²	0	0	0.0	0	0.0
Index ¹	100,923	105,669	-4.5	89,205	13.1
Hedge	117	116	0.9	145	-19.3
Total³	1,430,936	1,495,633	-4.3	1,326,511	7.9

¹ Including exchange-traded funds.

² The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total asset under management.

³ Figures may not add up to total due to rounding.



Operational Data

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Conduct of licensees	148	280	434	-35.5
Conduct of registered institutions	4	4	32	-87.5
Listed companies and disclosure of interests	370	520	376	38.3
Market misconduct ¹	98	189	170	11.2
Product disclosure	0	0	8	-100.0
Unlicensed activities	118	193	285	-32.3
Breach of offers of investments	33	40	25	60.0
Boiler rooms and suspicious websites	59	99	150	-34.0
Scams and frauds ²	118	246	234	5.1
Other financial activities not regulated by the SFC ³	57	138	167	-17.4
Total	1,005	1,709	1,881	-9.1

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading and banking services.

Securities and Futures Commission

Report on review of interim financial information

To the Securities and Futures Commission

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

Introduction

We have reviewed the interim financial information set out on pages 35 to 43, which comprises the condensed consolidated statement of financial position of Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2023 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 1 December 2023



Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income		
Levies	353,947	371,176
Fees and charges	31,057	30,266
Net investment income/(loss)		
Investment income/(loss)	6,744	(77,318)
Less: custody and advisory expenses	(2,615)	(2,506)
Recoveries from the Investor Compensation Fund	1,532	1,473
Exchange (loss)/gain	(3,879)	1,789
Other income	109	78
	386,895	324,958
Expenses		
Staff costs and directors' emoluments	388,051	378,215
Depreciation		
Fixed assets	25,246	28,010
Right-of-use assets	36,602	36,521
Other premises expenses	9,025	8,884
Finance costs	1,543	1,707
Other expenses	49,029	49,517
	509,496	502,854
Deficit and total comprehensive income for the quarter	(122,601)	(177,896)

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 is for information only.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income			
Levies		706,203	813,174
Fees and charges		55,961	55,675
Net investment income/(loss)			
Investment income/(loss)		52,083	(155,240)
Less: custody and advisory expenses		(5,471)	(5,082)
Recoveries from the Investor Compensation Fund	7(a)	3,052	2,957
Exchange (loss)/gain		(12,434)	11,229
Other income		853	1,449
		800,247	724,162
Expenses			
Staff costs and directors' emoluments		780,382	756,773
Depreciation			
Fixed assets		50,501	55,006
Right-of-use assets		73,222	73,043
Other premises expenses		17,939	17,591
Finance costs		3,085	3,488
Other expenses		98,780	90,967
		1,023,909	996,868
Deficit and total comprehensive income for the period		(223,662)	(272,706)

The notes on pages 39 to 43 form part of these condensed consolidated financial statements.



Securities and Futures Commission

Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Non-current assets			
Fixed assets		196,952	216,366
Right-of-use assets		636,437	700,776
Deposits for leases		38,731	37,609
Financial assets at amortised costs – debt securities	8(b)	2,586,462	2,903,608
		3,458,582	3,858,359
Current assets			
Financial assets at amortised costs – debt securities	8(b)	725,068	381,528
Financial assets at fair value through profit or loss			
Debt securities	8(a)	–	403,649
Pooled funds	8(a)	990,513	1,045,571
Debtors, deposits and prepayments		241,120	283,492
Fixed deposits with banks	3	3,193,881	2,845,253
Cash held for Grant Scheme	4	96,753	124,205
Cash at bank and in hand	3	76,888	66,647
		5,324,223	5,150,345
Current liabilities			
Fees received in advance		7,578	8,378
Creditors and accrued charges		335,938	274,732
Lease liabilities		144,209	141,385
Provisions for reinstatement cost		–	873
		487,725	425,368
Net current assets		4,836,498	4,724,977
Total assets less current liabilities		8,295,080	8,583,336
Non-current liabilities			
Lease liabilities		515,372	581,156
Provisions for reinstatement cost		89,237	88,047
		604,609	669,203
Net assets		7,690,471	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		4,272,631	4,496,293
		7,690,471	7,914,133

The notes on pages 39 to 43 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	–	(272,706)	(272,706)
Balance at 30 September 2022	42,840	3,250,000	4,449,477	7,742,317
Balance at 1 April 2023	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the period	–	–	(223,662)	(223,662)
Balance at 30 September 2023	42,840	3,375,000	4,272,631	7,690,471

The notes on pages 39 to 43 form part of these condensed consolidated financial statements.



