

Quarterly Report October - December 2023



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This third Quarterly Report of the Securities and Futures Commission for financial year 2023-24 covers the period from 1 October to 31 December 2023.

Highlights

Listing regulation

Gatekeeping listing applications

For 2023, we processed a total of 270 listing applications, including 153 new applications. In the quarter ended 31 December, we processed 18 new listing applications, including one from a company seeking listing by way of a de-SPAC transaction¹, one from specialist technology company and one from pre-profit biotech company.

Corporate conduct review

In the quarter, we issued section 179 directions² to request information from six issuers, as part of our ongoing review of corporate disclosures.

Listing market development

After the SFC approved relevant rule amendments, the Stock Exchange of Hong Kong Limited (SEHK) concluded its consultation on



Processed
153
New listing
applications in 2023
18 in last quarter

GEM listing reforms. A new alternative route for GEM admission and a streamlined mechanism for transfer to Main Board are introduced. Besides, SEHK added the main markets of the Saudi Exchange and the Indonesia Stock Exchange as recognised stock exchanges after consulting the SFC.

¹ A special purpose acquisition company (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

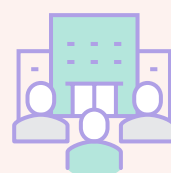
Intermediaries

Increase in licensing applications

We received around 7,200 licence applications in 2023³, up by 16% from 2022, in which those for Type 9 licences increased 9%. In the quarter ended December, we received 1,581 licence applications, up 8% year-on-year. Six virtual asset trading platforms (VATPs) applied for a corporate licence.

Supervision

We inspected 52 licensed corporations on site to review their compliance with regulatory requirements.



Licence applications
up **16%**
in 2023

Virtual assets (VA) and tokenisation

Guidance on VA activities, VA products and tokenisation

We refined our VA regulatory regime by enabling retail investors to access VA dealing and advisory services provided by SFC-regulated intermediaries. We further set out our requirements for intermediaries involved in distributing investment products with exposure to VAs.

We also guided the industry on tokenised securities-related activities and tokenisation of SFC-authorised investment products, to support the industry to experiment with tokenisation with greater certainty. In addition, we provided guidance on authorising investment funds with VA exposure of more than 10% of their net asset value for public offering in Hong Kong, including VA spot exchange-traded funds (ETFs).

Tackling VA-related fraud

To combat suspected fraudulent activities purportedly involving VA in a more timely way, we established a joint working group with the Hong Kong Police Force (Police) in October to enhance collaboration in monitoring and investigating illegal activities involving or purporting to involve VAs or VATPs. As a result of our concerted efforts, the Police expeditiously blocked access to websites of entities involved in suspected VA-related fraud at the SFC's request.

Education and alerts

We stepped up our publicity efforts including the launch of an advertising campaign spanning both online and offline channels, in order to alert the public to the risks of trading on unregulated VATPs as well as suspicious trading platforms or investment products related to VA.

³ Calendar year

Highlights

Products

New integrated fund platform

The SFC has been working closely with Hong Kong Exchanges and Clearing Limited (HKEX) and related parties to set up an integrated fund platform for distributing retail funds. This platform is expected to drive business opportunities, increase participation and promote investor access to Hong Kong's retail fund market.

World's largest Saudi ETF authorised

We authorised Asia's first and the world's largest ETF investing in Saudi Arabian listed stocks. Tracking the FTSE Saudi Arabia Index, the ETF was listed on SEHK in November 2023 and provides investors with equity market exposure to Saudi Arabia.

Increase in net fund inflows into Hong Kong-domiciled funds

As at 31 December, assets under management of Hong Kong-domiciled funds increased 4.7% from the previous quarter and 4.9% from a year ago to \$1,353.7 billion (US\$173 billion). Net fund inflows of about \$33.5 billion (US\$4.3 billion) were recorded in the quarter, up 179.0% from



**Authorised Asia's
1st & world's largest ETF
in Saudi stocks**

the previous quarter. In 2023, net fund inflows amounted to \$87.1 billion (US\$11.1 billion), up 92.9% year-on-year.

Product authorisations and registrations

During the quarter, we authorised 32 unit trusts and mutual funds (including 15 Hong Kong-domiciled funds) and 66 unlisted structured investment products for public offering in Hong Kong. As at 31 December, 244 open-ended fund companies were registered, up by 118% year-on-year. 57 were newly registered in the quarter.

Markets

China treasury bond futures

The SFC announced the upcoming launch of China treasury bond futures contracts in Hong Kong. This important risk management tool can facilitate further participation by offshore

institutional investors in the Mainland treasury bond market. We are working closely with HKEX on its launch.

Stock Connect net buys in 2023

Stock Connect continued to account for an important share of stock market turnover. In 2023, daily turnover was up 8% for northbound (NB) trading and stable for southbound (SB) trading compared to 2022. Their shares of Mainland and Hong Kong stock market turnover both increased. Both NB and SB trading recorded net buys in 2023.



**Shares of Stock Connect
trading in both Mainland
and HK stock market
turnovers**

Highlights

Enforcement

Disciplinary actions

We disciplined three corporations and four individuals during the quarter, resulting in total fines of \$9 million.

Market surveillance

We made 1,256 requests for trading and account records triggered by untoward price and turnover movements.

Tripartite operation with ICAC and AFRC

We conducted the first tripartite operation with the Independent Commission Against Corruption (ICAC) and the Accounting and Financial Reporting Council (AFRC) against two Hong Kong-listed companies on suspected fictitious corporate transactions totalling \$193 million. The investigations are ongoing.

Regulatory enhancements

Consulting on market sounding guidelines

We launched a consultation on proposed guidelines for market soundings. They aim to guide intermediaries in their compliance with the general principle to conduct their business activities honestly, fairly and in the best interests of their clients and the integrity of the market during market soundings.

Enhancing position limit regime

The enhanced position limit regime took effect. The amendments aim to clarify regulatory requirements related to funds, facilitate compliance and provide more flexibility to the market. We also published an FAQ and updated the related guidance note to help market participants understand the enhancements.

Consulting on uncertificated securities market (USM) regime

We launched a consultation on the proposed amendments to the code and guidelines for approved securities registrars under the USM environment. We aim to publish a consultation conclusion paper in the first quarter of 2024.

Amending clearing rules for OTC derivatives

With the legislative process completed for our proposed amendments to the Clearing Rules for the over-the-counter (OTC) derivative transactions, they will take effect on 1 July 2024. The amendments are in line with the global interest rate benchmark reform.



Highlights

Regulatory enhancement

International work at IOSCO

Our Chief Executive Officer Ms Julia Leung and senior executives participated in a meeting of the IOSCO⁴ Board in Madrid, Spain. Members discussed and reached decisions on issues around sustainable finance, digital assets, financial stability, and retail investor protection. We also participated in meetings of the IOSCO Committee on Emerging Risks, Fintech Task Force, Sustainable Finance Task Force and Financial Stability Engagement Group during the quarter.

Cooperation with Mainland

We reached consensus with the China Securities Regulatory Commission on further enhancing the Mainland-Hong Kong mutual market access schemes at the 14th high-level meeting in Tianjin. We also agreed to further explore new initiatives to promote healthy capital market development. In addition, we joined the Hong Kong delegation to the third Belt and Road Forum for International Cooperation in Beijing.

Sustainability

Advancing corporate sustainability disclosures

The Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the Hong Kong Monetary Authority (HKMA), set up a new working group⁵ on sustainability disclosures to advance the development of a comprehensive Hong Kong roadmap on adopting the IFRS Sustainability Disclosure Standards as appropriate. In support of this work, the SFC held its inaugural Forum on Sustainability Disclosures, which was attended by over 200 industry leaders and policymakers.

Supporting voluntary code for ratings and data product providers

To promote the IOSCO recommended best practices for ESG⁶ ratings and data product providers⁷ in Hong Kong, we support and sponsor the development of a voluntary code of conduct for these providers via an industry-led working group. The SFC sits as one of the observers to the working group.

⁴ International Organization of Securities Commissions.

⁵ Co-chaired by the Financial Services and the Treasury Bureau and the SFC.

⁶ Environmental, social and governance.

⁷ IOSCO's Final Report on Environmental, Social and Governance Ratings and Data Product Providers (November 2021).

Highlights

Communications

Enhancing information transparency

To disseminate information in a clear, transparent and timely manner, we enhanced the SFC website to consolidate all investor alerts and make them more easily accessible. In addition, we informed the public of updates to the Alert List through press releases and social media posts. Five suspicious virtual asset trading platforms and seven suspicious investment products were added to the Alert List.

Investor education campaign in motion

To raise the public's awareness towards financial scams and investment risks, we launched an

advertising campaign on multiple channels – radio, buses and online banners. We launched the SFC's official YouTube channel in October to broaden our reach to the public. We also supported the anti-scam carnival organised by the Police's Anti-Deception Coordination Centre.

Reaching out to financial industry

We co-hosted the "Conversations with Global Investors" seminar with the HKMA and the Hong Kong Academy of Finance. The seminar featured leading investors in panel sessions and was attended by 300 global and local public and private-sector leaders.



Operational Review

Corporates

Gatekeeping listing applications

For the year ended 31 December, we processed a total of 270 listing applications, including 153 new listing applications, down 31% and 24% year-on-year, respectively.

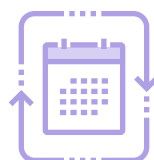
During the quarter, we processed 135 listing applications, of which we cleared 71. The processed applications included 18 new listing applications, of which one was from a company seeking listing by way of a de-SPAC transaction¹, one from a specialist technology company and one from a pre-profit biotech company.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued a requisition letter directly to one listing applicant during the quarter. Our concerns were mainly about the accuracy and completeness of the information in the listing application.



