



Quarterly Report July - September 2024



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This second Quarterly Report of the Securities and Futures Commission for financial year 2024-25 covers the period from 1 July to 30 September 2024.

Highlights



Maintaining market resilience and mitigating harm

Alerting investors on suspicious activities

During the quarter, we added 10 entities onto our Alert List for Suspicious Virtual Asset Trading Platforms (VATPs) to warn the public of suspected virtual asset (VA)-related fraud and unlicensed activities. We also cautioned the public against one suspicious investment product.

Stepping up anti-scam investor education

In July, we broadcast a video cautioning the public against investment scams at MTR Hong Kong Station. We also supported a community outreach event in August and spoke about tips to avoid falling victim to financial scams.

Combatting misconduct

During the quarter, we fined a licensed corporation and disciplined three individuals, suspending their licences or prohibiting them from entering the industry for six months to life.

The Court of First Instance handed down in July the heaviest jail sentence on market manipulation cases since the Securities and Futures Ordinance (SFO) came into effect. Three individuals were sentenced to imprisonment of 52 to 80 months for conspiracy to carry out false trading in the shares of Ching Lee Holdings Limited, following the SFC's extensive investigations.

New alerts against:



10
suspicious VATPs

1
suspicious investment product

A suspected core member of a sophisticated ramp-and-dump syndicate was charged with the offence of conspiracy to defraud at the Eastern Magistrates' Courts following his arrest in our joint operation with the Police.

We secured a first-of-its-kind settlement to compensate independent public shareholders of Combest Holdings Limited to resolve our court proceedings against three individuals, being former shadow or executive directors of Combest.

Highlights

Strengthening surveillance

We identified high shareholding concentration in five listed companies with our enhanced surveillance programme and issued five announcements to alert investors of the potential risks associated with trading in the shares of these companies.

Supervising intermediaries

We commenced 69 on-site inspections in the quarter to ensure intermediaries' regulatory compliance and operational resilience.

Enhancing regulation

The new regime for depositaries of public funds (RA 13) took effect on 2 October. We had processed RA 13 licence or registration applications from 19 depositaries and over 300 of their staff members prior to the launch.

We published the consultation conclusions on proposals to introduce a statutory scheme of arrangement and compulsory acquisition mechanism for real estate investment trusts and enhance the market conduct regime for listed collective investment schemes under the SFO. The proposals received general support.

In July, we published consultation conclusions on the proposed legislation, code and guidelines for implementing an uncertificated securities market. We aim to implement the regime towards the end of 2025 following the completion of the legislative process.



69

on-site inspections

Enhancing Hong Kong market competitiveness



Gatekeeping listing applications

During the quarter, we processed 144 listing applications, of which 25 were new listing applications. The new cases included one from a company seeking to list by way of de-SPAC¹ transaction and one from a pre-profit biotech company.

Of the 371 listing applications we cleared in the three years up to 30 September 2024, 94% were cleared within 60 business days.



144

listing applications
processed

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

Highlights

Strengthening listing market

Following the SFC's approval, Hong Kong Exchanges and Clearing Limited (HKEX) rolled out severe weather trading (SWT) from 23 September, to maintain normal operations of Hong Kong's securities and derivatives markets under severe weather conditions. On 14 November, SWT was implemented for the first time and all market operations were smooth.

In August, the SFC and the Stock Exchange of Hong Kong Limited (SEHK) jointly announced temporary modifications to the Listing Rules. Guidance materials were published, regarding (a) the minimum thresholds on initial market capitalisation for the listing of specialist technology companies and (b) the minimum independent third-party investment thresholds and related independence requirements for de-SPAC transactions.



After discussing with the SFC, SEHK added Dubai Financial Market and Abu Dhabi Securities Exchange of the United Arab Emirates (UAE) to the list of recognised stock exchanges in July, paving the way for more UAE companies to apply for a secondary listing in Hong Kong.

Surge in licence applications

During the quarter, we received 2,496 licence applications under the SFO. The numbers of both corporate and individual licence applications increased in the quarter, up 56% and 23% year-on-year (YoY), respectively. The number of new licensees and registrants totalled 3,164.



