



# Quarterly Report April - June 2024



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This first Quarterly Report of the Securities and Futures Commission for financial year 2024-25 covers the period from 1 April to 30 June 2024.

# Highlights

## Maintaining market resilience and mitigating harm



### Alerting investors on suspicious activities

We added nine entities onto our Alert List for Suspicious Virtual Asset Trading Platforms (VATPs) during the quarter to warn against suspected VA-related fraud and unlicensed activities.

We also cautioned the public against four suspicious investment products.

### Empowering investors to stay scam-savvy

As part of our anti-scam publicity campaign, we launched a TV commercial and radio advertising campaign to caution the public against investment scams and unlicensed VATPs. We also promoted anti-scam messages by participating in a community outreach event and providing tips to domestic helpers.

### Supporting Anti-Scam Consumer Protection Charter 2.0

We joined other local financial regulators to support the Anti-Scam Consumer Protection Charter 2.0 in April. We also issued a press release to enhance public awareness about safeguarding personal data and a joint circular to invite regulated financial institutions to join the Charter.

### New alerts against:



**9**  
suspicious VATPs

**4**  
suspicious investment products

### Combatting misconduct

During the quarter, we disciplined five individuals, suspending their licences and/or prohibiting them from entering the industry for seven months to four years.

We secured the conviction of three individuals involved in a highly sophisticated market manipulation scheme following a landmark High Court jury trial.

## Highlights

Three large-scale and sophisticated ramp-and-dump cases involving 18 defendants will be transferred to the District Court for trial following joint investigations by the SFC and the Police.

To further deepen cross-boundary enforcement cooperation, we held the 16th regular high-level meeting with the China Securities Regulatory Commission (CSRC) in Kunming, Yunnan Province.

### Supervising intermediaries

We inspected 65 licensed corporations on site to review their compliance with regulatory requirements.

### Managing market risks

We continued our on-site inspection of the project management and operation controls of Hong Kong Exchanges and Clearing Limited's (HKEX) Connect schemes. Upon our request, HKEX is working to enhance the default fund of its cash market. From March to May, the SFC and the Hong Kong Monetary Authority jointly consulted the public on enhancing the over-the-counter derivatives reporting regime.

### International standard-setting

In May, our Chief Executive Officer (CEO) Ms Julia Leung and senior SFC executives attended the IOSCO<sup>1</sup> Annual Meeting in Athens, Greece, to discuss financial stability, sustainable finance, Fintech and enforcement cooperation. As the new Chair of IOSCO's Asia-Pacific Regional Committee for 2024-2026, Ms Leung will contribute to strengthening regional regulatory collaboration.



**65**  
on-site inspections

## Enhancing Hong Kong market competitiveness



### Gatekeeping listing applications

During the quarter, we processed 53 new listing applications, comprising one from a specialist technology company and five from pre-profit biotech companies.

Of the 365 listing applications we cleared in the three years up to 30 June, 94% were cleared within 60 business days.

### Strengthening listing market

We participated in formulating a proposal to maintain normal market operations under severe weather. HKEX published the relevant consultation conclusions in June and will launch severe weather trading in late September.

Also, with the SFC's approval, the Stock Exchange of Hong Kong Limited (SEHK) introduced a regime in June that allows issuers to hold repurchased shares in treasury. In addition, we collaborated with SEHK to review the corporate governance framework for listed companies, and SEHK started its related consultation in June.



**53**  
new listing applications

<sup>1</sup> International Organization of Securities Commissions.

## Highlights



▲ **8% YoY**

**Licence applications  
under the SFO**

### Increase in licence applications

In the quarter, we received 1,931 licence applications under the Securities and Futures Ordinance (SFO), up 3% from the previous quarter and 8% year-on-year. The number of new licensees and registrants totalled 2,593.

### Launch of ETF Connect enhancements<sup>2</sup>

Enhancements of ETF Connect, effective on 22 July 2024, added 85 eligible Mainland ETFs and six eligible Hong Kong ETFs to the scheme. The average daily turnover for southbound trading of eligible Hong Kong ETFs amounted to \$3.15 billion during 22-31 July 2024, up 204% from that on 2-19 July 2024.

### Top management's first Middle East visit

Our CEO Ms Julia Leung and our Executive Director of Investment Products Ms Christina Choi visited Saudi Arabia and the United Arab Emirates to meet with local financial regulators and stock exchanges, as well as major local asset managers and financial institutions.



▲ **11.9% YoY**

**HK-domiciled  
funds' AUM**

### Increase in net inflows into local domiciled funds

As at 30 June, assets under management (AUM) of Hong Kong-domiciled funds increased 7.2% from the previous quarter to \$1,492.4 billion (US\$191.1 billion). Net fund inflows of about \$59.1 billion (US\$7.6 billion) were recorded in the quarter, up 80.2% from the previous quarter.

### Extending OFC and REIT grant schemes

The SFC has worked with the Government to extend the grant scheme to subsidise the setting up of open-ended fund companies (OFCs) and the listing of real estate investment trusts (REITs) in Hong Kong for another three years from May.

### Product authorisations and registrations

During the quarter, we authorised 56 unit trusts and mutual funds (including 23 domiciled in Hong Kong), four mandatory provident fund pooled investment funds and 38 unlisted structured investment products for public offering in Hong Kong. As at 30 June, 371 OFCs were registered, up 144% year-on-year.

<sup>2</sup> Post-reporting period.

## Highlights



### Transforming markets via technology and ESG

#### 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.

#### Authorising Asia's first VA spot ETFs

We authorised Asia's first batch of VA spot ETFs consisting of three pairs of Bitcoin and Ether spot ETFs, which were listed on SEHK in April.



**1st**  
batch of VA spot ETFs  
in Asia

#### VATP regime updates

Before the end of the non-contravention period for VATPs operating in Hong Kong under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) on 1 June, we issued a statement in May to emphasise that deemed-to-be-licensed VATP applicants are not formally licensed by the SFC, urge investors to trade virtual assets only on SFC-licensed VATPs and remind deemed-to-be-licensed VATP applicants to fully comply with our requirements.

We also held a briefing session in June to explain our regulatory expectations to deemed-to-be-licensed VATP applicants, and introduced our on-site inspection programme. As at 30 June, we received 152 licence applications under the AMLO comprising 17 VATPs and 135 individuals. Two VATPs and 31 individuals were licensed under the AMLO.

#### Sustainability disclosure standards

In April, we welcomed SEHK's publication of its consultation conclusions on enhancing climate-related disclosure requirements for listed companies in Hong Kong. With the SFC's approval, SEHK's new rules will take effect in phases from January 2025.

#### Developing Hong Kong as sustainable finance hub

In April, we hosted a roundtable on transition plans to understand the key considerations and challenges on developing credible transition plans for companies and financial institutions operating in Hong Kong, the Mainland and Asia-Pacific.

#### Supporting voluntary code of conduct for ESG data providers

The SFC welcomed the publication of a draft voluntary code of conduct (VCoC) for ESG ratings and data products providers by an industry-led working group for a one-month public consultation. The SFC supports and sponsors the VCoC initiative to promote the IOSCO recommendations among those product providers<sup>3</sup> in Hong Kong.



**17**  
VATP licence  
applications received

<sup>3</sup> IOSCO's Final Report on Environmental, Social and Governance Ratings and Data Product Providers (November 2021).

## Highlights

### Enhancing SFC's resilience and efficiency



#### Staff professionalism acknowledged

Three staff members received The Ombudsman's Award for Officers of Public Organisations 2024, in recognition of their exemplary performance and professionalism in complaint handling and fostering a positive culture of public service.

#### Driving regulatory and operational efficiency

We expanded the digital submission capability on our WINGS<sup>4</sup> platform for VATP operators to facilitate their compliance with relevant filing requirements. We prepared for the July 2024 launch of a one-stop online application and submission platform named e-IP for investment products administered by our Investment Products Division. Our market surveillance system was also enhanced to facilitate our oversight of Exchange Participants' compliance.

Internally, we kicked off a series of initiatives to streamline operational workflow and increase efficiency for our enforcement work. We made case referral more efficient between divisions, and are streamlining workflow for handling complaints of serious nature.



3

staff members winning  
Ombudsman's Award

#### Proactive public communications

During the quarter, our senior executives spoke at over 10 local and international events covering Fintech, virtual assets and sustainability. Our CEO Ms Julia Leung took part in a video series about the benefits from the Mainland's support measures and other mutual market access initiatives.

<sup>4</sup> Web-based INTeGrated Service.

# Maintaining market resilience and mitigating serious harm to our markets

Resilience is key to fortifying the foundation for our market to grow sustainably and safely. In keeping with Hong Kong's position as an international financial centre and risk management hub, we are committed to upholding the integrity of the city's financial markets, strengthening their resilience as well as protecting investors.

## Combatting suspicious activities and investment scams

### Investor alerts against suspicious entities and investment products

Our dedicated joint working group with the Hong Kong Police Force continued to monitor and investigate illegal activities involving or purporting to involve virtual asset trading platforms (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.

During the quarter, we added nine entities onto our Alert List for Suspicious Virtual Asset Trading Platforms to warn the public of suspected VA-related fraud and unlicensed activities.

We also cautioned the public against four suspicious investment products by posting related information on the Suspicious Investment Products Alert List on our website and issuing press releases and social media posts.

### Supporting Anti-Scam Consumer Protection Charter 2.0

We have joined other local financial regulators to lend full support to the Anti-Scam Consumer Protection Charter 2.0 launched in April by the Hong Kong Monetary Authority (HKMA) and the Hong Kong Association of Banks (HKAB). Under the Charter, participating institutions commit not to send customers any instant electronic messages with embedded hyperlinks to acquire



Chief Executive Officer Ms Julia Leung at Anti-Scam Consumer Protection Charter 2.0 launch ceremony

## Maintaining market resilience and mitigating serious harm to our markets

key personal data. They also pledge to provide their own contact information through proper channels for customer enquiries and promote anti-scam messages.

On the launch day, we issued a press release to enhance public awareness about safeguarding key personal data against phishing and a joint circular with other financial regulators, inviting regulated financial institutions to join the Charter. Currently, over 100 licensed corporations, covering more than 80% of all active clients, have signed up.

We also supported and participated in the Charter's launch ceremony organised by the HKMA and HKAB, which aimed at assisting the public in guarding against credit card scams and other digital frauds.

### Empowering the public to stay scam-savvy

To caution the public against common tactics used in investment scams, we launched a TV commercial in June. We further enhanced awareness by broadcasting the video at Central and Hong Kong MTR stations in July.

We publicised our anti-scam messages in the June/July 2024 issue of *Pangyao*, a magazine targeting domestic helpers, providing tips to help them stay away from "too-good-to-be-true" investment offers.



Anti-scam messages in *Pangyao* magazine



Social media posts on suspicious entities and investment products

A radio advertising campaign highlighting the risks of investing via unlicensed VATPs was launched on Commercial Radio from May to June.

In June, our Senior Manager of Secretariat and External Mr Joseph Lee shared tips to avoid falling victim to investment scams at a community outreach event organised by the Anti-Scam Alliance in the Southern District.