135

listing applications
processed² in the quarter



Average processing time:

105

business days³

The average processing time for 2023 was 108 business days⁴, down 11% from last year. During the quarter, the 71 cleared listing applications took an average of 105 business days⁴ to process.

¹ A special purpose acquisition company (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 18 new listing applications and 117 cases brought forward from the previous reporting period.

³ For the 71 cleared cases of listing applications.

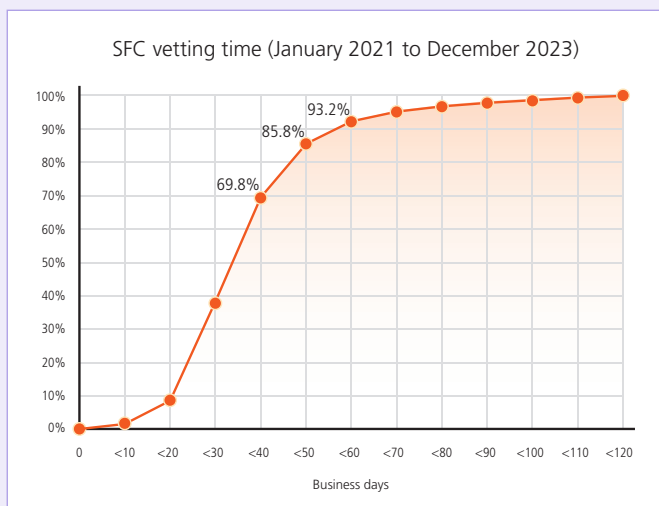
⁴ Including the SFC's vetting time and the response time of the listing applicants or their advisers.

Corporates

Vetting time of listing applications

During the three years ended 31 December, we cleared 367 cases, 93% of which were cleared within 60 business days.

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



Launching new treasury shares regime

Working together with the SFC, the Stock Exchange of Hong Kong Limited (SEHK) launched a two-month consultation on introducing a listing regime governing treasury shares in October. Under the proposed regime, the Listing Rules requirement to cancel repurchased shares will be removed, ie, listed issuers will be able to keep the shares in treasury. SEHK also proposed to introduce safeguards to govern the resale of treasury shares to deter market manipulation.

Review of GEM listing regime

Following the SFC's approval of relevant Listing Rules amendments, SEHK published its consultation conclusions on GEM listing reforms in December. With effect from 1 January 2024, GEM issuers are no longer required to announce their quarterly results. Also, a new alternative route for GEM listing and a new streamlined mechanism enabling transfer to the Main Board have been introduced.

Facilitating secondary listing

After discussions with the SFC, SEHK added the main markets of the Saudi Exchange and the Indonesia Stock Exchange to the list of recognised stock exchanges in September and November 2023. As a result, Saudi- and Indonesia-listed companies meeting SEHK Main Board's initial listing criteria may apply to secondary list in Hong Kong.

Tackling corporate misconduct

We review corporate announcements daily to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions⁵ to six issuers to request information.

Listing applications and takeovers activities

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
Listing applications	18	107	134	-20.1
Takeovers and share buy-backs transactions	75	253	241	5.0

⁵ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Intermediaries

Increase in licence applications

For 2023, we received around 7,200 licence applications comprising around 7,000 individuals and 185 corporations, a 16% increase from 2022¹. Between October and December, we received 1,581 licence applications² comprising 1,530 individuals and 51 corporations, a 22% decrease from the previous quarter but an 8% increase from the same quarter last year. Furthermore, six virtual asset trading platforms (VATPs) submitted their corporate licence applications.

As at 31 December, there were 48,091 licensees and registrants, of which 3,257 were licensed corporations, 112 were registered institutions, and 44,722 individuals. The number of licensees and registrants remained stable compared to the same period of 2022. During the quarter, the number of new licensees and registrants totalled 2,415³, amongst which 2,359 were individuals, and 56 were licensed corporations and registered institutions. Among the 56 licensed corporation applications approved during the quarter, 88% of them applied for Type 9 (asset management) regulated activity (RA) and 66% applied for Type 4 (advising on securities) RA.



Applications for SFC licences

▲ 16%
in 2023

Embracing Fintech with investor safeguards

Over the years, the SFC has facilitated retail investors to trade different types of virtual assets (VA) and related products by enhancing investor protection measures. In October, the SFC refined its VA regulatory regime by revising the joint circular with the Hong Kong Monetary Authority (HKMA) on intermediaries' VA-related activities, which enabled retail investors to access VA dealing services and advisory services provided by SFC-regulated intermediaries. In December, the joint circular was further revised to set out requirements for SFC-regulated intermediaries involved in the distribution of investment

products with exposure to VAs, including SFC-authorised VA spot ETFs⁴. In addition, a new circular was issued to provide guidance on authorising investment funds with exposure to VA of more than 10% of their net asset value for public offering in Hong Kong, including VA spot ETFs.

In November, the SFC issued two other circulars to give guidance to the industry on tokenisation of traditional securities and SFC-authorised investment products. In these circulars, the SFC emphasised how traditional financial institutions should address and manage the risks arising from tokenisation. By providing a clear and consistent regulatory framework, we aim to support the industry to experiment with tokenisation with greater certainty.

Joining forces to tackle fraud

To combat suspected fraudulent activities of suspicious VATPs in a more timely way, we established a joint working group with the Hong Kong Police Force (Police) in October to enhance collaboration in monitoring and investigating illegal activities involving or purporting to involve VAs or VATPs. In December, the SFC and the Police further implemented a twice-a-week information sharing protocol so as to promptly address potential fraud. Between October and December, the SFC raised public awareness by warning the public against five suspected cases of VA-related frauds and two suspected cases of investment product frauds through press releases, social media posts, posting of suspicious entities on the SFC's Suspicious VATP and Suspicious Investment Products alert lists, and press briefings. As a result of our concerted efforts, the Police expeditiously blocked access to websites of entities involved in suspected fraud at the SFC's request.

Promoting Fintech development in Hong Kong

In October, the SFC attended the meeting of the Coordination Group on the implementation of Financial Technologies Initiatives chaired by Secretary for Financial Services and the Treasury. At the meeting, views on the development of Fintech in Hong Kong were shared and discussed. In late October, the SFC also attended the Panel on Financial Affairs of the Legislative Council to answer lawmakers' questions on VATP regulation.

¹ Change from calendar year 2022 to 2023. This does not include applications for provisional licences.

² The figure does not include applications for provisional licences.

³ Including provisional licensed representatives.

⁴ Exchange-traded funds.

Intermediaries

The SFC also worked closely with the Financial Services and the Treasury Bureau and HKMA on the regulatory regime for stablecoins in Hong Kong. Further consultation on this subject was published by the Government in December.

To promote public understanding of Fintech such as VAs and Web 3.0, we spoke at close to 20 interviews, seminars and events organised by government authorities, international regulators, industry associations, media outlets and universities.

Driving industry-wide sustainability initiatives

To help Hong Kong align with international best practices for environmental, social and governance (ESG) as recommended by the International Organization of Securities Commissions (IOSCO) and meet relevant expectations introduced in other major jurisdictions, we announced in October that we support and sponsor the development of the voluntary code of conduct (VCoC) for ESG ratings and data products providers. To this end, an industry-led working group, ie, the Hong Kong ESG Ratings and Data Products Providers VCoC Working Group, was established. The working group consists of members and observers from ESG ratings and data products providers, users, and covered entities. The SFC, the HKMA, the Insurance Authority and the Mandatory Provident Fund Schemes Authority sit as observers while the International Capital Market Association serves as the secretariat and will leverage its experience from relevant work in other jurisdictions.

Regulating depositaries of SFC-authorised public funds

During the quarter, all depositaries of SFC-authorised collective investment schemes currently operating in Hong Kong submitted their Type 13 licence or registration applications to the SFC. We will continue to work closely with the industry to facilitate a smooth transition to the new regime, which will take effect on 2 October 2024.



52

on-site inspections

Guiding market soundings practices for intermediaries

In October, we launched a consultation on a set of proposed guidelines for market soundings. The proposals aim to provide guidance to assist intermediaries in their compliance with the general principle of conducting their business honestly, fairly and in the best interests of their clients, as well as the integrity of the market during market soundings.

To understand current industry practices and related controls, we initiated a thematic review of market soundings in early 2022 to collect information through surveys on buy-side and sell-side intermediaries and focus group discussions. When drafting the guidelines, we also considered local and overseas market practices and regulatory requirements, in addition to information and preliminary feedback gathered from intermediaries in the thematic review. The consultation ended in December and we are analysing the responses.

Enhancing distribution of SFC-authorised funds

In October, we issued a circular to summarise recent observations of licensed corporations' practices in offering and promoting SFC-authorised funds. The circular highlights the legal and regulatory requirements for distributors promoting SFC-authorised funds with additional returns or other incentives, which may divert the client's focus from properly considering the risks and features of the underlying funds.



Intermediaries

Strengthening risk management for IPO subscription services

In November, we issued a circular to remind licensed corporations to implement robust risk management measures for client credit risk control, funding arrangement, safeguarding of client subscription deposits, and financial assessment when providing initial public offering (IPO) subscription and financing services under Fast Interface for New Issuance.

Combatting anti-money laundering

In November, we updated the anti-money laundering and counter-financing of terrorism (AML/CFT) self-assessment checklist to reflect the latest AML/CFT guidelines. The checklist provides a structured framework for licensed corporations, SFC-licensed VA service providers and associated entities to assess their compliance with the key requirements.