▲ **56% YoY**

Corporate licence applications under the SFO

Enhancing market connectivity with the Mainland



After the China Securities Regulatory Commission (CSRC) announced further support for leading Mainland companies to list in Hong Kong in April, four leading Mainland companies completed filings with the CSRC from 19 April to 26 September regarding their proposed listings in Hong Kong, among which Midea Group Co., Ltd. was listed in September.



RMB 10 billion
average daily turnover under Swap Connect

As of September, 64 overseas investors had participated in Swap Connect and executed RMB interest rate swap transactions with an aggregate notional amount of approximately RMB3.4 trillion, or a daily average of about RMB10 billion.

In September, the SFC held the 15th Mainland and Hong Kong Regulatory High-level Meeting with the CSRC in Shenzhen to exchange views on the latest development of the capital markets and regulatory cooperation initiatives, among others.

Highlights

Expanding Hong Kong's asset and wealth management footprint to Saudi Arabia

In October, the first two Hong Kong-listed exchange-traded funds were cross-listed on the Saudi Exchange (via master-feeder structure). One tracks an index comprising major Stock Connect-eligible Hong Kong-listed stocks, whilst the other tracks the city's flagship equity benchmark.

Our Chief Executive Officer (CEO) Ms Julia Leung and other senior executives joined the Hong Kong delegation to Saudi Arabia led by Financial Secretary of the HKSAR in October. Senior executives of the SFC met with Saudi Arabia's Capital Market Authority (CMA) and the Saudi Tadawul Group to discuss further collaboration. The SFC also worked with the CMA to arrange a roundtable discussion connecting Saudi and Hong Kong asset managers.



Asset and Wealth Management Activities Survey

Published in July, the *Asset and Wealth Management Activities Survey for 2023* showed that the overall asset under management (AUM) of Hong Kong's asset and wealth management business grew 2% YoY in 2023, while net fund inflows surged 342%.

Net inflows into local domiciled funds

As at 30 September, there were 948 Hong Kong-domiciled funds, up 0.4% from the previous quarter. Their AUM increased 12.2% to \$1,665.5 billion (US\$214 billion). Net fund inflows of about \$33.9 billion (US\$4.4 billion) were recorded in the quarter.

Authorising investment products

During the quarter, we authorised 36 unit trusts and mutual funds (including 24 Hong Kong-domiciled funds), one investment-linked assurance scheme, three mandatory provident fund pooled investment funds, and 113 unlisted structured investment products for public offering in Hong Kong.

As at 30 September, there were 435 registered open-ended fund companies (OFCs), of which 64 were newly registered during the quarter. The number of registered OFCs increased 132.6% YoY.



Highlights

Transforming markets via technology and ESG



Tokenisation to increase industry efficiency

In August, the Project Ensemble Sandbox was launched with the SFC and Hong Kong Monetary Authority (HKMA) co-leading tokenisation initiatives for the asset management industry to build and scale the tokenisation market in Hong Kong.

Enhancing the virtual asset regulatory regime

The SFC is reviewing the licence applications of 15 VATP applicants, 11 of which are deemed-to-be-licensed VATP applicants.²

During the quarter, we conducted on-site inspections of a number of deemed-to-be-licensed VATP applicants, with a focus on their safeguarding of client assets, know-your-client processes and cybersecurity requirements.



Reviewing

15

VATP licence applications

Developing Hong Kong as sustainable finance hub

In July, we organised a seminar on sustainability disclosures for more than 100 university students as part of our capacity building efforts.

As at 30 September, there were 231 SFC-authorized ESG funds with total AUM of \$1,360.9 billion (US\$175.1 billion), decreasing 0.9% and increasing 3.5% from the previous quarter respectively.



Authorised
ESG funds' AUM

▲ 3.5% QoQ

² As of November 2024.

Highlights

Enhancing SFC's resilience and efficiency



Board appointments

Dr Kelvin Wong Tin-yau, SBS, JP, was appointed the Chairman of the SFC for a term of three years, effective 20 October 2024.³ He succeeded Mr Tim Lui, GBS, JP, who stepped down after having chaired the SFC for six years.

Mr Vincent Chan Chun-hung was appointed and Mr Victor Dawes, SC, BBS, was re-appointed the SFC's Non-Executive Directors respectively for a term of two years from 1 August 2024.

Mr Keith Pogson was appointed and Mr Chew Fook-aun was re-appointed as NEDs, respectively for a term of two years.⁴ The term of Mr Pogson began on 20 October 2024 and the renewed term of Mr Chew will begin on 1 January 2025.