Community outreach event organised by Anti-Scam Alliance



TV commercial

Video broadcast at MTR stations

## Maintaining market resilience and mitigating serious harm to our markets

### Combatting misconduct of all forms

During the quarter, we disciplined five individuals, suspending their licences and/or prohibiting them from entering the industry for seven months to four years.

We review corporate announcements daily to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions<sup>1</sup> to request information for 11 cases.

We also initiated seven new enquiries into listed company affairs under Section 179 of the Securities and Futures Ordinance (SFO), and 55 new investigations into different forms of misconduct under Section 182 of the SFO.

### Insider dealing and market manipulation

- Following a historic 22-day market manipulation trial by jury, the Court of First Instance (CFI) convicted three individuals of conspiracy to carry out false trading in the shares of Ching Lee Holdings Limited. Our investigations revealed that a syndicate (members including the convicted trio) conspired to maintain an artificial turnover in the shares of Ching Lee by conducting manipulative transactions amongst 156 securities accounts under their control, resulting in a false or misleading appearance of active trading, an artificial increase in trading volume for Ching Lee's shares, and illicit profits of over \$124 million. The CFI sentenced two individuals to imprisonment of six years and eight months and one individual to imprisonment of four years and four months. This is the heaviest jail sentence imposed on market manipulation cases since the SFO came into effect in 2003.
- We commenced proceedings in the Market Misconduct Tribunal against the former company secretary of Asiasec Properties Limited (formerly known as Dan Form Holdings Company Limited) and three other individuals for suspected insider dealing in the shares of Dan Form. The parties were suspected to have traded ahead of Dan Form's

22 September 2016 announcement that another listed company, Tian An China Investments Company Limited, was to acquire 36.45% of Dan Form's total issued share capital.

- We commenced criminal proceedings against Segantii Capital Management Limited, its director and chief investment officer, and a former trader for insider dealing in the shares of Esprit Holdings Limited prior to a block trade in June 2017. The Eastern Magistrates' Court granted an application by the Department of Justice to transfer the case to the District Court for criminal prosecution. The case was adjourned to October for mention.

### Corporate fraud and related misfeasance

- We directed the Stock Exchange of Hong Kong Limited (SEHK) to suspend dealings in Tianyun International Holdings Limited under the Securities and Futures (Stock Market Listing) Rules. Our investigation revealed that Tianyun might have fabricated a purported transfer of RMB34 million. Tianyun's reported bank balances from 31 December 2019 to 30 June 2022 might also have been significantly overstated. Our investigation is ongoing.
- We obtained compensation and disqualification orders in the CFI against Chen Ruomao, a former executive director and chief financial officer of Changgang Dunxin Enterprise Company Limited, for allowing the proceeds of the company's share placement in 2015 and bond placement in 2016 (totalling \$163 million) to be misappropriated by the company's former chairman and executive director as well as concealing the misappropriation from the auditors by providing falsified records. As compensation, Chen was ordered to pay \$163 million with interest to the company. Chen was also disqualified from acting as a director, liquidator, receiver, manager, or being involved in the management of any listed or unlisted corporations for 10 years.

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

## Maintaining market resilience and mitigating serious harm to our markets

### Intermediary misconduct

- We suspended Wong Ka Ching, former responsible officer and senior management of China On Securities Limited, for four years following our sanctions against China On over its failures as placing agent in a share placement in 2019. Our investigation revealed that China On's failures occurred with Wong's consent and connivance or were attributable to Wong's neglect.
- We prohibited Wu Chao, former responsible officer, manager-in-charge and chief operations officer of DA International Financial Service Limited, from re-entering the industry for three years and seven months. Our investigation revealed that between February and April in 2022, Wu concealed from the company that he had beneficial interest in and direct control or influence over a securities margin account held by a third party at the company. He also failed to obtain the company's approval for the securities transactions he conducted in the account.
- We banned Cheung Wing Hung from re-entering the industry for 18 months following his criminal conviction for carrying out unlicensed activities.
- We banned Ha Po Kwan, a former licensed representative of Primas Asset Management Limited, from re-entering the industry for 12 months, for creating false documents and misleading a client about the maturity date or strike price of two accumulator contracts.
- We suspended Shum Wai Nap, a former licensed representative of PICC Asset Management (Hong Kong) Company Limited, for seven months for fund management failures.
- The Eastern Magistrates' Court sentenced two former licensees, Yip Chi Wing and Tsoi Chiu Kwan, to three months of imprisonment each following their convictions for false trading in the shares of Forebase International Holdings Limited. Our investigation revealed that between 21 December 2015 and 17 October 2016, Yip and Tsoi maintained the turnover of the shares in Forebase by conducting frequent manipulative transactions amongst various securities accounts under their control, resulting in an artificial increase in the trading volume of Forebase's shares and creating a false or misleading appearance of active trading.
- We obtained an interim injunction order at the CFI against Leung Anita Fung Yee Maria, former chief executive officer and executive director of SMI Culture & Travel Group Holdings Limited, restricting Leung from removing any of her assets from Hong Kong, or disposing of, dealing with or diminishing the value of any of her assets, whether within or outside Hong Kong, up to \$235,363,373. Our action aims to preserve the assets to satisfy any compensation orders that the Court may impose at the conclusion of our legal proceedings against Leung and two others. With the assistance of the British Columbia Securities Commission, we further obtained preservation orders restraining Leung and certain banks where she holds accounts from disposing of and transferring assets and properties she holds in British Columbia, Canada.
- We secured the conviction of Wong Ming Chung for providing investment advice without a licence on a subscription-based chat group on Telegram hosted by him. Wong was fined \$10,000 and ordered to pay our investigation costs.

### Other notable cases

- The Eastern Magistrates' Court granted the applications made on behalf of the Secretary for Justice to transfer three large-scale and sophisticated ramp-and-dump cases to the District Court for trial following joint investigations by us and the Police. Eighteen defendants were charged in the three cases with offences under the SFO, the offences of conspiracy to defraud and money laundering involving the shares of Eggriculture Foods Limited, Fullwealth Construction Holdings Company Limited and KNT Holdings Limited.

### Joining forces with SEHK on enforcement

In April, our joint enforcement action with SEHK secured the Exchange's disciplinary actions against China Ecotourism Group Limited, a Main Board-listed company, and its seven current and former directors. Our investigation revealed that some of the loan proceeds and investment subscription money of the company had been paid to individuals and entities related to two former executive directors. SEHK's disciplinary actions included imposing prejudice to investors' interests statements against the two former executive directors and a current executive director.

## Maintaining market resilience and mitigating serious harm to our markets

### Enforcement activities

	Quarter ended 30.6.2024	Quarter ended 31.3.2024 <sup>g</sup>	QoQ change (%)	Quarter ended 30.6.2023 <sup>h</sup>	YoY change (%)
S179 <sup>a</sup> inquiries commenced	7	5	40.0	9	-22.2
S181 <sup>b</sup> inquiries commenced (number of letters sent)	42 (1,223)	42 (1,128)	8.4	43 (1,227)	-0.3
S182 <sup>c</sup> directions issued	55	42	31.0	40	37.5
Investigations started	55	43	27.9	40	37.5
Investigations completed	62	39	59.0	39	59.0
Individuals and corporations charged in criminal proceedings	0	7	-100.0	15	-100.0
Criminal charges laid	0	7	-100.0	39	-100.0
Notices of Proposed Disciplinary Action <sup>d</sup> issued	5	5	0.0	7	-28.6
Notices of Decision <sup>e</sup> issued	6	3	100.0	7	-14.3
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	203	204	-0.5	187	8.6
Compliance advice letters issued	39	27	44.4	39	0.0
Cases with search warrants executed	9	6	50.0	7	28.6

<sup>a</sup> 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.

<sup>b</sup> 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.

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

<sup>d</sup> 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.

<sup>e</sup> A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>f</sup> As of the last day of the period.

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

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

## Maintaining market resilience and mitigating serious harm to our markets

### Bolstering surveillance and cross-boundary enforcement cooperation

Our surveillance of untoward price and turnover movements resulted in 1,223 requests for trading and account records from intermediaries during the quarter. We also received and assessed 87 notifications from intermediaries regarding suspicious equity and derivative trading<sup>2</sup>.

We published one high shareholding concentration announcement to caution investors about trading in the shares of a company where a small number of shareholders hold a high concentration of shares.

We issued restriction notices to two brokers prohibiting them from dealing with or processing assets held in their client accounts owned by a former director of a Main Board-listed company at the material time. The former director is suspected of committing misconduct and breaching his duty towards the corporation.

In June, we convened the 16th regular high-level meeting on enforcement cooperation with the China Securities Regulatory Commission in Kunming, Yunnan Province. The two regulators had in-depth discussions on bolstering enforcement cooperation to tackle cross-boundary securities crimes and misconduct more effectively, protect the interests of Mainland and Hong Kong investors, as well as reinforcing Hong Kong's status as an international financial centre.



**65**  
on-site inspections

### Managing systemic risks and enhancing regulatory regimes

#### Supervising intermediaries

We commenced 65 on-site inspections in the quarter to ensure intermediaries' regulatory compliance and operational resilience.

We also shared findings from the concurrent SFC-HKMA thematic review of the distribution of non-exchange traded investment products in our joint April circular. We highlighted how a deficient product due diligence process could lead to inappropriate product recommendations, and reminded intermediaries to provide adequate training to ensure staff are fully conversant with the characteristics, nature and extent of risks of the products sold to clients.

### Inspections of licensed corporations

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	QoQ change (%)	Quarter ended 30.6.2023	YoY change (%)
On-site inspections commenced	65	68	-4.4	51	27.5

<sup>2</sup> Intermediaries are required to report clients' suspected market misconduct to the SFC.

## Maintaining market resilience and mitigating serious harm to our markets

### Supervising HKEX

As part of our ongoing supervision of Hong Kong Exchanges and Clearing Limited's (HKEX) operations, we commenced an on-site inspection of the project management and operation controls of HKEX's Connect schemes in 2023. Such inspection covers Stock Connect, Bond Connect and Swap Connect.

Upon our request, HKEX is working to enhance the default fund of its cash market so as to benchmark the size of the default fund against the risk exposure of the two largest clearing participants (ie, "Cover 2"). HKEX has recently announced that the relevant implementation will take place from 2 September 2024. The sizing methodology for the default funds of HKEX's futures market has already been revised to cover the two largest failures.

### Managing risks of OTC derivatives market

From March to May, we and the HKMA jointly consulted the public on mandating the use of Unique Transaction Identifier, Unique Product Identifier and Critical Data Elements for the OTC derivatives (OTCD) reporting regime. This will ensure Hong Kong's OTCD reporting regime keeps up with international developments.

In June, we and the HKMA also concluded a joint consultation on the annual update to the list of financial services providers (FSPs) under the Clearing Rules of the OTCD regulatory regime. FSPs are systemically important entities which meet the prescribed criteria. Where certain conditions are met, transactions between prescribed persons and FSPs are subject to mandatory clearing so as to capture mandatory clearing of dealer-to-dealer transactions. The annual update exercise further seeks to ensure the FSP list is current and appropriate.