Issuing restriction notices

In September, we issued a restriction notice to China Prospect Securities Limited which had a managerial vacuum, raising our concerns on the continued safeguarding and handling of its client assets.

In November, we issued a restriction notice to Profitech Securities Limited due to its breach of the Securities and Futures (Client Securities) Rules for a protracted period and our grave concern about its financial and operational viability. The restriction notice froze Profitech's house assets and required the broker to immediately rectify the breach and return all client assets in an orderly manner.

Licensees and registrants

	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Licensed corporations	3,257	3,254	0.1	3,253	0.1
Registered institutions	112	112	0.0	111	0.9
Licensed individuals	44,722	44,928	-0.5	45,314	-1.3
Total	48,091	48,294	-0.4	48,678	-1.2

Licensing applications

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022 ^b	YoY change (%)
Applications to conduct new regulated activity	5,008	17,199	18,498	-7.0
Applications for SFC licences ^a	1,581	5,375	4,884	10.1

^a Figures include applications under the SFO and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, excluding applications for provisional licences. During the quarter, we received 778 provisional licence applications under the SFO compared with 844 in the same quarter last year.

^b Figures have been adjusted for the period.

Inspections of licensed corporations

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
On-site inspections commenced [^]	52	166	167	-0.6

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

Products

Developing fund market

Preparation for integrated fund platform

The SFC has been working closely with Hong Kong Exchanges and Clearing Limited (HKEX) and other parties to implement an integrated fund platform (IFP) for retail fund distribution, after the HKSAR Government announced plans to set it up. The platform will provide a business-to-business service model initially and cover the front-to-back distribution lifecycle and value chain for distributing SFC-authorised funds in Hong Kong. The IFP is expected to generate new business opportunities in the Hong Kong retail fund market.

Supporting new Capital Investment Entrant Scheme (New CIES)

The HKSAR Government announced details of the New CIES in December. Eligible collective investment schemes (CIS) will be among the financial assets allowed for investment by scheme applicants. These will cover various SFC-authorised and registered products, including funds, investment-linked assurance schemes (ILAS), real estate investment trusts and open-ended fund companies (OFC) which meet the requirements. The SFC will continue to support the Government's work to facilitate New CIES's implementation.

Authorising novel ETFs

We authorised Asia's first and the world's largest exchange-traded fund (ETF) investing in Saudi Arabian listed stocks. Listed in November, the ETF tracks the FTSE Saudi Arabia Index and provides retail investors with exposure to Saudi Arabia.

We also authorised the first two active ETFs adopting covered call writing strategy in Hong Kong. Listed in early 2024, these ETFs invest in the constituent stocks of the Hang Seng Index and Hang Seng China Enterprises Index respectively, and sell call options on the respective reference index to receive premium from option buyers.

As at 31 December, 174 SFC-authorised ETFs were listed on the Stock Exchange of Hong Kong Limited (SEHK) (up 1% from a year ago), including 25 leveraged and inverse products, with total market capitalisation of \$383.6 billion (US\$49.1 billion). During the quarter, net inflows of \$34.3 billion (US\$4.4 billion) to these ETFs were recorded. In 2023, these ETFs recorded an average daily turnover of \$14.0 billion (US\$1.8 billion), up 17% from 2022, and net inflows of \$53.2 billion (US\$6.8 billion)¹.

As at 31 December, eight ETFs are eligible for southbound trading. During the quarter, southbound ETF trading had an average daily turnover of \$2,603 million (US\$333 million), contributing 12% of the eligible Hong Kong ETFs' turnover.

Southbound net subscriptions for Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, we had authorised 44 Mainland funds as at 31 December, whilst the China Securities Regulatory Commission had approved 38 Hong Kong funds. These compared to 47 Mainland funds and 37 Hong Kong funds as at 31 December 2022.

The cumulative net subscription amounted to about RMB1.02 billion for Mainland funds and about RMB17.44 billion for Hong Kong funds as at 31 December. During the quarter, Mainland funds recorded net redemptions of about RMB38.73 million and Hong Kong funds recorded net subscriptions of about RMB991.21 million.

Authorising investment products

During the quarter, we authorised 32 unit trusts and mutual funds (including 15 Hong Kong-domiciled funds), five ILAS, seven mandatory provident fund (MPF) pooled investment funds and 66 unlisted structured investment products for public offering in Hong Kong.

OFC registrations extended growth

As at 31 December, there were 244 registered OFCs, of which 57² were newly registered in the quarter. The number of registered OFCs in 2023 increased 118% year-on-year.

Increase in net inflows into Hong Kong-domiciled funds

As at 31 December, there were 914 Hong Kong-domiciled funds, up 0.3% from a year ago. Their assets under management (AUM) increased 4.7% from the previous quarter and increased 4.9% year-on-year to \$1,353.7 billion (US\$173 billion). Net fund inflows of about \$33.5 billion (US\$4.3 billion) were recorded in the quarter, up 179.0% from the previous quarter. During the year, net fund inflows amounted to \$87.1 billion (US\$11.1 billion), up 92.9% year-on-year.

¹ Since the second quarter of 2023, market capitalisation and fund flow statistics are calculated based on units/shares of all ETFs held in Hong Kong. Prior to that, market capitalisation and fund flow statistics are calculated based on the total units/shares of ETFs, other than the SPDR Gold Trust.

² The figure includes 55 private OFCs.

Products

ESG funds up in both number and AUM

As at 31 December, there were 219 SFC-authorised ESG³ funds with total AUM of \$1,325 billion (US\$170 billion), increasing 4.8% and 6.5% from the previous quarter, up 23.7% and 19.6% from 2022, respectively.

Enhancing regulatory guidance to promote responsible development

During the quarter, we provided the industry with guidance on investment products, by setting out requirements in several circulars.

Tokenisation of investment products

We guided that we would allow primary dealing of tokenised SFC-authorised products subject to additional safeguards. We will continue to engage with market participants on proper measures to address issues relating to secondary trading of tokenised SFC-authorised products. In addition, the first tokenised SFC-registered private OFC was launched in December.

Virtual asset-related funds

We set out our requirements for authorising investment funds with exposure to virtual assets (VA) of more than 10% of their net asset values for public offering in Hong Kong, including VA spot ETFs. The requirements specify the eligible VA, platforms through which the funds should buy or sell VA, and entities which may take VA custody.

Disclosing annualised returns for money market funds

We allowed SFC-authorised money market funds to present annualised returns for periods of less than one year in factsheets, marketing materials or other documents, subject to certain disclosure and other requirements. This was in response to the industry's request to provide more fund performance information to investors, and similar practices in a number of major jurisdictions were taken into account.

Streamlined measures for SFC-authorised fund processing

We updated our guidance to set out a number of streamlined measures to enhance the operational efficiency and approval processes of SFC-authorised funds in implementing changes and fulfilling the disclosure and reporting requirements. These cover appointments of investment delegates, reporting of pricing errors and breaches by SFC-authorised UCITS⁴ funds and other post-authorisation notifications.

Cautioning the public of suspicious investment products

To provide early warning to investors, we expanded the scope of the Suspicious Investment Products Alert List on our website. The list now covers both CIS and structured products falling under the Securities and Futures Ordinance, but have not been authorised by the SFC for offering to the public in Hong Kong⁵. During the quarter, we cautioned the public against seven suspicious investment products through posting on the alert list, press releases and social media posts.

³ Environmental, social and governance.

⁴ Undertakings for Collective Investment in Transferable Securities.

⁵ See Communications and Education on pages 28-30.

Products

Authorised CIS

	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	914	913	0.1	911	0.3
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,423	1,417	0.4	1,413	0.7
ILAS	318	305	4.3	302	5.3
Pooled retirement funds	32	32	0.0	32	0.0
MPF schemes	26	26	0.0	26	0.0
MPF pooled investment funds	197	221	-10.9	220	-10.5
Others	25	25	0.0	25	0.0
Total	2,935	2,939	-0.1	2,929	0.2

^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 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
OFCs	244 [^]	131	86.3	112	117.9

[^] This figure includes 218 private OFCs.

Authorised unlisted structured investment products

	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	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.

Products

SFC-authorised renminbi (RMB) investment products

	As at 31.12.2023
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	415
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	7
Listed products	
ETFs primarily investing in onshore Mainland securities markets ^a or offshore RMB bonds, fixed income instruments or other securities	52
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	25
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

China treasury bond futures to launch

During the quarter, the SFC announced the upcoming launch of China treasury bond futures contracts in Hong Kong. This important risk management tool can facilitate further participation by offshore institutional investors in the Mainland treasury bond market and promote its healthy development. We are working closely with Hong Kong Exchanges and Clearing Limited (HKEX) on the launch. Its date and details will be announced when ready.

Enhancing position limit regime

The enhanced position limit regime became effective on 22 December 2023. The amendments aim to clarify regulatory requirements related to funds, facilitate compliance and provide more flexibility to the market. The key enhancements include raising the statutory position limits for stock futures, stock options and USD/CNH contracts, expanding the list of “specified contracts” for granting excess position limits, as well as clarifying the application of the laws to the asset managers of funds or sub-funds of umbrella funds. The SFC published an FAQ and updated the related guidance note to help market participants understand the enhancements.

Stock Connect momentum continues

Stock Connect continued to account for an important share of stock market turnover. In 2023 (calendar year), daily northbound (NB) trading averaged RMB108.3 billion (6.2% of Mainland market turnover), up 8% from RMB100.4 billion in 2022 (5.4% of market turnover). During the quarter, the NB average daily turnover was RMB108.4 billion, slightly higher than RMB106.1 billion in the previous quarter. On the other hand, daily southbound (SB) trading averaged \$31.1 billion in 2023 (14.8% of Hong Kong market turnover), similar to \$31.7 billion in 2022 (12.7% of market turnover). During this quarter, SB average daily turnover was \$28 billion, similar to the \$29 billion in the previous quarter. Both NB and SB trading recorded net buys in 2023, with RMB43.7 billion for NB (RMB90 billion in 2022) and RMB292.9 billion for SB (RMB339.4 billion in 2022).