Driving regulatory and operational efficiency

In July, we launched a new one-stop online application and submission system for investment products named e-IP. An industry webinar was held before the launch to introduce the new platform for over 700 industry participants.

During the quarter, we introduced a generative artificial intelligence solution designed to expedite everyday tasks, and provided staff with usage guidelines and controls.

Commitment to carbon neutrality

The SFC received the highest Platinum rating in Swire Properties' Green Performance Pledge programme for 2023-24. Last year, we have already achieved a 48.6% reduction in carbon emissions, edging close to our 2030 target at 50%.

Proactive public communications

During the quarter, our senior executives spoke at 10 local and international events covering mutual market access, Fintech, sustainability and other topics.



Management spoke at

10 major events

³ Post-reporting period.

⁴ Post-reporting period.

Maintaining market resilience and mitigating serious harm to our markets

Resilience is crucial to strengthening the foundation of our financial markets to ensure sustainable growth. In maintaining Hong Kong's status as a premier international financial centre and risk management hub, we are committed to upholding the markets' integrity, strengthening their resilience and protecting investors.

Combatting suspicious activities and investment scams

Investor alerts against suspicious entities and investment products

We continued to monitor and investigate illegal activities involving or purporting to involve virtual asset trading platforms (VATPs) through our joint working group with the Hong Kong Police Force. Our concerted efforts resulted in the Police swiftly blocking access to websites of entities involved in suspected VA-related fraud at the SFC's request.

During the quarter, we added 10 entities onto the Alert List for Suspicious Virtual Asset Trading Platforms on our website to warn the public of suspected VA-related fraud and unlicensed activities.

We also cautioned the public against one suspicious investment product by posting related information on our Suspicious Investment Products Alert List and issuing a social media post.

Stepping up anti-scam investor education

In July, we broadcast a video cautioning the public against investment scams on screens at MTR Hong Kong Station. In addition, we supported a community event in Ma On Shan organised by the Anti-Scam Alliance in August and spoke about tips to avoid falling victim to financial scams.

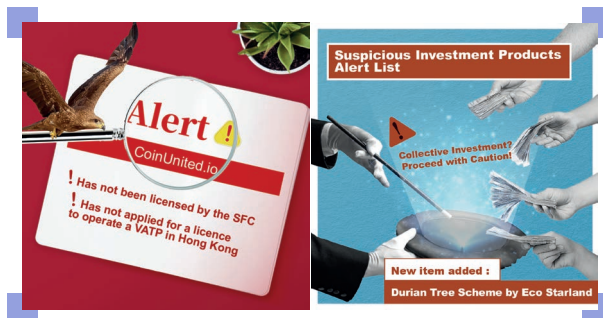


Supporting and speaking at community outreach event organised by the Anti-Scam Alliance

Maintaining market resilience and mitigating serious harm to our markets



Video broadcast at MTR station



Social media posts on suspicious entities and investment products

Combatting misconduct of all forms

During the quarter, we fined¹ a company \$3.99 million, disciplined three individuals, suspending their licences or prohibiting them from entering the industry for six months to life.

We review corporate announcements daily to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions² to request information for 12 cases and conveyed to a listed company our concerns about the valuation of its proposed acquisition in one case.

Additionally, we initiated 16 new enquiries into listed company affairs under Section 179 of the Securities and Futures Ordinance (SFO), and 58 new investigations into different forms of misconduct under Section 182 of the SFO.

Counteracting insider dealing and market manipulation

- After a landmark 22-day high court jury trial in May, the Court of First Instance (CFI) sentenced Sit Yi Ki and Tam Cheuk Hang to imprisonment of six years and eight months, and Lam Wing Ki to imprisonment of four years and four months. The jury found them guilty of conspiracy to carry out false trading in the shares of Ching Lee Holdings

Limited following our extensive investigations. This is the heaviest jail sentence imposed on market manipulation cases since the SFO came into effect in 2003.