### Regulating depositaries of public funds (RA 13)

The new RA 13 regime for depositaries of public funds will come into effect on 2 October. We are working closely with the industry to facilitate a smooth transition into the new regime. In addition to handling RA 13 licensing or registration applications of all existing depositaries, we also spoke about the regime and related transitional arrangements at an industry seminar hosted by the Hong Kong Trustees' Association in June.

### Leading international standard-setting efforts

We maintain a close working relationship with our overseas regulatory counterparts to develop global policy initiatives, contribute to the work of international standard-setting bodies, and promote international cooperation and capacity building. We shape international policies through taking up leadership roles in the committees and working groups of the International Organization of Securities Commissions<sup>3</sup> (IOSCO) and the Financial Stability Board (FSB).

### IOSCO

Our Chief Executive Officer Ms Leung has been representing the SFC on the IOSCO Board since 2016 and began her two-year term as Chair of the IOSCO Asia-Pacific Regional Committee (APRC) in May. She is also the Vice Chair of the IOSCO Sustainable Finance Task Force (STF) and co-chairs the Corporate Reporting Workstream under the STF. Furthermore, she is a member of the Management Committee of the IOSCO Asia Pacific Hub, which delivers capacity building programmes for securities regulators in the region.

<sup>3</sup> IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation. IOSCO's membership regulates more than 95% of the world's securities markets in 130 jurisdictions.

## Maintaining market resilience and mitigating serious harm to our markets

We actively participate in all eight policy committees of IOSCO and hold leadership positions in the Committee on Investment Management<sup>4</sup> and the Committee on Enforcement and the Exchange of Information<sup>5</sup>.

In May, Ms Leung and senior SFC executives attended the 2024 IOSCO Annual Meeting in Athens, Greece, including the Board meeting which discussed ongoing work on financial stability, sustainable finance, Fintech and enforcement cooperation issues. On the side of the Annual Meeting, she had 15 bilateral meetings with the principals and heads of delegation of other securities regulators and industry associations.

Upon taking office as the APRC Chair at the Annual Meeting, Ms Leung will contribute to strengthening collaboration and coordination on supervisory and enforcement matters, and enhance capacity building efforts amongst Asia-Pacific securities regulators.



The 49th IOSCO Annual Meeting in Athens in May

We also participated in meetings of the IOSCO Committee on Emerging Risks, Assessment Committee, Financial Stability Engagement Group, Sustainable Finance Task Force, and the Fintech Task Force during the quarter.

Ms Christina Choi, our Executive Director of Investment Products, is serving a second term as Chair of the IOSCO Committee on Investment Management, which helped prepare the *Final Report on Leveraged Loans and Collateralised Loan Obligations Good Practices for Consideration*, published in June. She also leads the committee's core expert group, which supports the IOSCO Financial Stability Engagement Group in the ongoing international work related to open-ended funds.

### Financial Stability Board

Ms Choi co-chairs the Open-ended Funds Working Group under the FSB Standing Committee on Supervisory and Regulatory Cooperation.

In April, Ms Leung and SFC representatives attended the FSB Steering Committee meeting held in Washington D.C., USA. The meeting focussed on margining practices and non-bank financial intermediation data issues.

During the quarter, 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, which discussed artificial intelligence and its use in finance as well as recent financial market developments. We also attended a meeting of the FSB Standing Committee on Standards Implementation to discuss the effects of securitisation reforms and plans for the 2024 FSB annual report.

### Stepping up global regulatory collaboration

The SFC participated in numerous supervisory colleges of global systemically important financial institutions to share intelligence and exchange views with other regulators on their business risk, conduct risk and financial risk throughout the quarter.

<sup>4</sup> Ms Christina Choi, our Executive Director of Investment Products, chairs the IOSCO Policy Committee on Investment Management.

<sup>5</sup> Mr Kenneth Lai, our Director of Enforcement, is serving his second term as Vice Chair of the IOSCO Committee on Enforcement and the Exchange of Information.

# Enhancing Hong Kong market competitiveness and appeal

To enhance Hong Kong's appeal as a leading fundraising and asset management hub, the SFC continues to serve as an enabler to improve capital market liquidity and efficiency, as well as deepen ties with Mainland and global capital markets through regulatory collaboration.

## Enhancing listing market competitiveness and efficiency

### Gatekeeping listing applications

During the quarter, we processed 144 listing applications, of which we cleared 63. The processed applications included 53 new listing applications, comprising one from a specialist technology company and five from pre-profit biotech companies.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued one requisition letter directly to a listing applicant during the quarter. Amongst our concerns was whether the listing applicant's financial performance was genuine and reasonable.



144

listing applications processed<sup>1</sup> in the quarter

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

92

business days<sup>3</sup>

<sup>1</sup> Including 53 new listing applications and 91 cases brought forward from the previous reporting period.

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

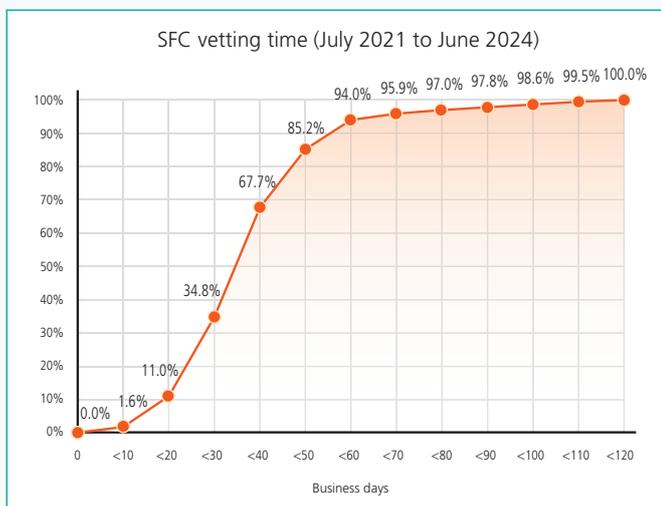
<sup>3</sup> For the 63 cleared cases of listing applications.

## Enhancing Hong Kong market competitiveness and appeal

### Vetting time of listing applications

During the three years ended 30 June 2024, we cleared 365 cases, 94% 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

With strong market support and the approval of the SFC, the Stock Exchange of Hong Kong Limited (SEHK) introduced a regime governing treasury shares in June. Under the regime, listed issuers are allowed to repurchase shares and hold them in treasury for future resale. This will give issuers greater flexibility in managing their capital structure through share buy-backs and resales of treasury shares, and allow them to react promptly to market conditions. SEHK also introduced safeguards to govern the resale of treasury shares to deter market manipulation. Prior to the launch of the new regime, we published a new practice note in May to explain the treatment of treasury shares under the Codes on Takeovers and Mergers and Share Buy-backs.

### Aligning with global practice to enable normal trading under severe weather

To maintain our market competitiveness, the SFC, the Hong Kong Monetary Authority, Hong Kong Exchanges and Clearing Limited (HKEX) and several industry associations, established a working group to formulate a proposal to maintain normal operations of Hong Kong's securities and derivatives markets under severe weather conditions. After consulting the public on the proposed model in November 2023, HKEX published the consultation conclusions in June to set out the final model for implementation of severe weather trading (SWT) in late September 2024.

### Listing applications and takeovers activities

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	QoQ change (%)	Quarter ended 30.6.2023	YoY change (%)
Listing applications	53	50	6.0	50	6.0
Takeovers and share buy-backs transactions	79	64	23.4	66	19.7

## Enhancing Hong Kong market competitiveness and appeal

The SFC issued two circulars and a new practice note in relation to SWT in June. We encouraged intermediaries to adopt remote operations and electronic fund transfers for conducting business on SWT days, and provided guidance on the measures to maintain operational and financial resilience. We also reminded issuers of listed SFC-authorized investment products to assess the impact of SWT on their products, maintain normal operations and keep investors informed. In addition, we explained in the practice note the effect of severe weather on timing requirements under the Codes on Takeovers and Mergers and Share Buy-backs.

### Enhancing market liquidity and efficiency

The SFC continues to work with HKEX to explore medium to long-term measures to reduce market friction, lower transaction cost and boost capital efficiency. Potential measures include: enhancing the price discovery process for initial public offerings; reviewing requirements on the public float of listed companies' shares; reviewing the price structure in market data offerings to better distinguish professional users from non-professional ones; introducing an uncertificated securities market to reduce the use of paper and facilitate straight-through processing for better investor protection; building new systems for derivative trading, clearing and risk management; and reviewing the clearing infrastructure in the cash market for planning long-term enhancements.

### Strengthening corporate governance of listed companies

To enhance investor confidence in our capital market, we collaborated with SEHK to review the corporate governance framework for companies listed in Hong Kong. In June, SEHK conducted a two-month consultation on proposed enhancements to its Corporate Governance Code. The proposals aim to strengthen board independence by setting a nine-year cap on the tenure of independent non-executive directors (INEDs), and improve board effectiveness by requiring issuers without an independent board chair to designate a lead INED and capping at six the number of listed issuer directorships that an INED may concurrently hold. The new rules are expected to take effect in January 2025, with a three-year transitional arrangement for long-serving and overboarding INEDs.

## Strengthening Hong Kong's role as super-connector

### Cross-boundary capital market cooperation

We continue to work closely with our Mainland counterparts and relevant authorities to push forward various cooperation initiatives. In April, after rounds of constructive discussions between the SFC and the China Securities Regulatory Commission (CSRC), five measures on capital market cooperation with Hong Kong were announced. Among them, exchange-traded funds (ETFs) expansion under Stock Connect was rolled out in July. Preparations are underway for the other measures, including mutual recognition of funds (MRFs) enhancements, incorporating real estate investment trusts (REITs) into Stock Connect, the inclusion of renminbi (RMB)-denominated stocks into southbound Stock Connect, and the listing of leading Mainland companies in Hong Kong.

### MRF and enhancements

As at 30 June, 43 Mainland funds were authorised and 40 Hong Kong funds were approved under the Mainland-Hong Kong MRF scheme. The cumulative net subscriptions amounted to about RMB27.8 billion for Hong Kong funds and about RMB910.3 million for Mainland funds as at 30 June. During the quarter, Hong Kong funds recorded net subscriptions of about RMB2.2 billion and Mainland funds recorded net redemptions of about RMB60 million.

The CSRC published the proposed rule amendments for MRF enhancements for public consultation on 14 June. They include the relaxation of cross-boundary sales limit and overseas delegation arrangements.

The limit on a recognised Hong Kong fund's units sold to investors on the Mainland would be increased from 50% to 80% of the value of the fund's total assets. This would increase the maximum Mainland sales scale of a recognised Hong Kong fund to four times of its sales scale in Hong Kong.

## Enhancing Hong Kong market competitiveness and appeal

The restriction on overseas delegation has also been relaxed to allow the delegation of investment management functions of recognised Hong Kong funds to overseas asset management companies within the same group which are located in a jurisdiction with regulatory cooperation memorandum of understanding with the CSRC. This provides more opportunities for international managers to leverage their expertise and extensive knowledge in global markets to offer offshore solutions and products to Mainland investors via MRF.