In addition, the Mainland stock exchanges have implemented programme trading reporting rules for A-share trading, which exclude programme trading conducted through northbound trading links. The SFC and the China Securities Regulatory Commission have agreed to work out a separate arrangement for reporting programme trading under northbound trading links.

Uncertificated securities market (USM) consultation to close

In October, we published a consultation paper on the proposed amendments to code and guidelines relating to the regulation of approved securities registrars under the USM environment. This consultation followed the SFC’s earlier consultation in March on proposed subsidiary legislation to implement a USM regime. It also covered further amendments to the Stamp Duty Ordinance. We aim to publish a consultation conclusions paper in the first half of 2024.

Monitoring launch of Fast Interface for New Issuance (FINI)

We closely monitored HKEX’s preparations for FINI, which was launched on 22 November. It is a new digital platform which will streamline the settlement process for new listings in Hong Kong and shorten the time between initial public offering (IPO) pricing and trading, driving efficiency and bolstering Hong Kong’s position as a capital raising centre. The overall IPO listing and settlement operations have run smoothly since its launch.

Legislative amendments to Clearing Rules for OTC derivatives

Following our market consultation on proposed amendments to the Clearing Rules¹ for the over-the-counter (OTC) derivative transactions, the legislative amendments were introduced to the Legislative Council in November. With the legislative process now complete, the amendments will take effect on 1 July 2024. The amendments are in line with the global interest rate benchmark reform.

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

Markets

Automated trading services

As of 31 December, there were 53 automated trading services (ATS) providers² authorised under Part III of the Securities and Futures Ordinance (SFO), while 30 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Under Part III	53	51	3.9	51	3.9
Under Part V	30	28	7.1	27	11.1

² 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

Monitoring the market

Our surveillance of untoward price and turnover movements led to 1,256 requests for trading and account records from intermediaries during the quarter. We also assessed 58 notifications from intermediaries¹ regarding suspicious equity and derivative trading.

We published one announcement about high shareholding concentration to caution investors about trading in the shares of a company that are highly concentrated in a small number of shareholders.

Counteracting insider dealing and market manipulation

The Eastern Magistrates' Court sentenced Wong Pak Wai to 240 hours of community service after he pleaded guilty to insider dealing in the shares of Elec & Eltek International Company Limited. He was ordered to pay a fine of \$25,000 and our investigation costs.

The Court of Final Appeal unanimously dismissed the appeal by six suspected overseas manipulators concerning service out of the jurisdiction². The appeal arose from legal proceedings under section 213 of the Securities and Futures Ordinance (SFO) brought by the SFC in a case of alleged false trading in the shares of Ching Lee Holdings Limited through a large-scale, sophisticated scheme. As a result of these proceedings, we obtained from the Court of First Instance (CFI) injunctions to freeze the assets held by 15 local and overseas entities.

Tackling corporate fraud and related misbehaviour

The Market Misconduct Tribunal (MMT) sanctioned Mayer Holdings Limited (Mayer) and nine of its former senior executives for failing to make timely disclosure of inside information as required under the SFO. The MMT ordered them to pay a total fine of \$4.65 million. The nine former senior executives were also disqualified for

20-30 months and ordered to attend an SFC-approved training programme on compliance with corporate disclosure requirements, directors' duties and corporate governance. The MMT further recommended the Accounting and Financial Reporting Council (AFRC) to discipline Mayer's former company secretary and financial controller.

We obtained disqualification and compensation orders in the CFI against Tse On Kin, the former chairman and executive director of Kong Sun Holdings Limited (Kong Sun) and China Sandi Holdings Limited. He admitted that he devised a fraudulent scheme to conceal his interests in the companies' share placements and obtained a secret profit. Tse was disqualified for 10 years and ordered to pay Kong Sun the profit that he made in breach of his fiduciary duty owed to it (about \$2.2 million) and our costs in the proceedings.

We obtained an order in the CFI to disqualify Nicholas Chiu Sai Chuen for three years. The former independent non-executive director of China Candy Holdings Limited acted negligently in discharging his duties as director. Chiu was also ordered to pay our costs in the proceedings.

In a case where we commenced legal proceedings against Leung Anita Fung Yee Maria, a former chief executive officer and executive director of SMI Culture & Travel Group (SMI Culture), to seek a compensation order for losses suffered by SMI Culture as a result of a fraudulent scheme, we applied to the CFI and obtained an undertaking by Leung in October. She undertook not to complete the sale and purchase of her two properties in Shanghai and Canada until our injunction application against the disposal of her assets is determined. This undertaking was given subsequent to the SFC obtaining an interim notification injunction order against Leung in September. Her assets had been preserved for satisfying possible compensation orders imposed by the court after the conclusion of the SFO section 214 proceedings brought by us.

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

² As the suspected overseas manipulators are overseas nationals or entities incorporated outside Hong Kong, we have obtained leave for service out of the jurisdiction from the CFI. The overseas manipulators then made several applications to challenge the CFI's leave for us to serve them out of the jurisdiction. In October, the Court of Final Appeal held that leave to serve out of jurisdiction is not required in the present case.

Enforcement

Acting against intermediary misconduct

Disciplinary actions against intermediaries

During the quarter, we disciplined three corporations and four individuals, resulting in total fines³ of \$9 million.

Key disciplinary actions include the following:

Sponsor failures

Name	Breaches	Action
Ivan Chan Chuk Cheung	Failed to discharge his duties as a sponsor principal of Changjiang Corporate Finance (HK) Limited in charge of five listing applications to list on the Stock Exchange of Hong Kong Limited	Banned from re-entering the industry for seven years

Anti-money laundering and counter-terrorist financing regulatory breaches

Company	Breaches	Action/Fine
Lion Futures Limited	Failed to comply with anti-money laundering and counter-terrorist financing and other regulatory requirements	Reprimanded and fined \$2.8 million

Other regulatory breaches and criminal convictions

Company/Name	Breaches/Convictions	Action/Fine
Hau Bing Leung	Allowed a third party to operate a client's account without the client's written authorisation and carried out personal trades in the client's account	Suspended for 15 months
Central Wealth Securities Investment Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$1 million
Amy Chow Bik Sum	Conviction of bribery offence	Banned from re-entering the industry for life
Ruifeng Securities Limited (RSL)	Failures relating to its fund management activities and account opening procedures	Reprimanded and fined \$5.2 million
Fang Zhi	Failed to discharge his duties as a responsible officer of RSL in charge of fund management activities	Suspended for 10 months

³ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.



Enforcement

Other notable cases

In June 2022, the Court ordered Maxim Capital Limited and Maxim Trader to pay qualifying investors of the Maxim Fund, following legal proceedings brought by the SFC under section 213 of the SFO. On 25 September 2023, the CFI allowed our application to extend the cut-off date for investors to make claims relating to investment schemes operated by Maxim Capital Limited and Maxim Trader in Hong Kong by 30 November 2023. The original cut-off date was 23 July 2022.

We commenced legal proceedings in the CFI under section 214 of the SFO against the following individuals:

- to seek disqualification orders against eight current or former directors of FingerTango Inc. and a compensation order against six of them for allegedly committing corporate misconduct and breaching their duties towards the company; and
- to seek disqualification orders against five former directors and a former de facto director of First Credit Finance Group Limited for breaching their fiduciary duties owed to the company.

We commenced legal proceedings in the CFI to inquire into non-compliance by AMTD Global Markets Limited⁴ and its former executives with notices issued under section 183 of the SFO concerning initial public offerings-related investigations.

In a case where we commenced legal proceedings to seek disqualification orders against the former chairman and two other former executive directors of Tech Pro Technology Development Limited for breaching their duties owed to the company, we have set the case down for trial in the CFI.

Restriction notice

We issued a restriction notice to a broker prohibiting it from dealing with or processing certain assets held in a client account which is related to suspected insider dealing.

Tripartite operation with ICAC and AFRC

We conducted the first tripartite operation with the Independent Commission Against Corruption (ICAC) and the AFRC against two Hong Kong-listed companies on suspected fictitious corporate transactions totalling \$193 million. A total of 16 premises were jointly searched and three persons, including an executive director of a listed company, were arrested by the ICAC for suspected offences under the Prevention of Bribery Ordinance. The investigations are ongoing.

⁴ Currently known as orientiert XYZ Securities Limited.



Enforcement

Enforcement activities

	Quarter ended 31.12.2023	Nine months ended 31.12.2023 ^g	Nine months ended 31.12.2022	YoY change (%)
S179 ^a inquiries commenced	6	29	26	11.5
S181 ^b inquiries commenced (number of letters sent)	49 (1,256)	146 (3,499)	133 (4,687)	-25.3
S182 ^c directions issued	41	136	97	40.2
Investigations started	42	136	101	34.7
Investigations completed	48	130	145	-10.3
Individuals and corporations charged in criminal proceedings	0	20	8	150.0
Criminal charges laid	0	46	95	-51.6
Notices of Proposed Disciplinary Action ^d issued	7	21	19	10.5
Notices of Decision ^e issued	9	24	22	9.1
Individuals and corporations subject to ongoing civil proceedings ^f	205	205	167	22.8
Compliance advice letters issued	41	117	85	37.6
Cases with search warrants executed	8	20	26	-23.1

^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.

^g Figures have been adjusted for the period.