- We obtained disgorgement orders from the Market Misconduct Tribunal (MMT) against:
 - Jonathan Dominic Lu Wai Ching, a former responsible officer of Tarascon Capital Management (Hong Kong) Limited, who was ordered to disgorge illicit profit of over \$5.6 million from false trading. Lu was found to have placed contemporaneous orders through brokerage accounts of a hedge fund managed by Tarascon and of his mother, which resulted in gains of \$5.6 million in his mother's brokerage account at the expense of the hedge fund. The MMT also disqualified Lu from being a director or involved in the management of any listed or unlisted corporation in Hong Kong and banned him from dealing in securities, futures contracts, leveraged foreign exchange contracts and collective investment schemes in Hong Kong for four years; and

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

² Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Maintaining market resilience and mitigating serious harm to our markets

- Wu Kam Shing, a former executive deputy general manager of China CITIC Bank International Limited. Wu was ordered to disgorge close to \$3 million in ill-gotten gains for engaging in insider dealing in the shares of Bloomage BioTechnology Corporation Limited after learning about a loan transaction of the bank to finance an offer to privatise Bloomage. The MMT also prohibited Wu from being a director, liquidator or receiver or manager of the property or business or being concerned or taking part in the management of any listed or unlisted corporation in Hong Kong. In addition, Wu was prohibited from dealing in securities, futures contracts, leveraged foreign exchange contracts or collective investment schemes in Hong Kong, for three years.
- A suspected core member of a sophisticated ramp-and-dump syndicate was charged with the offence of conspiracy to defraud at the Eastern Magistrate Court following his arrest in our joint operation with the Police based on public report of his whereabouts. The individual had been subject to an arrest warrant since October 2022 and was listed on the “Have you seen these people?” section³ of our website.

Tackling corporate fraud and related misfeasance

- We secured a first-of-its-kind settlement to compensate independent public shareholders of Combest Holdings Limited to resolve our court proceedings against Ng Kwok Fai, Liu Tin Lap and Lee Man To, being shadow or executive directors of Combest at the material time. As part of the settlement, the three individuals acknowledged their breach of fiduciary duties towards Combest and will pay the company compensation of about \$192 million for distribution to its independent public shareholders through special dividends.

Subject to the court’s approval, Combest’s independent public shareholders will receive \$0.066 per share, which is 2.75 times higher than the last closing price of Combest’s shares.

The settlement followed our investigation commenced in July 2018, which revealed serious concerns about the operation of Combest and the integrity of its management. To protect the interest of the investing public, we directed the suspension of the trading of Combest’s shares on 29 May 2019 and the company was delisted on 24 December 2020.

- We conducted a joint operation with the Independent Commission Against Corruption (ICAC) and the Macao Judiciary Police in August on suspected cross-boundary fraud and misconduct of senior executives of a Hong Kong-listed company. Our investigation revealed that the chairman of the listed company and other individuals might have falsified business documents and accounting records of the company’s subsidiaries in Hong Kong and Macao to underreport the group’s trade receivables by about \$110 million (MOP113 million) and conceal misappropriation of the company’s funds of over \$9 million.

During the joint operation, the SFC and the ICAC searched six premises, and the ICAC arrested seven persons, including the chairman and an executive director of the listed company. Simultaneously, the Macao Judiciary Police had earlier kicked off the first-of-its-kind concurrent law enforcement action in Macao to search related premises and interview individuals concerned.

³ The section contains details of individuals who are the subject of arrest warrants or whom the SFC believes have important information that may assist in other enforcement inquiries.

Maintaining market resilience and mitigating serious harm to our markets

- The MMT found Li Kwok Cheong and Li Han Chun (Li HC), respectively former chairman and chief executive officer of China Forestry Holdings Company Limited culpable for disclosing false or misleading information in China Forestry's initial public offering prospectus, annual results announcement and 2009 annual report, inducing transactions in the company's shares. The prospectus and the annual report were found to contain numerous false or misleading statements about the company's turnover, profit, plantation assets and bank balances. In addition, the company engaged in substantial and ongoing falsification of documents including forestry rights certificates, logging permits and bank statements to conceal the false disclosures. The MMT also found Li HC engaged in insider dealing by selling 119 million shares of China Forestry through a share placement in January 2011 ahead of enhanced audit procedures to be performed by the company's then auditor KPMG, which might reveal the falsification, thereby avoiding a loss of approximately \$353 million.
- We commenced legal proceedings in the CFI under Section 214 of the SFO to seek:
 - disqualification orders against seven former directors and two former de facto directors of SoftMedx Healthcare Limited for allegedly causing the company to publish false and misleading information and breaching their fiduciary duties.