### ETF Connect enhancements<sup>4</sup>

Enhancements of ETF Connect, effective on 22 July 2024, included relaxations to the ETF eligibility criteria by lowering the requirements on minimum fund size and weighting for the underlying index tracked by an ETF. Eighty-five Mainland ETFs and six Hong Kong ETFs were added to the list of eligible ETFs for trading under the arrangement. Between 22 and 31 July 2024, the average daily turnover for southbound trading of eligible Hong Kong ETFs amounted to \$3.2 billion, representing an increase of 204% from the average daily turnover between 2 and 19 July 2024.

### Inclusion of REITs in Stock Connect

The SFC is working closely with the Mainland authorities and the exchanges on the implementation details, which will be announced once available. REIT Connect would significantly broaden the investor base and liquidity of the Hong Kong REIT market, and also benefit investors through broader REIT exposure.

### Building offshore RMB and risk management hub

The RMB counters of 24 stocks have been operating smoothly since their launch in June 2023. We have been working closely with the CSRC to prepare for including the RMB counters into southbound Stock Connect since the CSRC expressed support in April.

The trading and clearing arrangements under Swap Connect have been operating smoothly since its launch in May 2023, whilst its trading volume has been on the rise with the active participation of Mainland and

overseas investors. As of June, 63 overseas investors had participated in Swap Connect and executed RMB interest rate swap transactions with an aggregate notional amount of approximately RMB2.4 trillion, or a daily average of about RMB9 billion.

Enhancements to Swap Connect implemented in May included expanding the types of eligible RMB interest rate swaps for trading and clearing, and the introduction of trade compression service, which have provided more flexibility for overseas investors in managing their RMB interest rate risk. Furthermore, the China Government bonds and policy bank bonds held by overseas investors under Bond Connect will be allowed as eligible collateral for Swap Connect.

We are also working closely with HKEX to prepare for the launch of China treasury bond futures contracts in Hong Kong.

### Regulatory collaboration with the Mainland

In April, we visited the CSRC to explore the opportunities for future collaboration in the legal and enforcement field. We also arranged a training programme for the CSRC's senior executives to meet with SFC operational divisions, local regulators and industry associations in Hong Kong.

We contributed to the HKSAR Government's efforts in enhancing financial cooperation with Mainland provinces and cities. We joined the Ninth Working Meeting of Hong Kong-Shanghai Financial Co-operation, the Inauguration Ceremony cum the First Meeting of Shenzhen-Hong Kong Financial Cooperation Committee and the Hong Kong-Chongqing Financial Cooperation Symposium, to discuss financial cooperation on mutual market access schemes, green finance, talents exchange and other topics.

We contributed to the latest round of amendments to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). We joined several rounds of discussions and have reached consensus with Mainland counterparts on a number of liberalisation measures in the securities and futures sector.

<sup>4</sup> Post-reporting period.

## Enhancing Hong Kong market competitiveness and appeal

### Gatekeeping securities industry

#### Licence applications under the SFO

In the quarter, we received 1,931 licence applications<sup>5</sup>, under the Securities and Futures Ordinance (SFO) comprising 1,870 individuals and 61 corporations, up 3% from the previous quarter and 8% year-on-year.

As at 30 June, there were 47,784 licensees and registrants, of which 3,259 were licensed corporations and 111 were registered institutions. During the quarter, the number of new licensees and registrants totalled 2,593<sup>6</sup>, amongst which 2,549 were individuals, and 44 were licensed corporations and registered institutions. Amongst the licensed corporations approved during the quarter, Type 9 (asset management) regulated activity<sup>7</sup> accounted for 77% and Type 4 (advising on securities)



**8% YoY**

Licence applications under the SFO

for 63%. Compared to 31 March, the number of firms licensed for Type 9 (asset management) regulated activity increased by 21 to 2,161.

#### Automated trading services

As of 30 June, there were 54 automated trading services (ATS) providers<sup>8</sup> authorised under Part III of the SFO, while 29 corporations, including 12 dark pool operators, were licensed under Part V of the SFO to provide ATS.

#### Licensees and registrants under the SFO

	As at 30.6.2024	As at 31.3.2024	QoQ change (%)	As at 30.6.2023	YoY change (%)
Licensed corporations	3,259	3,246	0.4	3,245	0.4
Registered institutions	111	112	-0.9	113	-1.8
Licensed individuals	44,414	44,493	-0.2	44,807	-0.9
<b>Total</b>	<b>47,784</b>	<b>47,851</b>	<b>-0.1</b>	<b>48,165</b>	<b>-0.8</b>

#### Licensing applications under the SFO

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	QoQ change (%)	Quarter ended 30.6.2023	YoY change (%)
Applications to conduct new regulated activity	5,778	5,535	4.4	6,221	-7.1
Applications for SFC licences <sup>^</sup>	1,931	1,869	3.3	1,784	8.2

<sup>^</sup> Figures do not include applications for provisional licences. During the quarter, we received 860 provisional licence applications compared with 891 in the same quarter last year.

#### ATS providers

	As at 30.6.2024	As at 31.3.2024	QoQ change (%)	As at 30.6.2023	YoY change (%)
Under Part III	54	54	0.0	52	3.8
Under Part V	29	29	0.0	28	3.6

<sup>5</sup> The figure does not include applications for provisional licences.

<sup>6</sup> Including provisional licensed representatives.

<sup>7</sup> Each licensed corporation may have multiple RA licences.

<sup>8</sup> Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

## Enhancing Hong Kong market competitiveness and appeal

### Reinforcing Hong Kong's position as asset and wealth management hub

#### First official visit to Middle East

To strengthen collaboration in financial services and further facilitate business growth opportunities between Hong Kong and key markets in the Middle East, our Chief Executive Officer (CEO), Ms Julia Leung, led the SFC's first official visit to the Middle East.

Joined by our Executive Director of Investment Products, Ms Christina Choi, and other SFC executives, the delegation met with top executives from the Dubai Financial Services Authority (DFSA) and the Saudi Arabia's Capital Market Authority (CMA), as well as the Saudi Exchange. Immediately before the Middle East trip, the SFC delegation had met with the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi

Global Market (ADGM) in Athens, Greece. During these meetings, we exchanged views with our Middle Eastern counterparts on a range of issues of mutual interest.

Roundtable discussions also took place in Dubai and Riyadh with senior executives of major local asset managers and financial institutions. They mainly discussed the regulatory and market landscape in Hong Kong, including opportunities for the asset and wealth management sector.

We also published quick reference guides on our website to provide an overview of the market landscapes of Dubai International Financial Centre (DIFC) and ADGM. The guides also explain how Hong Kong funds can be offered in DIFC and ADGM, as well as in the mainland United Arab Emirates (UAE) via DIFC and ADGM by way of the UAE fund passporting regime.



Meeting with ADGM FSRA's CEO, Mr Emmanuel Givanakis (third from right) in Athens, Greece



Meeting with DFSA's Chief Executive, Mr Ian Johnston (second from left) in Dubai, UAE



Meeting with the CMA's Chairman, Mr Mohammed bin Abdullah Elkuwaiz (second from right) and Commissioner Mr Abdulaziz Abdulohsen Bin Hasan (right) in Riyadh, Saudi Arabia



Meeting with the Saudi Exchange's CEO, Mr Mohammed Al Rumaih (middle) in Riyadh, Saudi Arabia

## Enhancing Hong Kong market competitiveness and appeal

### Authorising investment products

During the quarter, we authorised 56 unit trusts and mutual funds (including 23 Hong Kong-domiciled funds), four mandatory provident fund (MPF) pooled investment funds and 38 unlisted structured investment products for public offering in Hong Kong.

### Further growth of open-ended fund companies (OFCs) and extension of grant scheme

As at 30 June, there were 371 registered OFCs, of which 71<sup>9</sup> were newly registered in the quarter. The number of registered OFCs increased 144% year-on-year. To continue to drive market development, the SFC has worked with the HKSAR Government to extend the grant scheme for OFCs and REITs for another three years until 9 May 2027.

### ETF market

As at 30 June, 192 SFC-authorized ETFs were listed on SEHK (up 10% from a year ago), including 27 leveraged and inverse products, with total market capitalisation of \$411.8 billion (US\$52.7 billion). During the quarter, these ETFs recorded net outflows of \$490 million (US\$62.7 million) and an average daily turnover of \$15.5 billion (US\$2 billion), equivalent to 13% of the turnover of Hong Kong's stock market.

As at 30 June, 10 ETFs are eligible for southbound trading. During the quarter, southbound ETF trading had an average daily turnover of \$1.3 billion (US\$166 million), contributing 5.1% of the eligible Hong Kong ETFs' total turnover.



**\$59.1 billion**  
net fund inflows into  
Hong Kong-domiciled  
funds



Number of OFCs

**▲ 144% YoY**

### Broadening master-feeder ETF offerings in Hong Kong

We further streamlined our requirements in May to allow SFC-authorized feeder ETFs under a master-feeder structure to invest in overseas-listed master ETFs from different markets, provided certain conditions are met. Under the streamlined requirements, master ETFs will cover both passively and actively managed ETFs without the SFC's authorisation; will not be confined to specific types of schemes so long as they have sizable assets under management (AUM) with a good track record; and must provide substantially comparable investor protection as ETFs authorised by the SFC. This arrangement would facilitate the development of ETF product line-up more cost-effectively and offer more choices to investors. It would also enhance Hong Kong's competitiveness in attracting overseas ETFs and strengthen the city's position as a premier asset management hub.

### Increase in net inflows into Hong Kong-domiciled funds

As at 30 June, there were 944 Hong Kong-domiciled funds, up 1.9% from the previous quarter. Their AUM increased 7.2% from the previous quarter to \$1,492.4 billion (US\$191.1 billion). Net fund inflows of about \$59.1 billion (US\$7.6 billion) were recorded in the quarter, up 80.2% from the previous quarter.

<sup>9</sup> The figure includes 69 private OFCs.

## Enhancing Hong Kong market competitiveness and appeal

### Streamlined approach for revised marketing materials of SFC-authorized ILAS

In a circular we issued in June, we further enhanced our existing streamlined measures for vetting and approval to cover all immaterial changes to those investment-linked assurance scheme (ILAS) marketing materials already authorised by the SFC to promote better efficiency. We also updated related frequently asked questions to provide more practical guidance to issuers.

### Preparation for integrated fund platform (IFP)

The SFC has been working closely with HKEX and other parties to implement an IFP for retail fund distribution, after the 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-authorized funds in Hong Kong. It is expected to generate new business opportunities in the Hong Kong retail fund market. In June, HKEX signed a cooperation agreement with a unit of Shenzhen Stock Exchange to support the IFP's development.