Sustainability

Spearheading international work

At the International Organization of Securities Commissions (IOSCO), our Chief Executive Officer Ms Julia Leung is the Vice-chair of the Sustainable Finance Task Force (STF). She also co-chairs the Corporate Reporting Workstream under the STF. The workstream has been promoting the use of the IFRS Sustainability Disclosure Standards¹ published by the International Sustainability Standards Board (ISSB) amongst its members, and leading its continued engagement with the ISSB and other international stakeholders. It has also been spearheading work on sustainability assurance, and issued a statement during the quarter to welcome the International Auditing and Assurance Standards Board's consultation on its Proposed International Standard on Sustainability Assurance 5000.

During the quarter, we participated in an STF meeting to discuss the IFRS Sustainability Disclosure Standards, sustainability assurance and transition plans. As an active member of all other IOSCO STF workstreams, we contributed to the consultation report on voluntary carbon market and the final report on supervisory practices to address greenwashing. Both reports were published in December.

At the regional level, Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, leads the Sustainable Finance Working Group of the IOSCO Asia-Pacific Regional Committee. This group promotes knowledge sharing and capacity building on corporate sustainability disclosures and carbon markets in the region.

In addition, we continued to participate actively in other international initiatives² to advance sustainable finance during the quarter.

Driving climate-related disclosures

We have signed the ISSB's COP28 Declaration of Support, building on our earlier support of the IFRS Sustainability Disclosures Standards. The ISSB has been collaborating with corporates, regulators, standard setters and other stakeholders to advance the global adoption or use of its climate-related reporting standards.

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

In November, the Stock Exchange of Hong Kong Limited (SEHK) announced the postponement of the implementation date of its new climate-related disclosure requirements from 1 January 2024 to 1 January 2025. In finalising the requirements, SEHK will take into account the market feedback on its consultation, the final ISSB standards and the adoption guide to be issued by the ISSB to support jurisdictional implementation of the standards.

The Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)³, co-chaired by the SFC and the Hong Kong Monetary Authority, has set up a new working group on sustainability disclosures. Co-chaired by the SFC and the Financial Services and the Treasury Bureau, this working group is working towards developing a comprehensive Hong Kong roadmap on adopting the IFRS Sustainability Disclosure Standards as appropriate. Related work is in progress⁴.

¹ In July, the SFC welcomed IOSCO's endorsement of the IFRS Sustainability Disclosure Standards published by the ISSB.

² We are a supporter of the Task Force on Climate-Related Financial Disclosures Recommendations, a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the United Nations Sustainable Stock Exchanges Initiative (SSE). We also participate in the SSE's Advisory Group on Carbon Markets.

³ The Steering Group was established in May 2020. Other members include the Accounting and Financial Reporting Council, Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and Mandatory Provident Fund Schemes Authority.

⁴ On 8 January 2024, the Steering Group announced its work progress and next steps.



Sustainability

In November, the SFC held its inaugural Forum on Sustainability Disclosures to build industry preparedness and awareness of sustainability reporting against international standards. We gathered market views on developing a sustainability disclosure ecosystem for Hong Kong. More than 200 leaders from the financial industry, listed companies, industry associations and policymakers from Hong Kong, the Mainland and the Asia-Pacific region attended the forum.



Keynote speakers and panellists at the Forum on Sustainability Disclosures

Other local policy initiatives

In October, we announced our support and sponsorship for developing a code of conduct for voluntary adoption by environmental, social and governance (ESG) ratings and data products providers providing products and services in Hong Kong via an industry-led working group⁵. This initiative is aimed to promote the best practices recommended by IOSCO⁶ in Hong Kong and help strengthen the transparency, quality, and reliability of ESG information used by licensed corporations in their investment decisions.

⁵ Namely the Hong Kong ESG Ratings and Data Products Providers Voluntary Code of Conduct Working Group, which is convened and led by the International Capital Market Association as the Secretariat.

⁶ IOSCO issued its Final Report on Environmental, Social and Governance Ratings and Data Product Providers in November 2021.

Regulatory Engagement

Stepping up global regulatory collaboration

IOSCO

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 Information. During the quarter, our Director of Enforcement Mr Kenneth Lai was appointed a member of the IOSCO MMoU¹ Monitoring Group Steering Committee for 2023-24.

In October, our Chief Executive Officer Ms Julia Leung and senior executives participated in a meeting of the IOSCO Board in Madrid, Spain. Members discussed and reached decisions on issues around sustainable finance, crypto and digital assets, financial stability, and retail investor protection. We also participated in meetings of the IOSCO Committee on Emerging Risks, Fintech Task Force, Sustainable Finance Task Force, and Financial Stability Engagement Group during the quarter.

Ms Christina Choi, our Executive Director of Investment Products, is serving a second term as Chair of the Committee on Investment Management, and leads the committee's core expert group. The group helped prepare the final Guidance on Anti-dilution Liquidity Management Tools to effectively implement the Recommendations for Liquidity Risk Management for Collective Investment Schemes, published in December.

In addition, we hosted a three-day event for IOSCO's Committee on Investment Management during the quarter. It was attended by over 30 representatives from IOSCO members. Two roundtables on valuation were held with academics, auditors and fund industry participants to discuss how asset managers may deal with valuation uncertainty, as well as related industry practices and recent market developments. These were followed by meetings of committee members to discuss the IOSCO report on liquidity management tools for open-ended funds and the workplan.



Meeting of IOSCO's Committee on Investment Management in Hong Kong

As a core member of the Steering Group for the Fintech Taskforce of IOSCO, we took an active part in drafting the IOSCO Policy Recommendations for Crypto and Digital Asset Markets and the IOSCO Policy Recommendations for Decentralized Finance. The two documents were published in November and December respectively.

To enhance regulatory cooperation, our Director of Licensing and Head of Fintech unit Ms Elizabeth Wong discussed policy developments in crypto-assets at an IOSCO-FSI² conference on securities trading issues and market infrastructure. She also spoke on virtual asset regulation at a PIFS³-IOSCO Virtual Seminar for Senior Securities Regulators.

FSB

Ms Christina Choi also co-chairs the Open-ended Funds Working Group under the Financial Stability Board (FSB) Standing Committee on Supervisory and Regulatory Cooperation. FSB issued in December its revised policy recommendations to address structural vulnerabilities from liquidity mismatch in open-ended funds.

In November, Mr Rico Leung, our Executive Director of Supervision of Markets, and other senior SFC representatives participated in a meeting of the FSB Regional Consultative Group for Asia held in Hong Kong. The group discussed recent financial market developments and their impact on the region, vulnerabilities arising from non-bank financial intermediation, and promoting effective regulation and supervision of crypto-asset related risks.

¹ Multilateral Memorandum of Understanding.

² Financial Stability Institute.

³ The Program on International Financial Systems.

Regulatory Engagement

During the quarter, Mr Leung and SFC representatives also participated in a meeting of the FSB Standing Committee on Standards Implementation to discuss the progress on country and thematic peer reviews.

Supervisory colleges

To maintain effective supervision of global systemically important financial institutions, we actively participated in supervisory colleges held in London and New York to share intelligence and exchange views with other global regulators regarding the business, conduct and financial risks and issues of these firms.

Advancing Mainland-Hong Kong cooperation

In December, we held the 14th regulatory high-level meeting with the China Securities Regulatory Commission (CSRC) in Tianjin to discuss the latest development of the capital markets, recent achievements in cross-boundary regulatory cooperation, and ongoing market development and regulatory cooperation initiatives. We and the CSRC reached consensus on further enhancing and expanding the Mainland-Hong Kong mutual market access schemes, including Stock Connect and Wealth Management Connect. We also agreed to further explore new initiatives to promote the healthy development of the Mainland and Hong Kong capital markets.

In November, Ms Julia Leung spoke at the 2023 Financial Street Forum to introduce Hong Kong's listing regime, post-listing regulation and enforcement action, as well as the regulatory reforms launched by the SFC in recent years.

During the quarter, we visited the CSRC, National Administration of Financial Regulation and State Administration of Foreign Exchange in Beijing to exchange views on the latest economic and market conditions. We also discussed the development of various mutual market access schemes, including enhancements to ETF Connect, inclusion of real estate investment trusts under Stock Connect and expansion of the Cross-boundary Wealth Management Connect pilot scheme. In addition, we joined the Hong Kong delegation to the third Belt and Road Forum for International Cooperation held in Beijing in October.

In November, we held the 15th regular high-level meeting on enforcement cooperation with the CSRC in Chengdu. During the meeting, in addition to exchanging views on enforcement priorities, trends and progress and taking stock of successful outcomes in enforcement cooperation this year, we had in-depth discussions on enhancing coordination and cooperation mechanisms to more effectively combat cross-boundary securities crimes and misconduct. We also shared investigation progress on important cases involving cross-boundary investigatory assistance to facilitate cooperation on work related to anti-money laundering. Also, senior representatives of the SFC, the CSRC, the Economic Crime Investigation Department of the Mainland Ministry of Public Security and the Commercial Crime Bureau of the Hong Kong Police Force met to discuss strengthening law enforcement cooperation against securities and economic crimes under respective legal remits.



The 14th Mainland and Hong Kong Regulatory High-level Meeting

Regulatory Engagement

At the same time, we held a three-day joint enforcement training event with the CSRC, which marked the first in-person joint training since the pandemic. The training was attended by more than 50 enforcement officers from the SFC, the Independent Commission Against Corruption, the Hong Kong Police Force and the Accounting and Financial Reporting Council, as well as more than 90 enforcement officers from the CSRC, its regional offices and Mainland public security authorities. The training covered wide-ranging topics, including cross-divisional collaboration on intelligence analysis and investigation, investigative methods and strategies for tackling listed company fraud and disclosure offences, market manipulation and intermediary misconduct.