We are also seeking an order for SoftMedx to publish the court's findings in the proceedings so that the company's shareholders will be informed of the former de facto directorships and the false and misleading disclosures made by the company.
 - a share repurchase order to protect the interests of independent minority shareholders of LET Group Holdings Limited and Summit Ascent Holdings Limited as a result of alleged misconduct of Lo Kai Bong, chairman, executive director and controlling shareholder of both companies. In addition, we also sought a disqualification order against Lo for his misconduct towards members of the two companies.

Acting against intermediary misconduct

- We banned Charles Lam Chung Yiu, a former associate director of UBS AG, from re-entering the industry for life following his criminal convictions of theft and dealing with theft property.
- We banned Dennis Cheng Chung Sing, a former trader of Goldman Sachs (Asia) L.L.C. and Goldman Sachs (Asia) Securities Ltd, from re-entering the industry for six months for acting dishonestly to conceal trade execution error while rectifying it.
- We suspended Wilson Cheung Kin, a former responsible officer and director of Ever-Long Securities Company Limited, for nine months for failing to discharge his duties as a sponsor principal, a responsible officer and a member of Ever-Long's senior management regarding his role in a listing application.
- We reprimanded and fined Profitech Securities Limited \$3.99 million for failing to comply with the Securities and Futures (Financial Resources) Rules and other regulatory requirements. These included failures to maintain its required liquid capital and improper repledges of client securities collateral.
- We ceased the suspension of Changjiang Corporate Finance (HK) Limited from acting as a sponsor for listing applications on the Stock Exchange of Hong Kong Limited. The one-year suspension from 18 August 2023 had been part of our disciplinary action against the firm for failing to discharge its obligations as the sponsor of six listing applications it submitted between September 2015 and December 2017. In this regard, Changjiang engaged an independent reviewer to review its policies, procedures and practices for conducting sponsorship business and subsequently implemented corresponding recommendations made by the reviewer.

Maintaining market resilience and mitigating serious harm to our markets

Other notable cases

- The District Court set the trial date of four defendants for securities fraud via illegal short selling. This case stemmed from a joint SFC-Police operation against suspected investment scams including social media ramp-and-dump activities which revealed that, between 23 June 2020 and 9 September 2020, the four defendants deceived an account executive at CVP Securities Limited on several occasions by falsely claiming ownership of certain shares with an intent to defraud and induce CVP to place selling orders for those shares. This resulted in benefits of \$3.3 million to the four defendants or in prejudice or a substantial risk of prejudice to CVP.
- The Eastern Magistrates' Court convicted Tse Tsun Wai of holding himself out as performing a regulated function in relation to dealing in securities without an SFC licence, in breach of Section 114(3)(b) of the SFO. Tse was fined \$4,800 and ordered to pay a sum of \$50,000 as compensation to a retail investor who was a victim of the purported investment scheme. This was the first time the Court had made a compensation order in an SFO's section 114(3) case.

Enforcement activities

	Quarter ended 30.9.2024	Six months ended 30.9.2024 ^g	Six months ended 30.9.2023	YoY change (%)
S179 ^a inquiries commenced	16	23	22	4.5
S181 ^b inquiries commenced (number of letters sent)	40 (1,439)	82 (2,662)	97 (2,263)	17.6
S182 ^c directions issued	58	114	93	22.6
Investigations started	58	114	94	21.3
Investigations completed	52	115	82	40.2
Individuals and corporations charged in criminal proceedings	1	1	19	-94.7
Criminal charges laid	1	1	45	-97.8
Notices of Proposed Disciplinary Action ^d issued	7	12	14	-14.3
Notices of Decision ^e issued	6	12	15	-20.0
Individuals and corporations subject to ongoing civil proceedings ^f	212	212	193	9.8
Compliance advice letters issued	38	77	76	1.3
Cases with search warrants executed	7	17	12	41.7

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

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

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

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

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

^f As of the last day of the period.

^g Figures have been adjusted for the period.

Maintaining market resilience and mitigating serious harm to our markets

Joining forces with Insurance Authority

We have joined forces with the Insurance Authority (IA) to tackle suspected irregularities concerning the investment portfolio of Tahoe Life Insurance Company Limited (Tahoe Life) in the past four years. The SFC has provided assistance to the IA since May 2020 on information regarding certain investments made by Tahoe Life. Our collaboration delivered outcome as the IA appointed managers on 26 July to take full control of the affairs and property of Tahoe Life, in addition to our own investigation and disciplinary action against a fund manager of Tahoe Life in December 2023.