### Authorised collective investment schemes

	As at 30.6.2024	As at 31.3.2024	QoQ change (%)	As at 30.6.2023	YoY change (%)
Unit trusts and mutual funds – Hong Kong domiciled	944 <sup>a</sup>	926	1.9	908	4.0
Unit trusts and mutual funds – non-Hong Kong domiciled	1,443	1,425	1.3	1,420	1.6
ILAS	319	319	0.0	315	1.3
Pooled retirement funds	32	32	0.0	32	0.0
MPF schemes	26	26	0.0	26	0.0
MPF pooled investment funds	200	197	1.5	191	4.7
Others	26 <sup>b</sup>	26	0.0	25	4.0
<b>Total</b>	<b>2,990</b>	<b>2,951</b>	<b>1.3</b>	<b>2,917</b>	<b>2.5</b>

<sup>a</sup> This figure includes 114 approved pooled investment funds (retail APIs) which MPFs may invest into and may also be offered to the public in Hong Kong.

<sup>b</sup> Comprising 15 paper gold schemes and 11 REITs.

### Registered OFCs

	As at 30.6.2024	As at 31.3.2024	QoQ change (%)	As at 30.6.2023	YoY change (%)
OFCs	371 <sup>^</sup>	302	22.8	152	144.1

<sup>^</sup> This figure includes 341 private OFCs.

## Enhancing Hong Kong market competitiveness and appeal

### Authorised unlisted structured investment products

	As at 30.6.2024	As at 31.3.2024	QoQ change (%)	As at 30.6.2023	YoY change (%)
Unlisted structured investment products <sup>^</sup>	320	311	2.9	273	17.2

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

### SFC-authorised RMB investment products

	As at 30.6.2024
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	57
Unlisted funds (non-RMB denominated) with RMB share classes	438
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	43
Unlisted structured investment products issued in RMB <sup>b</sup>	319
ILAS with policy currency in RMB	8
<b>Listed products</b>	
ETFs primarily investing in the onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	51
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	37
RMB leveraged and inverse products	3
RMB gold ETFs <sup>c</sup>	1
RMB REITs	1

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

<sup>b</sup> The number is on a "one product per key facts statement" basis.

<sup>c</sup> Only includes gold ETFs denominated in RMB.

# Leading market transformation via technology and ESG

We embrace technology and sustainable finance in transforming financial markets to serve the needs of real economy. It is crucial to foster a secure Fintech ecosystem and bolster Hong Kong's position as a sustainable finance hub through corporate disclosure standards and intermediation between emerging and developed economies.

## Tokenisation to increase industry efficiency

To foster the development of Hong Kong's tokenisation market, the SFC has provided regulatory guidance on tokenisation at various events. We are also an inaugural member of the Architecture Community of the Hong Kong Monetary Authority's (HKMA) Project Ensemble, which aims to develop industry standards for wholesale central bank digital currency (wCBDC), tokenised money and tokenised assets.

## Authorising Asia's first virtual asset (VA) spot ETFs

Following the issue of our circular on SFC-authorized funds with exposure to VA in late 2023, we authorised Asia's first batch of VA spot ETFs consisting of three pairs of Bitcoin and Ether spot ETFs, which were listed on the Stock Exchange of Hong Kong Limited (SEHK) in April. As at 30 June, the ETFs had a market capitalisation of \$2 billion (US\$255 million), with an average daily turnover of \$39 million (US\$5 million) since listing.



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VA spot ETFs authorised for listing

In addition, we authorised Asia's first bitcoin futures inverse product. Listed in July 2024, the product allows retail investors to hedge exposure to bitcoin.

## Post-transition updates for virtual asset trading platform (VATP) regime

The non-contravention period for VATPs operating in Hong Kong under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) ended on 1 June. All VATPs operating in Hong Kong must be either licensed by the SFC, or "deemed-to-be-licensed" VATP applicants<sup>1</sup> under the AMLO.

As at 30 June, we received 152 licence applications under the AMLO comprising 17 VATPs (including 11 deemed-to-be-licensed VATP applicants) and 135 individuals (including 66 deemed-to-be licensed individual applicants). Two VATPs and 31 individuals were licensed under the AMLO.

<sup>1</sup> VATPs which were carrying on a business of providing a virtual asset service in Hong Kong before 1 June 2023 (pre-existing VATP) may continue to provide such services in Hong Kong from 1 June 2024 without breaching the licensing requirements, provided that such VATPs are deemed-to-be-licensed applicants under the AMLO. To be eligible for such a deeming arrangement, a pre-existing VATP must meet certain deeming conditions and confirm that it can fully comply with the SFC's regulatory requirements.

## Leading market transformation via technology and ESG



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## VATP licence applications received

Before the end of the transition period, we issued a statement in late May along with social media posts to provide clarity to investors and emphasise that deemed-to-be-licensed VATP applicants are not formally licensed by the SFC. We urged investors to trade virtual assets only on SFC-licensed VATPs and reminded deemed-to-be-licensed VATP applicants to fully comply with our requirements.

To help investors ascertain whether a VATP is formally licensed by the SFC or still in the application process, we have ramped up our publicity and information

dissemination on our website to enhance transparency. Investors may refer to our Public Register and VATP lists to access the useful information on VATPs' licensing status.

In June, the SFC hosted a briefing session to explain our regulatory expectations to the deemed-to-be-licensed VATP applicants. During this session, Dr Eric Yip, Executive Director of Intermediaries, and Ms Elizabeth Wong, Director of Licensing and Head of Fintech Unit, introduced our on-site inspection programme which aims to assess the applicants' compliance with the SFC's regulatory requirements. We also highlighted that any non-compliance with key regulatory requirements for investor protection found during the inspections will result in our swift refusal of licence applications. Over 60 participants attended the briefing, including representatives from the deemed-to-be-licensed VATP applicants and their consultants.

### Licensees under the AMLO

	As at 30.6.2024	As at 31.3.2024	As at 30.6.2023
Licensed providers	2	0	0
Licensed individuals	31	0	0
<b>Total</b>	<b>33</b>	<b>0</b>	<b>0</b>

### Licensing applications under the AMLO

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	QoQ change (%)	Quarter ended 30.6.2023	YoY change (%)
Applications for SFC licences	99	11	800.0	19	421.1



SFC's briefing for deemed-to-be licensed VATP applicants in June



Reminder to investors of the end of non-contravention period for VATPs on social media

## Leading market transformation via technology and ESG

### Proactive communications to promote Fintech development

The SFC attended the Panel on Financial Affairs of the Legislative Council in April to answer lawmakers' questions on the development of Fintech in Hong Kong. We also participated in a meeting of the Task Force on Promoting Web3 Development in June to discuss Web3 developments.

Speaking at the Greenwich Economic Forum Hong Kong 2024 in June, our Chief Executive Officer (CEO) Ms Julia Leung highlighted the importance of building a responsible and sustainable Web3 ecosystem in Hong Kong to further the financial industry's development. She emphasised that innovation and regulation should go hand in hand and the regulator's job is to provide regulatory clarity, certainty and consistency to facilitate use cases.

During the quarter, the SFC promoted Fintech development by speaking on Fintech-related topics at more than five panel discussions, interviews, webinars, and events organised by professional services firms, media outlets, industry associations and the industry. We also co-organised a briefing session with the HKMA for banks on account opening for VATPs.

### Advancing Hong Kong's leading role in sustainable finance

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

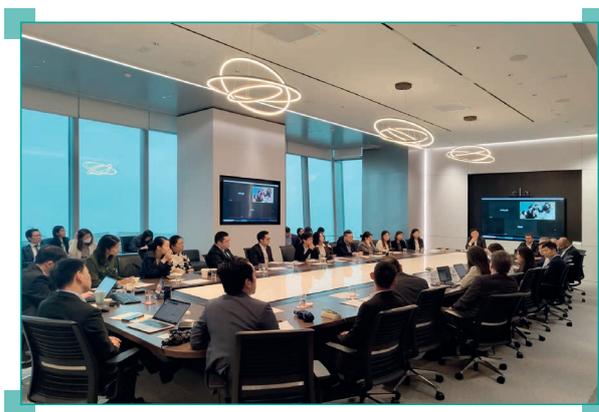
Our CEO Ms Julia Leung serves as the Vice Chair of the Sustainable Finance Task Force (STF) of the International Organization of Securities Commissions (IOSCO). She also co-chairs the Corporate Reporting Workstream under the STF, which has been promoting the use of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) amongst its members, leading its continued engagement with the ISSB and other international stakeholders, and spearheading work on sustainability assurance.



CEO Ms Julia Leung speaks at Greenwich Economic Forum Hong Kong 2024

As a member of all other IOSCO STF workstreams, we participated in regular meetings during the quarter to share insights and contribute to ongoing policy development and standard setting efforts on transition plans and carbon markets.

In April, we hosted a roundtable on transition plans to understand the key considerations and challenges on developing credible transition plans for companies and financial institutions operating in Hong Kong, Mainland China and the broader Asia-Pacific region. Around 25 industry participants attended the session, including listed issuers, financial institutions, ESG<sup>2</sup> ratings and data products providers, audit and reporting service providers, and asset owners.



SFC roundtable on transition plans in April

<sup>2</sup> Environmental, social and governance.

## Leading market transformation via technology and ESG

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 seeks to promote knowledge sharing and capacity building on corporate sustainability disclosures and carbon markets in the region.

In addition, we continued to actively participate in other international initiatives<sup>3</sup> to advance sustainable finance during the quarter.

### Adopting global sustainability disclosure standards

Disclosures aligned with international standards are integral to meeting investors' needs for comparable, consistent and decision-useful information and reinforce Hong Kong's position in intermediating global capital flows. We are taking steps to support the adoption of the IFRS Sustainability Disclosure Standards in Hong Kong.

At the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)<sup>4</sup>, the SFC co-chairs a working group on sustainability disclosures with the Financial Services and the Treasury Bureau. The working group is developing a comprehensive Hong Kong roadmap to adopt the IFRS Sustainability Disclosure Standards, comprising four key areas of sustainability reporting, assurance, data and technology, and capacity building.

We collaborate with SEHK to enhance climate-related disclosure requirements for listed companies in Hong Kong. After receiving our approval, SEHK published its consultation conclusions on enhancements to its climate-related disclosure requirements in April, following its public consultation last year. SEHK's new rules will take effect in phases from 1 January 2025, making it among the world's first exchanges to enhance its climate-related disclosure requirements based on International Financial Reporting Standards S2 Climate-related Disclosures.

During the quarter, Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, spoke at the Earth Forum 2024 on managing transition risks and ensuring robust climate-related financial disclosures, as well as the 10th Annual Conference on the Green, Social, Sustainability and Sustainability-Linked Bond Principles of the International Capital Market Association and various roundtables and seminars on sustainability disclosures and transition finance.

### ESG funds

We continue to gatekeep the retail ESG funds. As at 30 June, there were 233 SFC-authorized ESG funds with total assets under management of \$1,322.1 billion (US\$169.3 billion), increasing 4.0% and decreasing 2.5% from the previous quarter respectively.

### Supporting voluntary code of conduct for ESG ratings and data providers

The SFC welcomes the publication of a draft voluntary code of conduct (VCoC) for ESG ratings and data products providers by an industry-led working group in May for a one-month public consultation. The SFC supports and sponsors this VCoC initiative with an aim to promote the IOSCO-recommended best practices among those product providers<sup>5</sup> in Hong Kong.