In November, we held the 15th bilateral regulatory meeting with the Financial Supervisory Commission of Taiwan, China, where views on regulatory development of virtual assets, exchange-traded funds and sustainable finance were exchanged.



The 15th Mainland and Hong Kong high-level meeting on enforcement cooperation and four-party meeting across the boundary

Communications and Education

We have stepped up our communications and investor education efforts through a range of publicity activities to keep pace with market developments.

Proactive communications keep investors informed

To disseminate information in a clear, transparent and timely manner, we enhanced the SFC website to consolidate all investor alerts and make them more easily accessible to the public. In addition, we informed the public of updates to the Alert List through press releases and social media posts to promote awareness.

During the quarter, five suspicious virtual asset trading platforms (VATPs) and seven suspicious investment products were added to the Alert List.

In addition, we launched the SFC's official YouTube channel in October to expand our online communication toolkit and broaden our reach to public investors.

Our videos cover a range of topics such as our policy initiatives, executives' speeches at industry events, as well as alerts to investors.

We also leverage various social media platforms to promote awareness and bring the public's attention to our scam alerts, executive speeches and major initiatives such as sustainable finance. More than 70 posts were issued in the quarter.

As part of our outreach efforts to promote public understanding of Fintech, we spoke at close to 20 interviews, seminars and events organised by government authorities, international regulators, industry associations, media outlets and universities. These included an interview with our Director of Licensing and Head of Fintech unit Ms Elizabeth Wong in support of the World Investor Week, and the interview was about the new VATP licensing regime and the risks of trading on unregulated platforms.

Wider publicity, better education

To raise the public's awareness towards financial scams and the risks of trading on unregulated VATPs, we launched an advertising campaign on multiple channels, spanning radio, buses and online banners. Through these advertisements, we highlighted the investor alerts against scams and the list of licensed VATPs, both available on the SFC website. For instance, our bus-body advertisement (as shown in photo) cautions the public about the pitfalls of obtaining "investment tips" on instant messaging apps.

In addition, we supported the anti-scam carnival organised by the Hong Kong Police Force's Anti-Deception Coordination Centre in December. The full-day fun fair, which featured interactive games and educational activities, was well attended by over 3,000 members of the public, including families and many children.



Raising public awareness towards financial scams through advertising and public event

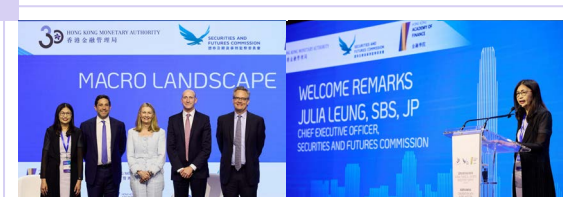
Communications and Education

Market outreach to promote policy initiatives

We are proactive in explaining our policy initiatives through industry events and other engagements. During the quarter, our senior executives spoke at over 30 local and international events covering Fintech, sustainable finance and other topics. We were a supporting organisation for five industry events.

Industry events and interviews

In November, we co-hosted the “Conversations with Global Investors” seminar with the Hong Kong Monetary Authority and the Hong Kong Academy of Finance. Held under the theme “Living with Complexity”, the seminar featured 20 global leading investors who shared their investment insights and latest approaches to navigate a challenging landscape. Over 300 overseas and local business leaders attended the seminar, which was the concluding event of the three-day Global Financial Leaders’ Investment Summit.



The “Conversations with Global Investors” seminar gathered world financial leaders to share their investment insights

Promoting Fintech is a core objective of our outreach. We co-organised Hong Kong FinTech Week 2023 in November. Highlighting tokenisation as a key topic, our Chief Executive Officer (CEO) Ms Julia Leung discussed the SFC’s vision of building a pathway for the Fintech industry to flourish in Hong Kong. Our Interim Head of Intermediaries Mr Keith Choy moderated a panel joined by esteemed members of the industry. They shared their experience and insights on the future of financial technology.

In addition, to engage with the virtual asset industry in international markets, our Director of Licensing and Head of Fintech unit Ms Wong spoke at a webinar on regulating virtual asset activities in Hong Kong organised by the Hong Kong Economic and Trade Office in San Francisco.

On the sustainability front, which is another area we champion, we held our inaugural Forum on Sustainability Disclosures to gather market views on developing a sustainability disclosure ecosystem for Hong Kong¹.

Our Chairman Mr Tim Lui highlighted the importance for companies operating and raising capital in Hong Kong to be familiar with the inaugural IFRS Sustainability Disclosure Standards when speaking at conferences organised by the Hong Kong Trade Development Council and the World Green Organisation respectively.

In an October interview with the Hong Kong Institute of Certified Public Accountants’ (HKICPA) publication *A Plus*, Mr Lui discussed the roles certified accountants should play in sustainable development and, more broadly, how Hong Kong can maintain its status as a global financial centre. He also shared his insights with the *Society of Chinese Accountants and Auditors’ Journal* in November.



Our Chairman Mr Tim Lui discusses Hong Kong as a global financial centre in an HKICPA interview

¹ See Sustainability on page 23-24.

Communications and Education

In October, our CEO Ms Leung spoke at the Bloomberg Global Regulatory Forum to highlight new opportunities in environmental, social and governance and technology innovation, as well as how internationalised regulation can encourage new growth between West Asia and East Asia. In November, she shared the SFC's perspectives on climate and other sustainability issues alongside Mr Jean-Paul Servais, the Chairman of the Board of the International Organization of Securities Commissions, at a seminar organised by the Consulate General of Belgium in Hong Kong.

In addition, our Senior Director and Head of International Affairs and Sustainable Finance Ms Christine Kung discussed major regulatory progress made to enable sustainable finance at the Sustainable Finance Policy Conference 2023, organised by the Principles for Responsible Investment, a United Nations-supported network of investors.

Meetings and training seminars

We hosted two webinars in November for close to 1,800 management and compliance personnel from licensed corporations to provide updates on major regulatory developments and recent inspection observations on anti-money laundering and counter-financing of terrorism in Hong Kong.

In the same month, we met with the Alternative Investment Management Association (AIMA) to exchange views on the SFC's streamlined licensing measures applicable to private fund managers and overseas practitioners. To further engage with the alternative investment industry, we are discussing with AIMA to conduct a seminar in 2024 about our licensing regime for its local and overseas members.

Our executives presented at training sessions organised by industry associations and professional bodies to provide updates on a range of topics including listing, takeovers and insider dealing matters, licensing requirements for visiting professionals, the digitalised licensing process and the new Type 13² regulated activity regulatory regime.

Publications to communicate regulatory updates

We provide stakeholders with regulatory updates and explain our work through a variety of publications. During the quarter, we released the SFC's *July-September 2023 Quarterly Report* to summarise our key regulatory work, corporate developments and financial information. We also published the quarterly *Takeovers Bulletin* in December.

Publications and other communications

	Quarter ended 31.12.2023	Nine months ended 31.12.2023
Press releases	42	127
Policy statements and announcements	1	6
Consultation papers	2	4
Consultation conclusions	0	7
Industry-related publications	1	9
Codes and guidelines ^a	1	11
Circulars to industry	31	54
Corporate website average daily page views ^b	65,792	65,305
General enquiries	948	2,734

^a Includes updates to previous versions.

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

² Type 13 regulated activity is for depositaries of SFC-authorised collective investment schemes.

Corporate Developments

Board update

Mr Johnson Kong and Mr Dieter Yih were re-appointed as Non-Executive Directors for another term of two years, effective from 15 November 2023.

Acquiring permanent office

To realise our long-term goal to purchase our own office premises and ensure smooth operation without interruption to our staff and operational activities, we acquired 12 floors of One Island East in Quarry Bay as our permanent office. The \$5.4 billion purchase, which covers the nine floors the SFC now occupies and three more to be added by 2028, will be completed over a course of five years. This acquisition saves costs in the long run by investing in our own assets and eliminating recurring rental expenses. The cost savings can be put to other uses to advance our cause.

Staffing

As of 31 December, we had 952 staff members, up from 927 a year ago.

Finance

Our income for the quarter was \$554 million, 43% higher than the previous quarter and 8% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$87 billion, 6% lower than the \$93 billion recorded in the previous quarter. Our expenditure for the quarter was \$531 million, 4% higher than the prior quarter and 5% higher than the same quarter last year. We recorded a surplus of \$23 million for the quarter, taking into account the one-off reversal of the lease-related provision of \$112 million for the property acquisition.

To complete the transaction for acquiring nine office floors as our permanent office, \$2.3 billion from the property acquisition reserve was utilised. As of 31 December, our reserves stood at \$7.7 billion, of which \$1.1 billion is set aside to support the acquisition of three additional floors and future principal bank loan repayments.

Finance

(\$ million)	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY Change (%)
Income	554	1,355	1,328	2.0
Expenses including depreciation	531	1,556	1,503	3.5
Surplus/(deficit)	23	(201)	(175)	14.9

Activity data

Table 1 Takeovers activities

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	12	25	26	-3.8
Privatisations	3	13	8	62.5
Whitewash waiver applications	8	18	14	28.6
Other applications under Code on Takeovers and Mergers ¹	51	192	187	2.7
Off-market and general offer share buy-backs	1	5	5	0.0
Other applications under Code on Share Buy-backs ¹	0	0	1	-100.0
Total	75	253	241	5.0
Executive Statements				
Sanctions imposed with parties' agreement ²	0	0	2	-100.0
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0.0
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.