Bolstering surveillance and cross-boundary enforcement cooperation

Our surveillance of untoward price and turnover movements resulted in 1,439 requests for trading and account records from intermediaries during the quarter. We also received and assessed 85 notifications from intermediaries regarding suspicious equity and derivative trading⁴.

During the quarter, we identified high shareholding concentration in five listed companies through our enhanced surveillance programme. As a result, we issued five announcements to alert investors of the potential risks associated with trading in the shares of these companies, which were predominantly held by a limited number of shareholders.

In September, we issued a restriction notice to a broker prohibiting it from dealing with or processing certain assets held in a client account that belongs to a listed corporation's board member, who is suspected of misconduct and breaching his director's duties. The SFC considers it necessary to issue the restriction notice to preserve the assets in the account and ensure that funds will be available to meet any potential court order in

legal proceedings that may be brought by the SFC. The SFC also believes this is desirable in the interest of the investing public or in the public interest.

During the quarter, the SFC maintained a close working relationship with the China Securities Regulatory Commission on enforcement and we provided each other with mutual investigatory assistance. We actively engaged in discussions regarding requests for investigatory assistance in major cases and explored opportunities to enhance the efficiency of our request-handling processes.

Internally, we introduced customised generative artificial intelligence tools to expedite the process of data and evidence analysis to facilitate our investigation work.



69

on-site inspections

Managing systemic risks and enhancing regulatory regimes

Supervising intermediaries

We commenced 69 on-site inspections in the quarter to ensure intermediaries' regulatory compliance and operational resilience.

Mitigating risks of cash market

To provide more financial resources to support the clearing house and strengthen its resilience, Hong Kong Exchanges and Clearing Limited (HKEX) enhanced the default fund of its cash market in September so as to benchmark the size of the default fund against the risk exposure of the two largest clearing participants (ie, "Cover 2") upon our request.

Inspections of licensed corporations

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
On-site inspections commenced	69	134	114	17.5

⁴ Intermediaries are required to report clients' suspected market misconduct to the SFC.

Maintaining market resilience and mitigating serious harm to our markets

Managing risks of OTCD market

In September, we and the Hong Kong Monetary Authority (HKMA) concluded a joint further consultation on mandating the use of Unique Transaction Identifier, Unique Product Identifier and the reporting of Critical Data Elements for the over-the-counter derivatives (OTCD) reporting regime. The enhancements will help ensure Hong Kong's OTCD reporting regime keeps up with international developments and will facilitate the analysis of OTCD transactions.

The proposed changes to the types of transactions subject to clearing obligations under the Clearing Rules for OTC derivatives became effective on 1 July, after going through the legislative process. This was the result of our joint public consultation with the HKMA on these proposals in 2023, which was in line with global interest rate benchmark reform.

Introducing uncertificated securities market (USM)

In July, we published consultation conclusions on the proposed legislation, code and guidelines for implementing USM. We aim to table the proposed legislation into the Legislative Council by early 2025 with a view to implementing USM towards the end of 2025.

Regulating depositaries of public funds (RA 13)

The new RA 13 regime for depositaries of public funds took effect on 2 October. At end-September, we announced through a press release that we had processed RA 13 licence or registration applications from 19 depositaries and over 300 of their staff members. We also published updated codes, guidelines, frequently asked questions, forms and checklists for implementing the new regime.

Enhancing regulatory regimes for REITs and CIS

We published the consultation conclusions on proposals to introduce a statutory scheme of arrangement and compulsory acquisition mechanism for real estate investment trusts (REITs) and enhance the market conduct regime for listed collective investment schemes (CIS) under the SFO. The proposals received general support. The SFC will continue to work with the Government on the legislative amendments to implement the proposals.

Leading international standard-setting efforts

We foster 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. Our leadership roles in the committees and working groups of the International Organization of Securities Commissions (IOSCO)⁵ and the Financial Stability Board (FSB) enable us to shape international policies.

IOSCO

During the quarter, we participated in meetings of the IOSCO Committee on Emerging Risks, Assessment Committee, Financial Stability Engagement Group, Sustainable Finance Task Force, Fintech Task Force, as well as the Asia-Pacific Regional Committee Working Group on Scams and Online Harms.