<sup>3</sup> We have signed the ISSB's COP28 Declaration of Support and are a supporter of the Task Force on Climate-Related Financial Disclosures Recommendations. We are also a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the United Nations Sustainable Stock Exchanges Initiative.

<sup>4</sup> The Steering Group was established in May 2020 and co-chaired by the SFC and the HKMA. 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 the Mandatory Provident Fund Schemes Authority.

<sup>5</sup> IOSCO's Final Report on Environmental, Social and Governance Ratings and Data Product Providers (November 2021).

# Enhancing SFC's institutional resilience and efficiency

To play a critical role in developing Hong Kong's capital markets, we pursue our own institutional resilience and operating efficiency. In addition to robust budgeting and internal controls, we endeavour to uphold corporate governance, enhance workflows and processes as well as step up communications.

## Sound financial and resources management

Our income for the quarter was \$522 million, up 8.8% from the previous quarter and 26.4% year-on-year. Average daily turnover in Hong Kong's securities market was \$116 billion, 20.8% higher than the \$96 billion recorded in the previous quarter. Our expenditure for the quarter was \$559 million, down 3.1% from last quarter and up 8.8% year-on-year. We recorded a deficit of \$37 million for the quarter.

As of 30 June, our reserves stood at \$7.6 billion, of which \$1.2 billion is set aside to support the acquisition of three additional floors and future principal bank loan repayments.

As of 30 June, we had 958 staff members, up from 934 a year ago.

## Staff professionalism acknowledged

Our commitment to professionalism and integrity when discharging our duties is well recognised. Three staff members (from Secretariat and External, Complaints Team and Enforcement Division) received The Ombudsman's Award for Officers of Public Organisations 2024 in recognition of their exemplary performance in complaint handling. The awards acknowledge their professionalism in complaint handling and foster a positive culture of service in the public sector.

## Finance

(\$ million)	Quarter ended 30.6.2024	Quarter ended 31.3.2024	Quarter ended 30.6.2023	YoY change (%)
Income	522	480	413	26.4
Expenses including depreciation	559	577	514	8.8
Deficit	(37)	(97)	(101)	63.4

## Enhancing SFC's institutional resilience and efficiency

### Family Fun Day gathers staff to mark 35th anniversary

As part of the SFC's efforts to promote staff well-being and our 35th anniversary celebration, our staff spent a fun-filled morning with families and friends on our Family Fun Day in May. They explored the heritage as well as unknown stories of the Quarry Bay neighbourhood, where the SFC's permanent office is located. About 250 participants,



CEO Ms Julia Leung (front right) enjoys the company of elderly citizens, SFC colleagues and their families on a walking tour to the neighbourhood

including our Chairman Mr Tim Lui and Chief Executive Officer (CEO) Ms Julia Leung, relished a range of activities including city walks, mountain hikes and a guided tour of the Swire Archives. Senior citizens from two elderly service centres in the Eastern District also joined the walking tour.



Event participants gathered at SFC's office at One Island East to celebrate its 35th anniversary

### Upholding effective corporate governance

Comprising a large number of members outside the SFC, our regulatory committees play an important role in our governance by contributing a wealth of diverse perspectives and professional experience. New appointments and reappointments to the following regulatory committees took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Disciplinary Chair Committee
- Investor Compensation Fund Committee
- Nominations Committee
- Products Advisory Committee
- Public Shareholders Group
- Securities Compensation Fund Committee
- SFC (HKEC Listing) Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

In addition, Dr Eric Yip Chee-hang was appointed Executive Director of Intermediaries for three years, effective 2 May. A seasoned financial professional holding senior roles in banking and asset management before joining the SFC, Dr Yip brings to us his rich experience in leadership and governance as well as market operation.

In April, we also revised and updated both the code of conduct for staff and our financial control policies and procedures to ensure they are effective and robust.

## Enhancing SFC's institutional resilience and efficiency

### Driving regulatory and operational efficiency

During the quarter, we expanded the digital submission capability on our digitalised platform WINGS<sup>1</sup> for virtual asset trading platform (VATP) operators to facilitate their compliance with relevant filing requirements. VATP operators are obligated to submit business and risk management questionnaires and financial resources returns regularly, which are available on WINGS from 1 June. The information received can facilitate our supervision and monitoring of intermediaries.

We prepared for the July 2024 launch of a one-stop online application and submission platform named e-IP to promote digital processing and enhance efficiency. Through the new platform, the industry can submit new product applications and post-authorisation or registration submissions, track application progress and settle fee payments.

In addition, we enhanced our market surveillance system to facilitate our oversight of Exchange Participants' compliance with the self-matching prevention rules and enable access to more information and reports on order flows, cancellation policies and deletion reasons. The system's infrastructure was also upgraded to strengthen security and performance.

Internally, we kicked off a series of initiatives to streamline operational workflow and increase efficiency for our enforcement work. They aim to digitalise and automate existing processes, standardise protocols, centralise knowledge management and streamline cross-divisional collaboration processes. For example, we improved the efficiency of the case referral process between divisions and are conducting a cross-divisional review of the investigation and enforcement processes.

 **53**  
press releases  
**100**  
social media posts



FSTB-RTHK video series

We also work to streamline workflow for handling complaints of serious nature such as those involving fraud or misappropriation of client assets, as early investigation and swift action are desirable to limit potential losses for investors.

### Facilitating regulatory transparency and efficiency via proactive communications

We keep stakeholders informed of regulatory updates and explain our work through industry events, publications as well as other engagements and channels. During the quarter, our senior executives spoke at over 10 local and international events covering Fintech, virtual assets and sustainability. We were the supporting organisation of seven industry events.

Our CEO Ms Julia Leung took part in a video series about the benefits to the Hong Kong market brought about by the Mainland's five support measures as well as other mutual market access initiatives. Jointly produced by the Financial Services and the Treasury Bureau (FSTB) and the Radio Television Hong Kong (RTHK), the series was aired in June.

In June, we published the *SFC's Annual Report 2023-24* to highlight various initiatives to promote the resilience and sustainable growth of Hong Kong's capital markets and lay out the SFC's roadmap to prepare for future opportunities and challenges. Also in the same month, the latest issue of the *Takeovers Bulletin* features new practice notes on treasury shares and severe weather arrangements, which provide guidance on takeovers activities in Hong Kong.

<sup>1</sup> Web-based INTeGrated Service.

## Enhancing SFC's institutional resilience and efficiency

During the quarter, we issued 13 circulars to guide the industry on a wide range of topics, including exchange-traded funds, severe weather trading arrangements, anti-money laundering and counter-financing terrorism. A total of 100 posts were published on the SFC's social media platforms to promote the public's awareness of various matters, such as alerts against scams and suspicious investment products, and latest developments on Mainland-Hong Kong mutual market access initiatives.

## Guarding against cyber threats

We have strengthened our collaboration with other law enforcement agencies to facilitate the sharing of cybersecurity intelligence, improve incident response handling and training. To further raise our staff's cybersecurity awareness, we adopted an advanced training platform to provide the latest information on cybersecurity threats and insights from industry experts.

## Publications and other communications

	Quarter ended 30.6.2024
Press releases	53
Policy statements and announcements	1
Consultation papers	1
Consultation conclusions	1
Industry-related publications	1
Codes and guidelines <sup>a</sup>	1
Circulars to industry	13
Social media posts <sup>b</sup>	100
Corporate website average daily page views <sup>c</sup>	67,120
General enquiries	985

<sup>a</sup> Includes updates to previous versions.

<sup>b</sup> Includes posts on the SFC's Facebook, LinkedIn and WeChat pages.

<sup>c</sup> Average number of webpages browsed per day during the reporting period.

# Operational Data

**Table 1 Takeovers activities**

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	Change (%)	Quarter ended 30.6.2023	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>					
General and partial offers under Code on Takeovers and Mergers	10	7	42.9	5	100.0
Privatisations	6	4	50.0	2	200.0
Whitewash waiver applications	3	3	0.0	6	-50.0
Other applications under Code on Takeovers and Mergers <sup>1</sup>	59	48	22.9	50	18.0
Off-market and general offer share buy-backs	1	2	-50.0	3	-66.7
Other applications under Code on Share Buy-backs <sup>1</sup>	0	0	0.0	0	0.0
<b>Total</b>	<b>79</b>	<b>64</b>	<b>23.4</b>	<b>66</b>	<b>19.7</b>
<b>Executive Statements</b>					
Sanctions imposed with parties' agreement <sup>2</sup>	0	0	0.0	0	0.0
<b>Takeovers and Mergers Panel</b>					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0.0	0	0.0
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	0.0	0	0.0
Statements issued by the Panel <sup>3</sup>	0	0	0.0	0	0.0

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

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

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

## Operational Data

**Table 2 Breaches noted during on-site inspections**

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	Change (%)	Quarter ended 30.6.2023	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	7	4	75.0	3	133.3
Failure to safekeep client securities	7	15	-53.3	9	-22.2
Failure to maintain proper books and records	7	5	40.0	3	133.3
Failure to safekeep client money	14	17	-17.6	9	55.6
Unlicensed dealing and other registration issues	6	4	50.0	5	20.0
Breach of requirements of contract notes/statements of account/receipts	12	22	-45.5	8	50.0
Failure to make filing/notification	4	0	N/A	0	N/A
Breach of margin requirements	4	0	N/A	0	N/A
Dealing malpractices	1	0	N/A	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	93	99	-6.1	59	57.6
Breach of Corporate Finance Adviser Code of Conduct	4	2	100.0	5	-20.0
Breach of Fund Manager Code of Conduct	31	23	34.8	28	10.7
Breach of regulation of on-line trading	2	9	-77.8	4	-50.0
Non-compliance with anti-money laundering guidelines	74	83	-10.8	72	2.8
Breach of other rules and regulations of the Exchanges <sup>2</sup>	3	2	50.0	2	50.0
Internal control weaknesses <sup>3</sup>	183	175	4.6	100	83.0
Others	37	29	27.6	16	131.3
<b>Total</b>	<b>489</b>	<b>489</b>	<b>0.0</b>	<b>323</b>	<b>51.4</b>

<sup>1</sup> Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and information for or about clients and reasonable advice.

<sup>2</sup> The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

<sup>3</sup> Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

## Operational Data

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

a) Number of funds by type	As at 30.6.2024	As at 31.3.2024	Change (%)	As at 30.6.2023	YoY change (%)
Bond	165	165	0.0	171	-3.5
Equity	206	203	1.5	204	1.0
Mixed	111	111	0.0	110	0.9
Money market	67	67	0.0	56	19.6
Feeder funds	49	50	-2.0	47	4.3
Index <sup>1</sup>	164	156	5.1	155	5.8
Guaranteed	1	1	0.0	1	0.0
Commodity and virtual asset <sup>2</sup>	18	12	50.0	12	50.0
Sub-total	781	765	2.1	756	3.3
Umbrella structures	163	161	1.2	152	7.2
<b>Total</b>	<b>944</b>	<b>926</b>	<b>1.9</b>	<b>908</b>	<b>4.0</b>

b) Assets under management by type	Total NAV (US\$ million) as at 30.6.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.6.2023	YoY change (%)
Bond	26,453	25,928	2.0	26,563	-0.4
Equity	46,309	44,854	3.2	48,919	-5.3
Mixed	25,178	25,175	0.0	27,473	-8.4
Money market	36,353	28,010	29.8	17,359	109.4
Feeder funds <sup>3</sup>	15	15	0.0	19	-21.0
Index <sup>1</sup>	55,899	53,588	4.3	49,775	12.3
Guaranteed	29	30	-3.3	32	-9.4
Commodity and virtual asset <sup>2</sup>	851	682	24.8	564	51.0
<b>Total<sup>4</sup></b>	<b>191,087</b>	<b>178,280</b>	<b>7.2</b>	<b>170,703</b>	<b>11.9</b>

<sup>1</sup> Including equity and fixed income index tracking funds, exchange-traded funds and leveraged and inverse products.