Securities and Futures Commission

Condensed consolidated statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Cash flows from operating activities			
Deficit for the period		(223,662)	(272,706)
Adjustments for:			
Depreciation – Fixed assets		50,501	55,006
Depreciation – Right-of-use assets		73,222	73,043
Finance costs		3,085	3,488
Interest income on deposits for leases		(146)	(144)
Investment (income)/loss		(52,083)	155,240
Exchange loss/(gain)		11,225	(11,237)
Loss/(gain) on disposal of fixed assets		16	(3)
		(137,842)	2,687
Increase in right-of-use assets		(7)	–
Decrease in debtors, deposits and prepayments		23,525	84,372
Decrease/(increase) in cash held for Grant Scheme		27,452	(71,097)
Decrease in fees received in advance		(800)	(223)
Increase in creditors and accrued charges		60,451	144,140
Net cash (used in)/generated from operating activities		(27,221)	159,879
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		1,551,881	(750,555)
Interest received		138,362	56,225
Debt securities at fair value through profit or loss purchased		(72,193)	(135,252)
Debt securities at fair value through profit or loss sold or redeemed		466,030	124,378
Pooled funds sold		3,054	2,637
Debt securities at amortised cost purchased		(321,868)	(119,349)
Debt securities at amortised cost redeemed at maturity		278,005	62,273
Fixed assets purchased		(30,348)	(37,694)
Proceeds from fixed assets disposal		–	9
Net cash generated from/(used in) investing activities		2,012,923	(797,328)
Cash flows from financing activities			
Principal element of lease payments		(71,519)	(71,024)
Interest element of lease payments		(3,085)	(3,488)
Net cash used in financing activities		(74,604)	(74,512)
Net increase/(decrease) in cash and cash equivalents		1,911,098	(711,961)
Cash and cash equivalents at the beginning of the six-month period		407,901	973,151
Cash and cash equivalents at the end of the six-month period	3	2,318,999	261,190

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	2,242,111	187,337
Cash at bank and in hand	76,888	73,853
	2,318,999	261,190

The notes on pages 39 to 43 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 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 (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 September 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 six months ended 30 September 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). The 3-month USD LIBOR continues to be published under a synthetic methodology. These exposures will remain outstanding until the synthetic USD LIBOR 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 September 2023, the carrying amounts of debt securities at amortised cost that are referenced to synthetic USD LIBOR and have yet to be transitioned to an alternate benchmark was \$35,278,000 (as at 31 March 2023: \$116,105,000). The total notional contract amount was \$35,243,000 (as at 31 March 2023: \$115,967,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank and in hand	76,888	66,647
Fixed deposits with banks	3,193,881	2,845,253
Amounts shown in the condensed consolidated statement of financial position	3,270,769	2,911,900
Less: Amounts with an original maturity beyond three months	(951,770)	(2,503,999)
Cash and cash equivalents in the condensed consolidated statement of cash flows	2,318,999	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. Consolidation

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

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

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

As at 30 September 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 six months ended 30 September 2023 (Expressed in Hong Kong dollars)

7. Related party transactions

The Group has related party relationships with the ICF and the Unified Exchange Compensation 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, \$3,052,000 was recovered from the ICF for the ICC's expenses (30 September 2022: \$2,957,000). As at 30 September 2023, the ICC had an amount due to the ICF of \$101,000 (as at 31 March 2023: amount due from the ICF of \$208,000).

(b) Remuneration of key management personnel

	Unaudited six months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Directors' fees and salaries, allowances and benefits in kind	15,544	13,022
Retirement scheme contributions	1,365	1,114
	16,909	14,136

The total remuneration is included in the staff costs and directors' emoluments. Directors' emoluments are for services in connection with the 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 were nil (30 September 2022: \$88,000) for the period and provided under normal commercial terms and conditions.



Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 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 September 2023 (Unaudited)</u>				
Debt securities	–	–	–	–
Pooled funds	990,513	–	–	990,513
	990,513	–	–	990,513
<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 six months ended 30 September 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 September 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 September 2023 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,311,530	3,059,425	–	3,059,425	–
<u>At 31 March 2023 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,285,136	3,066,896	–	3,066,896	–

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

9. Subsequent event

On 17 November 2023, a Sales and Purchase agreement was entered into between the SFC and its landlord with a consideration of \$5.4 billion to acquire office floors in the premises presently rented by the SFC. This transaction is expected to conclude before the end of the current financial year.

Purchase of the office will be funded by the property acquisition reserve and financed from a bank loan that is approved according to the requirements under Section (5)(4)(d) of the SFO. There is no net material financial impact on the ongoing operations of the Group from this acquisition.



Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report together with the unaudited condensed financial statements for the six months ended 30 September 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 period ended 30 September 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

Members of the Committee

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

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

Interests in contracts

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

On behalf of the Committee

Rico Leung

Chairman

24 November 2023

Investor Compensation Fund

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

Introduction

We have reviewed the interim financial information set out on pages 47 to 52, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2023 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 November 2023



Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income		
Interest income	30,997	11,655
Exchange (loss)/gain	(846)	518
	30,151	12,173
Expenses		
Investor Compensation Company Limited expenses	1,532	1,473
Auditor's remuneration	57	55
	1,589	1,528
Surplus and total comprehensive income for the quarter	28,562	10,645

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income			
Interest income		57,532	17,938
Exchange (loss)/gain		(3,255)	3,236
		54,277	21,174
Expenses			
Investor Compensation Company Limited expenses	2	3,052	2,957
Auditor's remuneration		114	110
		3,166	3,067
Surplus and total comprehensive income for the period		51,111	18,107

The notes on pages 51 and 52 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		41,135	47,392
Amount due from the Investor Compensation Company Limited		101	–
Fixed deposits with banks	3	2,536,051	2,472,685
Cash at bank	3	588	847
		2,577,875	2,520,924
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		235	274
Amount due to the Investor Compensation Company Limited		–	208
		3,629	3,876
Net current assets		2,574,246	2,517,048
Net assets		2,574,246	2,517,048
Representing:			
Compensation fund		2,574,246	2,517,048

The notes on pages 51 and 52 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 period	–	–	–	–	18,107	18,107
Balance at 30 September 2022	994,718	108,923	–	–	1,369,370	2,473,011
Balance at 1 April 2023	994,718	108,923	–	–	1,413,407	2,517,048
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	–	–	5,470	617	–	6,087
Surplus and total comprehensive income for the period	–	–	–	–	51,111	51,111
Balance at 30 September 2023	994,718	108,923	5,470	617	1,464,518	2,574,246

The notes on pages 51 and 52 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Cash flows from operating activities			
Surplus for the period		51,111	18,107
Adjustments for:			
Interest income		(57,532)	(17,938)
Exchange loss/(gain)		3,255	(3,236)
		(3,166)	(3,067)
Change in amount due from/to the Investor Compensation Company Limited		(309)	(526)
Decrease in creditors and accrued charges		(39)	(42)
Net cash used in operating activities		(3,514)	(3,635)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(78,230)	(453,896)
Interest received		63,728	6,003
Net cash used in investing activities		(14,502)	(447,893)
Cash flows from financing activities			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
Net cash generated from financing activities		6,087	–
Net decrease in cash and cash equivalents		(11,929)	(451,528)
Cash and cash equivalents at the beginning of the six-month period		164,980	451,903
Cash and cash equivalents at the end of the six-month period	3	153,051	375

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	152,463	–
Cash at bank	588	375
	153,051	375

The notes on pages 51 and 52 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 2023.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation of investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2023, the ICC incurred costs of \$3,052,000 for its operation (for the six months ended 30 September 2022: \$2,957,000).