FSB

In September, Mr Rico Leung, our Executive Director of Supervision of Markets, and other senior SFC representatives attended a meeting of the FSB Standing Committee on Standards Implementation to review its current approach on monitoring the implementation of G20 financial reforms, explore next steps on supervisory and regulatory approaches to climate-related risk, and discuss work priorities for 2025.

⁵ 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.

Enhancing Hong Kong market competitiveness and appeal

To enhance Hong Kong's appeal as a leading fund-raising and asset management hub, the SFC continues to serve as a capital market enabler to improve liquidity and efficiency, as well as deepen ties with Mainland and global 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 69. The processed applications included 25 new listing applications, among which one was received from a company seeking to list by way of de-SPAC¹ transaction and one was from a pre-profit biotech company.



144

listing applications
processed² in the quarter

Average processing time³:

82

business days⁴

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

² Including 25 new listing applications and 119 cases brought forward from the previous reporting period.

³ Including the SFC's vetting time and the response time of the listing applicants or their advisers.

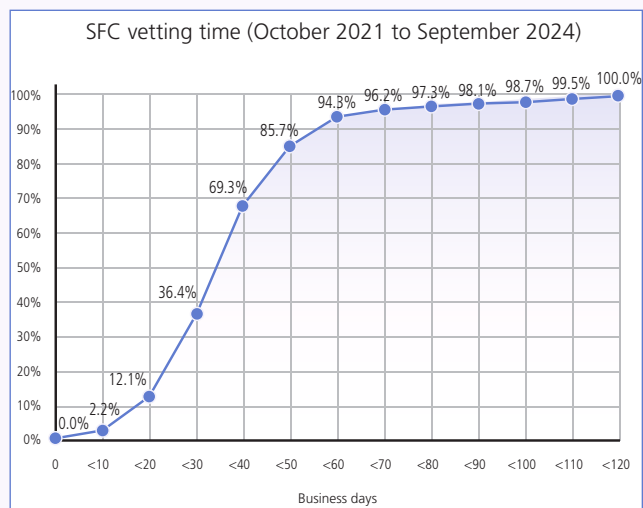
⁴ For the 69 cleared cases of listing applications.

Enhancing Hong Kong market competitiveness and appeal

Vetting time of listing applications

During the three years ended 30 September 2024, we cleared 371 cases in total and 94% of these 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.



Strengthening listing market and enhancing liquidity

Modifying requirements for specialist technology companies and de-SPAC transactions

The SFC and the Stock Exchange of Hong Kong Limited (SEHK) jointly announced in August temporary modifications to the Listing Rules and published related guidance materials about (a) the minimum thresholds on initial market capitalisation for the listing of specialist technology companies; and (b) the minimum independent third-party investment thresholds and related independence requirements for de-SPAC transactions. Effective for three years from 1 September 2024, the modifications aim to address the change in market conditions since the two listing regimes were introduced, leveraging the experience gained from handling specialist technology companies' listing applications and de-SPAC transactions.

Aligning with global practice to enable normal trading under severe weather

Following the SFC's approval, Hong Kong Exchanges and Clearing Limited (HKEX) successfully rolled out severe weather trading (SWT) starting 23 September, to maintain normal operations of Hong Kong's securities and derivatives markets under severe weather conditions. On 14 November, SWT was implemented for the first time and all market operations were smooth. This development not only enhances the overall competitiveness of our markets but also enables trading through Stock Connect during severe weather in Hong Kong.

Update on medium to long-term measures to lower transaction cost and boost market 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. Currently, a study on market data fee is being conducted to provide foundation for policy decisions. In addition, HKEX is reviewing the minimum trading spreads of the securities market by publishing a consultation paper in June for feedback until September.

Listing applications and takeovers activities

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
Listing applications	25	78	89	-12.4
Takeovers and share buy-backs transactions	89	168	178	-5.6

Enhancing Hong Kong market competitiveness and appeal

Other 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 and thereby enhancing market efficiency and opportunities for straight-through processing; building new systems for derivative trading, clearing and risk management; and reviewing the clearing infrastructure in the cash market for planning long-term enhancements.