<sup>2</sup> From 30 June 2024, commodity and virtual asset funds, exchange-traded funds and leveraged and inverse products (whether actively managed or index tracking) have been re-categorised under the "Commodity and virtual asset" category. Corresponding adjustments have been made to the relevant historical figures.

<sup>3</sup> The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total asset under management.

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

## Operational Data

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

a) Number of funds by origin	As at 30.6.2024	As at 31.3.2024	Change (%)	As at 30.6.2023	YoY change (%)
Luxembourg	1,084	1,066	1.7	1,065	1.8
Ireland	259	258	0.4	254	2.0
United Kingdom	26	26	0.0	29	-10.3
Mainland China	45	46	-2.2	46	-2.2
Bermuda	1	1	0.0	1	0.0
Cayman Islands	23	23	0.0	20	15.0
Others	5	5	0.0	5	0.0
<b>Total</b>	<b>1,443</b>	<b>1,425</b>	<b>1.3</b>	<b>1,420</b>	<b>1.6</b>

b) Assets under management by origin	Total NAV (US\$ million) as at 30.6.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.6.2023	YoY change (%)
Luxembourg	1,179,834	1,172,193	0.7	1,132,133	4.2
Ireland	253,470	248,008	2.2	226,127 <sup>2</sup>	12.1
United Kingdom	78,771	75,359	4.5	68,097	15.7
Mainland China	16,966	17,112	-0.9	20,513	-17.3
Bermuda	112	116	-3.4	121	-7.2
Cayman Islands	1,158	1,171	-1.1	1,324	-12.5
Others	66,766	63,680	4.8	61,195	9.1
<b>Total<sup>1</sup></b>	<b>1,597,077</b>	<b>1,577,641</b>	<b>1.2</b>	<b>1,509,509<sup>2</sup></b>	<b>5.8</b>

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

<sup>2</sup> These figures differ from those disclosed in the *Quarterly Report April - June 2023* due to a revised figure reported after the report's issuance.

## Operational Data

c) Number of funds by type	As at 30.6.2024	As at 31.3.2024	Change (%)	As at 30.6.2023	YoY change (%)
Bond	363	358	1.4	358	1.4
Equity	784	775	1.2	779	0.6
Mixed	165	163	1.2	154	7.1
Money market	12	12	0.0	12	0.0
Feeder funds	3	3	0.0	3	0.0
Index <sup>1</sup>	25	25	0.0	25	0.0
Hedge	1	1	0.0	1	0.0
Commodity <sup>2</sup>	1	1	0.0	1	0.0
Sub-total	1,354	1,338	1.2	1,333	1.6
Umbrella structures	89	87	2.3	87	2.3
<b>Total</b>	<b>1,443</b>	<b>1,425</b>	<b>1.3</b>	<b>1,420</b>	<b>1.6</b>

d) Assets under management by type	Total NAV (US\$ million) as at 30.6.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.6.2023	YoY change (%)
Bond	458,971	453,231	1.3	427,694 <sup>5</sup>	7.3
Equity	827,871	823,726	0.5	809,715	2.2
Mixed	168,063	166,913	0.7	156,218	7.6
Money market	13,013	11,777	10.5	9,771	33.2
Feeder funds <sup>3</sup>	0	0	0.0	0	0.0
Index <sup>1</sup>	66,937	62,796	6.6	49,329	35.7
Hedge	112	116	-3.4	121	-7.2
Commodity <sup>2</sup>	62,109	59,082	5.1	56,660	9.6
<b>Total<sup>4</sup></b>	<b>1,597,077</b>	<b>1,577,641</b>	<b>1.2</b>	<b>1,509,509<sup>5</sup></b>	<b>5.8</b>

<sup>1</sup> Including equity and fixed income index tracking funds and exchange-traded funds.

<sup>2</sup> From 30 June 2024, commodity funds and ETFs (whether actively managed or index tracking) have been re-categorised under the "Commodity" category. Corresponding adjustments have been made to the relevant historical figures.

<sup>3</sup> The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total asset under management.

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

<sup>5</sup> These figures differ from those disclosed in the *Quarterly Report April-June 2023* due to a revised figure reported after the report's issuance.

## Operational Data

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

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	Change (%)	Quarter ended 30.6.2023	YoY change (%)
Conduct of licensees	393	154	155.2	132	197.7
Conduct of registered institutions	1	0	N/A	0	N/A
Listed companies and disclosure of interests	554	141	292.9	150	269.3
Market misconduct <sup>1</sup>	76	93	-18.3	91	-16.5
Product disclosure	2	0	N/A	0	N/A
Unlicensed activities	54	40	35.0	75	-28.0
Breach of offers of investments	0	3	-100.0	7	-100.0
Boiler rooms and suspicious websites	34	33	3.0	40	-15.0
Scams and frauds <sup>2</sup>	102	176	-42.0	128	-20.3
Other financial activities not regulated by the SFC <sup>3</sup>	70	57	22.8	81	-13.6
<b>Total</b>	<b>1,286</b>	<b>697</b>	<b>84.5</b>	<b>704</b>	<b>82.7</b>

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

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

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

# Securities and Futures Commission

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

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Income</b>			
Levies		415,610	352,256
Fees and charges		29,747	24,904
Net investment income			
Investment income		87,997	45,339
Less: custody and advisory expenses		(2,605)	(2,856)
Recoveries from the Investor Compensation Fund	8(a)	1,568	1,520
Exchange loss		(10,391)	(8,555)
Other income		–	744
		521,926	413,352
<b>Expenses</b>			
Staff costs and directors' emoluments	8(b)	424,677	392,331
Depreciation			
Fixed assets		46,439	25,255
Right-of-use assets		2,743	36,620
Other premises expenses		9,590	8,914
Finance costs		24,366	1,542
Other expenses		51,006	49,751
		558,821	514,413
<b>Deficit and total comprehensive income for the quarter</b>		<b>(36,895)</b>	<b>(101,061)</b>

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of financial position

As at 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
<b>Non-current assets</b>			
Fixed assets		4,380,254	4,410,812
Right-of-use assets		18,734	21,477
Deposits and prepayments		335,414	335,414
Financial assets at amortised costs – debt securities	9(b)	1,878,489	2,102,479
		6,612,891	6,870,182
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	9(b)	1,215,126	898,557
Financial assets at fair value through profit or loss – pooled funds	9(a)	1,143,173	1,087,666
Debtors, deposits and prepayments		202,198	196,080
Fixed deposits with banks	3	577,264	610,147
Cash held for Grant Scheme	4	63,820	58,656
Cash at bank and in hand	3	85,910	146,154
		3,287,491	2,997,260
<b>Current liabilities</b>			
Fees received in advance		8,083	8,497
Creditors and accrued charges		271,624	199,132
Bank loan	5	18,262	18,262
Lease liabilities		8,092	9,212
Provisions for reinstatement cost		574	574
		306,635	235,677
<b>Net current assets</b>		2,980,856	2,761,583
<b>Total assets less current liabilities</b>		9,593,747	9,631,765
<b>Non-current liabilities</b>			
Bank loan	5	2,001,826	2,001,319
Lease liabilities		11,249	12,879
Provisions for reinstatement cost		1,190	1,190
		2,014,265	2,015,388
<b>Net assets</b>		7,579,482	7,616,377
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		1,186,800	1,186,800
Accumulated surplus		6,349,842	6,386,737
		7,579,482	7,616,377

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2024 (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 2023	42,840	3,375,000	4,496,293	7,914,133
Deficit and total comprehensive income for the quarter	–	–	(101,061)	(101,061)
Balance at 30 June 2023	42,840	3,375,000	4,395,232	7,813,072
Balance at 1 April 2024	<b>42,840</b>	<b>1,186,800</b>	<b>6,386,737</b>	<b>7,616,377</b>
Deficit and total comprehensive income for the quarter	–	–	<b>(36,895)</b>	<b>(36,895)</b>
Balance at 30 June 2024	<b>42,840</b>	<b>1,186,800</b>	<b>6,349,842</b>	<b>7,579,482</b>

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of cash flows

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Cash flows from operating activities</b>			
Deficit for the quarter		(36,895)	(101,061)
Adjustments for:			
Depreciation – Fixed assets		46,439	25,255
Depreciation – Right-of-use assets		2,743	36,620
Finance costs		24,366	1,542
Interest income on deposits for leases		–	(73)
Investment income		(87,997)	(45,339)
Exchange loss		10,343	8,491
Loss on disposal of fixed assets		7	8
		(40,994)	(74,557)
Increase in right-of-use assets		–	(1)
(Increase)/decrease in debtors, deposits and prepayments		(7,034)	35,102
(Increase)/decrease in cash held for Grant Scheme		(5,164)	9,508
Decrease in fees received in advance		(414)	(385)
Increase in creditors and accrued charges		75,950	37,544
Net cash generated from operating activities		22,344	7,211
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		–	490,805
Interest received		29,528	57,188
Debt securities at fair value through profit or loss purchased		–	(66,811)
Debt securities at fair value through profit or loss sold or redeemed		–	67,128
Pooled funds sold		1,533	1,547
Debt securities at amortised cost purchased		(896,644)	(77,499)
Debt securities at amortised cost redeemed at maturity		796,067	43,266
Fixed assets purchased		(19,085)	(12,683)
Net cash (used in)/generated from investing activities		(88,601)	502,941
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(2,750)	(35,771)
Interest element of lease payments		(81)	(1,542)
Interest expense on bank loan		(24,039)	–
Net cash used in financing activities		(26,870)	(37,313)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(93,127)	472,839
Cash and cash equivalents at the beginning of the quarter		731,251	407,901
<b>Cash and cash equivalents at the end of the quarter</b>	3	638,124	880,740

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

	Unaudited	
	At 30 Jun 2024 \$'000	At 30 Jun 2023 \$'000
Fixed deposits with banks	552,214	812,523
Cash at bank and in hand	85,910	68,217
	638,124	880,740

The notes on pages 42 to 45 form part of these condensed consolidated financial statements.

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (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 2024. 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 2024 included in this report as comparative information does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, the Investor Compensation Company Limited (ICC) and the Investor and Financial Education Council (IFEC), are made up to 30 June 2024. We eliminated all material intra-group balances and transactions in preparing the condensed consolidated financial statements.

We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2024 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2024.