3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	588	847
Fixed deposits with banks	2,536,051	2,472,685
Amounts shown in the condensed statement of financial position	2,536,639	2,473,532
Less: Amounts with an original maturity beyond three months	(2,383,588)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	153,051	164,980



Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 September 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 Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund

Under Section 76 (11) of Schedule 10 of the SFO, 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 six months ended 30 September 2023, the SFC had \$5,470,000 and \$617,000 paid into the Fund from the SDD and the CDD respectively.

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 six months ended 30 September 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 September 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,312,000 (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 six months ended 30 September 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 half-yearly report together with the unaudited condensed financial statements for the six months ended 30 September 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 September 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 period ended 30 September 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 55 to 61.

Members of the Committee

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

Mr Leung Chung Yin, Rico (Chairman)

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

13 November 2023



Unified Exchange Compensation Fund

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

Introduction

We have reviewed the interim financial information set out on pages 56 to 61, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2023 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the interim financial information are set out in note 1 to the interim financial information. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 November 2023

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income		
Interest income	1,148	374
Expense		
Auditor's remuneration	27	27
Surplus and total comprehensive income for the quarter	1,121	347

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 is for information only.



Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited six months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income		
Interest income	2,052	508
Expenses		
Recoveries re-distributed	–	22
Auditor's remuneration	54	54
	54	76
Surplus and total comprehensive income for the period	1,998	432

The notes on pages 60 and 61 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		586	454
Fixed deposits with banks		97,494	96,869
Cash at bank		477	491
		98,557	97,814
Current liabilities			
Creditors and accrued charges		10,320	10,325
Relinquished trading rights payable to SEHK	4	1,500	1,650
		11,820	11,975
Net current assets		86,737	85,839
Net assets		86,737	85,839
Representing:			
Compensation fund		86,737	85,839

The notes on pages 60 and 61 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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	(450)	–	–	–	–	–	(450)
Surplus and total comprehensive income for the period	–	–	–	–	432	–	432
Balance at 30 September 2022	53,850	353,787	630,000	6,502	36,286	(994,718)	85,707
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(1,100)	–	–	–	–	–	(1,100)
Surplus and total comprehensive income for the period	–	–	–	–	1,998	–	1,998
Balance at 30 September 2023	51,050	353,787	630,000	6,502	40,116	(994,718)	86,737

The notes on pages 60 and 61 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Cash flows from operating activities			
Surplus for the period		1,998	432
Adjustment for:			
Interest income		(2,052)	(508)
		(54)	(76)
Decrease in creditors and accrued charges		(5)	(10)
Decrease in relinquished trading rights payable to SEHK		(150)	(400)
Net cash used in operating activities		(209)	(486)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		24,194	22,764
Interest received		1,920	284
Net cash generated from investing activities		26,114	23,048
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(1,100)	(450)
Net cash used in financing activities		(1,100)	(450)
Net increase in cash and cash equivalents		24,805	22,112
Cash and cash equivalents at the beginning of the six-month period		69,384	71,486
Cash and cash equivalents at the end of the six-month period	3	94,189	93,598

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	93,712	93,075
Cash at bank	477	523
	94,189	93,598

The notes on pages 60 and 61 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 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 September 2023, the equity securities received under subrogation amounted to \$18 (as at 31 March 2023: \$30). The balances as at 30 September 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 six months ended 30 September 2023 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	477	491
Fixed deposits with banks	97,494	96,869
Amounts shown in the condensed statement of financial position	97,971	97,360
Less: Amounts with an original maturity beyond three months	(3,782)	(27,976)
Cash and cash equivalents in the condensed statement of cash flows	94,189	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 six-month period, deposits of \$150,000 in respect of 3 new trading rights were received from SEHK and deposits of \$1,400,000 in respect of 28 relinquished trading rights were refunded to SEHK. As at 30 September 2023, 30 trading rights totalling \$1,500,000 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 period was as follows:

	Unaudited six months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Balance at the beginning of the six-month period	52,150	54,300
Add: new trading rights issued	150	200
Less: relinquished trading rights refunded	(1,400)	(1,050)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	150	400
Balance at the end of the six-month period	51,050	53,850

5. Related party transactions

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



Securities and Futures Commission

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