Activity data

Table 2 Breaches noted during on-site inspections¹

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	4	9	7	28.6
Failure to safekeep client securities	6	26	18	44.4
Failure to maintain proper books and records	3	11	13	-15.4
Failure to safekeep client money	7	28	17	64.7
Unlicensed dealing and other registration issues	4	15	9	66.7
Breach of licensing conditions	1	1	4	-75.0
Breach of requirements of contract notes/statements of account/receipts	4	21	31	-32.3
Failure to make filing/notification	0	0	3	-100.0
Breach of margin requirements	1	8	3	166.7
Dealing malpractices	1	1	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	70	231	198	16.7
Breach of Corporate Finance Adviser Code of Conduct	0	7	11	-36.4
Breach of Fund Manager Code of Conduct	55	99	63	57.1
Breach of regulation of on-line trading	0	8	7	14.3
Non-compliance with anti-money laundering guidelines	29	186	185	0.5
Breach of other rules and regulations of the Exchanges ³	1	5	2	150.0
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	4	-100.0
Internal control weaknesses ⁴	67	291	336	-13.4
Others	22	55	63	-12.7
Total	275	1,002	974	2.9

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.

Activity data

Table 3 Hong Kong-domiciled authorised funds

a) Number of funds by type	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Bond	162	173	-6.4	170	-4.7
Equity	204	206	-1.0	209	-2.4
Mixed	113	112	0.9	113	0.0
Money market	62	49	26.5	46	34.8
Feeder funds	50	48	4.2	48	4.2
Index ¹	163	169	-3.6	172	-5.2
Guaranteed	1	1	0.0	1	0.0
Other specialised ²	3	3	0.0	2	50.0
Sub-total	758	761	-0.4	761	-0.4
Umbrella structures	156	152	2.6	150	4.0
Total	914	913	0.1	911	0.3

b) Assets under management by type	Total NAV (US\$ million) as at 31.12.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 31.12.2022	YoY change (%)
Bond	25,714	26,396	-2.6	24,675	4.2
Equity	45,332	50,530	-10.3	47,581	-4.7
Mixed	25,527	28,384	-10.1	27,463	-7.0
Money market	23,045	16,542	39.3	14,311	61.0
Feeder funds ³	20	20	0.0	21	-4.8
Index ¹	53,584	52,578	1.9	51,086	4.9
Guaranteed	31	34	-8.8	35	-11.4
Other specialised ²	46	44	4.5	70	-34.0
Total⁴	173,301	174,527	-0.7	165,242	4.9

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.

Activity data

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Luxembourg	1,070	1,063	0.7	1,063	0.7
Ireland	252	250	0.8	245	2.9
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	1,423	1,417	0.4	1,413	0.7

b) Assets under management by origin	Total NAV (US\$ million) as at 31.12.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 31.12.2022	YoY change (%)
Luxembourg	1,134,538	1,119,869	1.3	1,067,718	6.3
Ireland	237,766	222,462	6.9	210,146	13.1
United Kingdom	71,652	65,319	9.7	57,010	25.7
Mainland China	17,729	22,786	-22.2	21,841	-18.8
Bermuda	105	116	-9.5	127	-17.3
Cayman Islands	1,191	1,446	-17.6	1,447	-17.7
Others	62,948	63,634	-1.1	58,017	8.5
Total¹	1,525,928	1,495,633	2.0	1,416,305	7.7

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.



Activity data

c) Number of funds by type	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Bond	357	358	-0.3	362	-1.4
Equity	779	774	0.6	773	0.8
Mixed	159	155	2.6	150	6.0
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	1,337	1,329	0.6	1,327	0.8
Umbrella structures	86	88	-2.3	86	0.0
Total	1,423	1,417	0.4	1,413	0.7

d) Assets under management by type	Total NAV (US\$ million) as at 31.12.2023	Total NAV (US\$ million) as at 31.3.2023	Change (%)	Total NAV (US\$ million) as at 31.12.2022	YoY change (%)
Bond	439,127	432,041	1.6	422,602	3.9
Equity	803,383	791,354	1.5	740,569	8.5
Mixed	156,885	156,729	0.1	153,561	2.2
Money market	11,633	9,724	19.6	9,333	24.6
Feeder funds ²	0	0	0.0	0	0.0
Index ¹	114,795	105,669	8.6	90,115	27.4
Hedge	105	116	-9.5	127	-17.3
Total³	1,525,928	1,495,633	2.0	1,416,305	7.7

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.

Activity data

Table 5 Complaints against intermediaries and market activities

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
Conduct of licensees	135	415	556	-25.4
Conduct of registered institutions	3	7	35	-80.0
Listed companies and disclosure of interests	202	722	507	42.4
Market misconduct ¹	78	267	259	3.1
Product disclosure	3	3	10	-70.0
Unlicensed activities	77	270	317	-14.8
Breach of offers of investments	3	43	29	48.3
Boiler rooms and suspicious websites	46	145	214	-32.2
Scams and frauds ²	190	436	281	55.2
Other financial activities not regulated by the SFC ³	63	201	199	1.0
Total	800	2,509	2,407	4.2

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

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income					
Levies		1,032,329	1,275,786	326,126	462,612
Fees and charges		85,770	80,056	29,809	24,381
Net investment income/(loss)					
Investment income/(loss)		153,003	(10,091)	100,920	145,149
Less: custody and advisory expenses		(7,988)	(7,537)	(2,517)	(2,455)
Recoveries from the Investor Compensation Fund	8(a)	4,566	4,437	1,514	1,480
Exchange loss		(26,187)	(16,152)	(13,753)	(27,381)
Other income	3	113,026	1,668	112,173	219
		1,354,519	1,328,167	554,272	604,005
Expenses					
Staff costs and directors' emoluments	8(b)	1,177,642	1,132,896	397,260	376,123
Depreciation					
Fixed assets		82,450	82,335	31,949	27,329
Right-of-use assets		106,184	109,603	32,962	36,560
Other premises expenses		27,275	26,517	9,336	8,926
Bank loans interest expenses		2,874	–	2,874	–
Finance costs		4,403	5,122	1,318	1,634
Other expenses		154,692	146,260	55,912	55,293
		1,555,520	1,502,733	531,611	505,865
(Deficit)/surplus and total comprehensive income for the period		(201,001)	(174,566)	22,661	98,140

The notes on pages 42 to 46 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Non-current assets			
Fixed assets	3	4,442,695	216,366
Right-of-use assets		24,220	700,776
Deposits for leases		976	37,609
Financial assets at amortised costs – debt securities	9(b)	2,350,104	2,903,608
		6,817,995	3,858,359
Current assets			
Financial assets at amortised costs – debt securities	9(b)	817,015	381,528
Financial assets at fair value through profit or loss			
Debt securities	9(a)	–	403,649
Pooled funds	9(a)	1,035,142	1,045,571
Debtors, deposits and prepayments		535,675	283,492
Fixed deposits with banks	4	789,756	2,845,253
Cash held for Grant Scheme	5	82,944	124,205
Cash at bank and in hand	4	105,846	66,647
		3,366,378	5,150,345
Current liabilities			
Fees received in advance		7,705	8,378
Creditors and accrued charges		417,936	274,732
Bank loans	3	18,262	–
Lease liabilities		10,199	141,385
Provisions for reinstatement cost		574	873
		454,676	425,368
Net current assets		2,911,702	4,724,977
Total assets less current liabilities		9,729,697	8,583,336
Non-current liabilities			
Bank loans	3	2,000,812	–
Lease liabilities		14,563	581,156
Provisions for reinstatement cost		1,190	88,047
		2,016,565	669,203
Net assets		7,713,132	7,914,133
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		1,061,800	3,375,000
Accumulated surplus		6,608,492	4,496,293
		7,713,132	7,914,133

The notes on pages 42 to 46 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 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	–	–	(174,566)	(174,566)
Balance at 31 December 2022	42,840	3,250,000	4,547,617	7,840,457
Balance at 1 April 2023	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the period	–	–	(201,001)	(201,001)
Transfer between reserves	–	(2,313,200)	2,313,200	–
Balance at 31 December 2023	42,840	1,061,800	6,608,492	7,713,132

The notes on pages 42 to 46 form part of these condensed consolidated financial statements.



Securities and Futures Commission

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Deficit for the period		(201,001)	(174,566)
Adjustments for:			
Depreciation – Fixed assets		82,450	82,335
Depreciation – Right-of-use assets		106,183	109,603
Bank loans interest expenses		2,874	–
Interest expense and other finance costs		4,463	5,122
Interest income on deposits for leases		(211)	(217)
Investment (income)/loss		(153,003)	10,091
Exchange loss		23,917	16,133
Loss/(gain) on disposal of fixed assets		16	(3)
Gain arising from lease termination		(112,034)	–
		(246,346)	48,498
Increase in right-of-use assets		(7)	(5)
(Increase)/decrease in debtors, deposits and prepayments		(253,380)	75,828
Decrease/(increase) in cash held for Grant Scheme		41,261	(60,267)
(Decrease)/increase in fees received in advance		(673)	287
Increase in creditors and accrued charges		137,454	190,920
Net cash (used in)/generated from operating activities		(321,691)	255,261
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		2,145,190	(373,393)
Interest received		214,696	92,681
Debt securities at fair value through profit or loss purchased		(72,193)	(174,227)
Debt securities at fair value through profit or loss sold or redeemed		466,030	160,761
Pooled funds sold		4,601	3,819
Debt securities at amortised cost purchased		(786,759)	(223,979)
Debt securities at amortised cost redeemed at maturity		874,729	132,922
Fixed assets purchased		(4,303,045)	(49,317)
Proceeds from fixed assets disposal		–	9
Net cash used in investing activities		(1,456,751)	(430,724)
Cash flows from financing activities			
Principal element of lease payments		(103,798)	(106,631)
Interest element of lease payments		(4,403)	(5,122)
Proceeds from bank loans		2,019,014	–
Bank loans interest expenses		(2,874)	–
Net cash generated from/(used in) financing activities		1,907,939	(111,753)
Net increase/(decrease) in cash and cash equivalents		129,497	(287,216)
Cash and cash equivalents at the beginning of the nine-month period		407,901	973,151
Cash and cash equivalents at the end of the nine-month period	4	537,398	685,935

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	431,552	621,844
Cash at bank and in hand	105,846	64,091
	537,398	685,935

The notes on pages 42 to 46 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 2023. We eliminated all material intra-group balances and transactions in preparing the condensed consolidated financial statements.