#### 2. Recent developments in HKFRSs

##### *Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16*

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). The 3-month USD LIBOR continues to be published under a synthetic methodology. These exposures will remain outstanding until the synthetic USD LIBOR ceases and will therefore transit in the future. The Group has assessed the impact and there was no significant effect on the condensed consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate.

As at 30 June 2024, 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 \$32,805,000 (as at 31 March 2024: \$32,892,000). The total notional contract amount was \$32,791,000 (as at 31 March 2024: \$32,871,000).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2024 \$'000</b>	<b>Audited At 31 Mar 2024 \$'000</b>
Cash at bank and in hand	<b>85,910</b>	146,154
Fixed deposits with banks	<b>577,264</b>	610,147
Amounts shown in the condensed consolidated statement of financial position	<b>663,174</b>	756,301
Less: Amounts with an original maturity beyond three months	<b>(25,050)</b>	(25,050)
Cash and cash equivalents in the condensed consolidated statement of cash flows	<b>638,124</b>	731,251

#### 4. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in creditors and accrued charges.

#### 5. Bank loan

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. The term loan is secured by the Group's land and buildings.

#### 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 was mainly driven by the revaluation of USD denominated financial assets.

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 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 30 June 2024, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2024: \$0.2).

#### 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, \$1,568,000 was recovered from the ICF for the ICC's expenses (30 June 2023: \$1,520,000). As at 30 June 2024, the ICC had an amount due to the ICF of \$188,000 (as at 31 March 2024: \$148,000).

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

	Unaudited quarter ended	
	30 Jun 2024 \$'000	30 Jun 2023 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,908	7,481
Retirement scheme contributions	761	654
	9,669	8,135

The total remuneration is included in the staff costs and directors' emoluments. Directors' emoluments are for services in connection with management of the affairs of the SFC. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2024 (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 2024.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 June 2024 (Unaudited)</u>				
Pooled funds	1,143,173	–	–	1,143,173
<u>At 31 March 2024 (Audited)</u>				
Pooled funds	1,087,666	–	–	1,087,666

During the quarter ended 30 June 2024 and the year ended 31 March 2024, 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 the investment in the pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active market.

#### (b) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2024 and 31 March 2024 except for the following financial instruments, for which their carrying amount, fair value and the level of fair value hierarchy were disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 30 June 2024 (Unaudited)</u>					
Financial assets at amortised costs – debt securities	3,093,615	2,934,824	–	2,934,824	–
<u>At 31 March 2024 (Audited)</u>					
Financial assets at amortised costs – debt securities	3,001,036	2,829,751	–	2,829,751	–

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their report together with the unaudited condensed financial statements for the quarter ended 30 June 2024.

## Establishment of the Investor Compensation Fund

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

## Financial statements

The financial performance of the Fund for the period ended 30 June 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 47 to 52.

## Members of the Committee

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

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

(retired on 31 July 2024)

Mr Yih, Dieter, JP

(appointed on 1 August 2024)

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

15 August 2024

## Investor Compensation Fund

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

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Income</b>			
Interest income		33,495	26,535
Exchange loss		(3,644)	(2,409)
		29,851	24,126
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	1,568	1,520
Auditor's remuneration		58	57
		1,626	1,577
<b>Surplus and total comprehensive income for the quarter</b>		<b>28,225</b>	<b>22,549</b>

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

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
<b>Current assets</b>			
Interest receivable		44,106	55,366
Amount due from the Investor Compensation Company Limited		188	148
Fixed deposits with banks	3	2,623,753	2,584,342
Cash at bank	3	584	648
		2,668,631	2,640,504
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		180	278
		3,574	3,672
<b>Net current assets</b>		2,665,057	2,636,832
<b>Net assets</b>		2,665,057	2,636,832
Representing:			
<b>Compensation fund</b>		2,665,057	2,636,832

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

## Investor Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2024 (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 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 quarter	-	-	-	-	22,549	22,549
Balance at 30 June 2023	994,718	108,923	5,470	617	1,435,956	2,545,684
Balance at 1 April 2024	<b>994,718</b>	<b>108,923</b>	<b>5,470</b>	<b>617</b>	<b>1,527,104</b>	<b>2,636,832</b>
Surplus and total comprehensive income for the quarter	-	-	-	-	<b>28,225</b>	<b>28,225</b>
Balance at 30 June 2024	<b>994,718</b>	<b>108,923</b>	<b>5,470</b>	<b>617</b>	<b>1,555,329</b>	<b>2,665,057</b>

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

## Investor Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		28,225	22,549
Adjustments for:			
Interest income		(33,495)	(26,535)
Exchange loss		3,644	2,409
		(1,626)	(1,577)
Change in amount due from/to the Investor Compensation Company Limited		(40)	(333)
Decrease in creditors and accrued charges		(98)	(95)
Net cash used in operating activities		(1,764)	(2,005)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		26,711	(79,869)
Interest received		44,681	26,392
Net cash generated from/(used in) investing activities		71,392	(53,477)
<b>Cash flows from financing activity</b>			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		–	6,087
Net cash generated from financing activity		–	6,087
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>69,628</b>	(49,395)
Cash and cash equivalents at the beginning of the quarter		702,082	164,980
<b>Cash and cash equivalents at the end of the quarter</b>	3	<b>771,710</b>	115,585

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

	Unaudited	
	At 30 Jun 2024 \$'000	At 30 Jun 2023 \$'000
Fixed deposits with banks	771,126	114,939
Cash at bank	584	646
	<b>771,710</b>	115,585

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

## Investor Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (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 2024. 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 2024 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 2024 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2024.

#### 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 quarter ended 30 June 2024, the ICC incurred costs of \$1,568,000 for its operations (for the quarter ended 30 June 2023: \$1,520,000).

#### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2024 \$'000</b>	<b>Audited At 31 Mar 2024 \$'000</b>
Cash at bank	584	648
Fixed deposits with banks	2,623,753	2,584,342
Amounts shown in the condensed statement of financial position	2,624,337	2,584,990
Less: Amounts with an original maturity beyond three months	(1,852,627)	(1,882,908)
Cash and cash equivalents in the condensed statement of cash flows	771,710	702,082

## Investor Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 4. Provision for compensation

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit is \$150,000 per claimant for each default case occurring on or before 31 December 2019 or \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 June 2024 was \$3,394,000, which was related to a number of claims received in respect of a default case which occurred on or before 31 December 2019 (as at 31 March 2024: \$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 dealers' deposits funds

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 quarter ended 30 June 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 quarters ended 30 June 2024 and 2023.

#### 7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 12 outstanding claims as at 30 June 2024 (12 outstanding claims as at 31 March 2024). The maximum liability in respect of these claims in aggregate was \$2,199,000 (as at 31 March 2024: \$2,199,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

#### 8. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the quarters ended 30 June 2024 and 2023, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.

# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their report together with the unaudited condensed financial statements for the quarter ended 30 June 2024.

## Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2024, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

## Financial statements

The financial performance of the Fund for the period ended 30 June 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 54 to 59.

## 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  
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

31 July 2024

## Unified Exchange Compensation Fund

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

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Income</b>		
Interest income	1,094	904
<b>Expense</b>		
Auditor's remuneration	28	27
<b>Surplus and total comprehensive income for the quarter</b>	<b>1,066</b>	<b>877</b>

The notes on pages 58 to 59 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
<b>Current assets</b>			
Interest receivable		610	612
Fixed deposits with banks	3	99,299	99,009
Cash at bank	3	294	353
		<b>100,203</b>	99,974
<b>Current liabilities</b>			
Creditors and accrued charges		10,189	10,226
Relinquished trading rights payable to SEHK	4	1,500	1,650
		<b>11,689</b>	11,876
<b>Net current assets</b>		<b>88,514</b>	88,098
<b>Net assets</b>		<b>88,514</b>	88,098
Representing:			
<b>Compensation fund</b>		<b>88,514</b>	88,098

The notes on pages 58 to 59 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2024 (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 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(700)	-	-	-	-	-	(700)
Surplus and total comprehensive income for the quarter	-	-	-	-	877	-	877
Balance at 30 June 2023	51,450	353,787	630,000	6,502	38,995	(994,718)	86,016
Balance at 1 April 2024	<b>50,050</b>	<b>353,787</b>	<b>630,000</b>	<b>6,502</b>	<b>42,477</b>	<b>(994,718)</b>	<b>88,098</b>
Net contributions to SEHK	(650)	-	-	-	-	-	(650)
Surplus and total comprehensive income for the quarter	-	-	-	-	1,066	-	1,066
Balance at 30 June 2024	<b>49,400</b>	<b>353,787</b>	<b>630,000</b>	<b>6,502</b>	<b>43,543</b>	<b>(994,718)</b>	<b>88,514</b>

The notes on pages 58 to 59 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		1,066	877
Adjustment for:			
Interest income		(1,094)	(904)
		(28)	(27)
Decrease in creditors and accrued charges		(37)	(32)
(Decrease)/increase in relinquished trading rights payable to SEHK		(150)	750
Net cash (used in)/generated from operating activities		(215)	691
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		24,504	6,479
Interest received		1,096	892
Net cash generated from investing activities		25,600	7,371
<b>Cash flows from financing activity</b>			
Net trading rights deposits refunded to SEHK		(650)	(700)
Net cash used in financing activity		(650)	(700)
<b>Net increase in cash and cash equivalents</b>		24,735	7,362
Cash and cash equivalents at the beginning of the quarter		62,362	69,384
<b>Cash and cash equivalents at the end of the quarter</b>	3	87,097	76,746

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

	Unaudited	
	At 30 Jun 2024 \$'000	At 30 Jun 2023 \$'000
Fixed deposits with banks	86,803	76,359
Cash at bank	294	387
	87,097	76,746

The notes on pages 58 to 59 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (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 2024. 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 2024 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 2024 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2024.

#### 2. Equity securities received under subrogation

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

As at 30 June 2024, the equity securities received under subrogation amounted to \$10 (as at 31 March 2024: \$15). The balances as at 30 June 2024 and 31 March 2024 are too small to present on the condensed statement of financial position which is expressed in thousands of dollars.

## Unified Exchange Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2024 \$'000</b>	<b>Audited At 31 Mar 2024 \$'000</b>
Cash at bank	294	353
Fixed deposits with banks	99,299	99,009
Amounts shown in the condensed statement of financial position	99,593	99,362
Less: Amounts with an original maturity beyond three months	(12,496)	(37,000)
Cash and cash equivalents in the condensed statement of cash flows	87,097	62,362

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

According to Section 104 of the repealed Securities Ordinance, the Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the quarter, deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 30 June 2024, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (as at 31 March 2024: 33 trading rights totalling \$1,650,000 were relinquished but not yet refunded).

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

	<b>Unaudited quarter ended</b>	
	<b>30 Jun 2024 \$'000</b>	<b>30 Jun 2023 \$'000</b>
Balance at the beginning of the quarter	50,050	52,150
Add: new trading rights issued	–	50
Less: relinquished trading rights refunded	(800)	–
Adjustment for: net decrease/(increase) in relinquished trading rights payable to SEHK	150	(750)
Balance at the end of the quarter	49,400	51,450

#### 5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2024 and 2023.

## Securities and Futures Commission

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