Except as described in note 3, 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 nine months ended 31 December 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 31 December 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 \$32,823,000 (as at 31 March 2023: \$116,105,000). The total notional contract amount was \$32,796,000 (as at 31 March 2023: \$115,967,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

3. Acquisition of permanent office

(a) Property acquisition

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 12 office floors in the premises previously rented. Transaction of the nine office floors that we previously occupied was completed in December 2023 while acquisition of the three additional floors will be completed by 2028.

The property acquired during the period has been recognised as under fixed assets. Respective depreciation is calculated using the straight-line method over the estimated useful life of 50 years.

Capital commitments relating to the acquisition of the three additional floors contracted for at the end of the reporting period but not yet incurred amounted to \$1,073,345,000.

(b) Bank loans

To finance the property acquisition transaction, the Group has obtained a 5-year term loan of \$2,029,160,000 on 21 December 2023. The term loan carries a fixed interest rate of 4.7% per annum for the first two years and subsequently carries a floating interest rate of 1-month HIBOR plus 0.55% per annum.

This term loan is initially recognised at fair value, net of transaction costs incurred. It is subsequently measured at amortised cost. The carrying amount is considered to be the same as their fair value as the interest payable on the bank loan is at current market rates.

	Unaudited At 31 Dec 2023 \$'000
Bank loans – secured	
Current	18,262
Non-current	2,000,812
	2,019,074

The term loan was secured by the property with a carrying value of \$4,251,168,000 as at 31 December 2023.

(c) Gain arising from lease termination

As a result of the property acquisition, lease of the existing office spaces has been terminated, and provisions set aside for reinstatement costs and the lease provision recognised at the start of the original lease term according to HKFRS 16, *Leases*, were reversed and resulted in a one-off expense write back of \$112,034,000 for the period. The balance is included in the other income.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

4. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank and in hand	105,846	66,647
Fixed deposits with banks	789,756	2,845,253
Amounts shown in the condensed consolidated statement of financial position	895,602	2,911,900
Less: Amounts with an original maturity beyond three months	(358,204)	(2,503,999)
Cash and cash equivalents in the condensed consolidated statement of cash flows	537,398	407,901

5. 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.

6. 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 is mainly driven by the revaluation of USD denominated financial assets.

7. 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 31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

8. 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, \$4,566,000 was recovered from the ICF for the ICC's expenses (31 December 2022: \$4,437,000). As at 31 December 2023, the ICC had an amount due from the ICF of \$207,000 (as at 31 March 2023: amount due from the ICF of \$208,000).

(b) Remuneration of key management personnel

	Unaudited Nine months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,672	20,892
Retirement scheme contributions	2,082	1,803
	25,754	22,695

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 (31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

9. 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 31 December 2023 (Unaudited)</u>				
Debt securities	–	–	–	–
Pooled funds	1,035,142	–	–	1,035,142
	1,035,142	–	–	1,035,142
<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 nine months ended 31 December 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 31 December 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 are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 31 December 2023 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,167,119	2,990,800	–	2,990,800	–
<u>At 31 March 2023 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,285,136	3,066,896	–	3,066,896	–

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report together with the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 48 to 53.

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

29 February 2024



Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income					
Interest income		91,034	40,107	33,502	22,169
Exchange loss		(7,575)	(4,731)	(4,320)	(7,967)
		83,459	35,376	29,182	14,202
Expenses					
Investor Compensation Company Limited expenses	2	4,566	4,437	1,514	1,480
Auditor's remuneration		153	148	39	38
		4,719	4,585	1,553	1,518
Surplus and total comprehensive income for the period		78,740	30,791	27,629	12,684

The notes on pages 52 and 53 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		49,743	47,392
Fixed deposits with banks	3	2,555,426	2,472,685
Cash at bank	3	581	847
		2,605,750	2,520,924
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		274	274
Amount due to the Investor Compensation Company Limited		207	208
		3,875	3,876
Net current assets		2,601,875	2,517,048
Net assets		2,601,875	2,517,048
Representing:			
Compensation fund		2,601,875	2,517,048

The notes on pages 52 and 53 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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	–	–	–	–	30,791	30,791
Balance at 31 December 2022	994,718	108,923	–	–	1,382,054	2,485,695
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	–	–	–	–	78,740	78,740
Balance at 31 December 2023	994,718	108,923	5,470	617	1,492,147	2,601,875

The notes on pages 52 and 53 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Surplus for the period		78,740	30,791
Adjustments for:			
Interest income		(91,034)	(40,107)
Exchange loss		7,575	4,731
		(4,719)	(4,585)
Decrease in creditors and accrued charges		–	(38)
Change in amount due from/to the Investor Compensation Company Limited		(1)	(219)
Net cash used in operating activities		(4,720)	(4,842)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(94,678)	(306,926)
Interest received		88,557	12,883
Net cash used in investing activities		(6,121)	(294,043)
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		(4,754)	(298,885)
Cash and cash equivalents at the beginning of the nine-month period		164,980	451,903
Cash and cash equivalents at the end of the nine-month period	3	160,226	153,018

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	159,645	152,203
Cash at bank	581	815
	160,226	153,018

The notes on pages 52 and 53 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2023, the ICC incurred costs of \$4,566,000 for its operation (for the nine months ended 31 December 2022: \$4,437,000).

3. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	581	847
Fixed deposits with banks	2,555,426	2,472,685
Amounts shown in the condensed statement of financial position	2,556,007	2,473,532
Less: Amounts with an original maturity beyond three months	(2,395,781)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	160,226	164,980

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2023 and 2022.

7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 12 outstanding claims as at 31 December 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,199,000 (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 nine months ended 31 December 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 this report together with the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 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 31 December 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 60.

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

2 February 2024

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Income				
Interest income	3,299	1,340	1,247	832
Expenses				
Recoveries re-distributed	–	22	–	–
Auditor's remuneration	71	70	17	16
	71	92	17	16
Surplus and total comprehensive income for the period	3,228	1,248	1,230	816

The notes on pages 59 and 60 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of financial position

As at 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		710	454
Fixed deposits with banks		97,716	96,869
Cash at bank		527	491
		98,953	97,814
Current liabilities			
Creditors and accrued charges		10,336	10,325
Relinquished trading rights payable to SEHK	4	1,250	1,650
		11,586	11,975
Net current assets		87,367	85,839
Net assets		87,367	85,839
Representing:			
Compensation fund		87,367	85,839

The notes on pages 59 and 60 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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	(900)	–	–	–	–	–	(900)
Surplus and total comprehensive income for the period	–	–	–	–	1,248	–	1,248
Balance at 31 December 2022	53,400	353,787	630,000	6,502	37,102	(994,718)	86,073
Balance at 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(1,700)	–	–	–	–	–	(1,700)
Surplus and total comprehensive income for the period	–	–	–	–	3,228	–	3,228
Balance at 31 December 2023	50,450	353,787	630,000	6,502	41,346	(994,718)	87,367

The notes on pages 59 and 60 form part of these condensed financial statements.



Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Surplus for the period		3,228	1,248
Adjustment for:			
Interest income		(3,299)	(1,340)
		(71)	(92)
Increase in creditors and accrued charges		11	–
Decrease in relinquished trading rights payable to SEHK		(400)	(250)
Net cash used in operating activities		(460)	(342)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(33,492)	10,055
Interest received		3,043	857
Net cash (used in)/generated from investing activities		(30,449)	10,912
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(1,700)	(900)
Net cash used in financing activities		(1,700)	(900)
Net (decrease)/increase in cash and cash equivalents		(32,609)	9,670
Cash and cash equivalents at the beginning of the nine-month period		69,384	71,486
Cash and cash equivalents at the end of the nine-month period	3	36,775	81,156

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2023 \$'000	At 31 Dec 2022 \$'000
Fixed deposits with banks	36,248	80,894
Cash at bank	527	262
	36,775	81,156

The notes on pages 59 and 60 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 31 December 2023, the equity securities received under subrogation amounted to \$16 (as at 31 March 2023: \$30). The balances as at 31 December 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 nine months ended 31 December 2023 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 31 Dec 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	527	491
Fixed deposits with banks	97,716	96,869
Amounts shown in the condensed statement of financial position	98,243	97,360
Less: Amounts with an original maturity beyond three months	(61,468)	(27,976)
Cash and cash equivalents in the condensed statement of cash flows	36,775	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 nine-month period, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$2,300,000 in respect of 46 relinquished trading rights were refunded to SEHK. As at 31 December 2023, 25 trading rights totalling \$1,250,000 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 Nine months ended	
	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Balance at the beginning of the nine-month period	52,150	54,300
Add: new trading rights issued	200	250
Less: relinquished trading rights refunded	(2,300)	(1,400)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	400	250
Balance at the end of the nine-month period	50,450	53,400

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 nine months ended 31 December 2023 and 2022.

Securities and Futures Commission

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