Facilitating international and secondary listings

After discussing with the SFC, SEHK added Dubai Financial Market and Abu Dhabi Securities Exchange of the United Arab Emirates (UAE) to the list of recognised stock exchanges in July. This enables UAE-incorporated public joint stock companies with a primary listing on the main market of these two exchanges to apply for a secondary listing in Hong Kong. This followed the inclusion of Saudi Exchange and Indonesia Stock Exchange as recognised stock exchanges last year.

Promoting paperless listing regime

We have been working closely with SEHK on its paperless initiatives. In August, SEHK published a consultation paper on proposals to further expand its paperless listing regime, including electronic instructions from securities holders to issuers, electronic payment of corporate action proceeds and electronic payment of subscription monies. The consultation period ended on 18 October.

One proposal in SEHK's paperless initiative consultation relates to the removal of mixed media offers (MMOs) from the Listing Rules. In line with SEHK's proposal, the SFC published a consultation paper in August on removing the exemption permitting MMOs under the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice. As such, a listed issuer can no longer issue printed application forms accompanied by electronic prospectuses. The SFC's consultation also ended on 18 October.

Strengthening Hong Kong's role as super-connector

Enhancing mutual access schemes with Mainland

As one of the five measures announced in April, the China Securities Regulatory Commission (CSRC) will further support leading Mainland companies to seek listing in Hong Kong.

From 19 April (date of the CSRC's related announcement) to 26 September, four leading Mainland companies completed filings with the CSRC for their proposed listings in Hong Kong. They respectively operate the businesses of logistics services, packaged drinking water and beverage products, home appliances, and advanced driver assistance systems and autonomous driving solution. Among these companies, Midea Group Co., Ltd. was listed in September.

Stock Connect

The SFC has been working closely with HKEX and Mainland counterparties to prompt the further development of Stock Connect. Among the initiatives involved are the inclusion of renminbi (RMB) counters under southbound of Stock Connect, the expansion of eligible securities to include real estate investment trusts (REITs) and more exchange-traded funds (ETFs), as well as the inclusion of block trading in Stock Connect.

ETF Connect enhancements

Enhancements of ETF Connect took effect on 22 July, relaxing the ETF eligibility criteria with lowered requirements on minimum fund size and weighting for the underlying index tracked by an ETF. A total of 85 Mainland ETFs and six Hong Kong ETFs were added to the list of eligible ETFs for trading.

In view of orderly Stock Connect expansion and its coverage of more diverse securities, the CSRC has clarified that, under Stock Connect, the existing requirements for Mainland securities companies to forward research reports of eligible Hong Kong stocks on the Mainland apply to research reports of eligible Hong Kong ETFs. Reciprocally, the SFC issued a circular in September setting out the requirements for intermediaries to distribute research reports of Stock Connect-eligible Mainland ETFs in Hong Kong.

Enhancing Hong Kong market competitiveness and appeal

Mutual Recognition of Funds (MRF)

As at 30 September, 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 RMB36.6 billion for Hong Kong funds and about RMB868.1 million for Mainland funds as at 30 September. During the quarter, Hong Kong funds recorded net subscriptions of about RMB8.8 billion and Mainland funds recorded net redemptions of about RMB42.2 million.

Building offshore RMB and risk management hub

Swap Connect

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 September, 64 overseas investors had participated in Swap Connect and executed RMB interest rate swap transactions with an aggregate notional amount of approximately RMB3.4 trillion, or a daily average of about RMB10 billion.

The China Government bonds and policy bank bonds held by overseas investors under Bond Connect will be allowed as eligible collateral for Swap Connect.

Treasury bond futures and other derivative products

We are working closely with HKEX to prepare for the launch of China treasury bond futures contracts in Hong Kong. More details will be announced in due course.

We approved HKEX's proposed rule amendments in relation to their launch of Weekly Hang Seng TECH Index Options and Weekly Stock Options contracts. The former was launched in September while the latter was launched in November.

Regulatory collaboration with the Mainland

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

In July, we visited the CSRC, the National Financial Regulatory Administration, the People's Bank of China and China Central Depository and Clearing in Beijing to exchange views on the latest economic and market conditions, development of mutual market access schemes, and the implementation progress of Mainland-Hong Kong capital market cooperation initiatives.

In September, the SFC held the 15th Mainland and Hong Kong Regulatory High-level Meeting with the CSRC in Shenzhen, to exchange views on the latest development of the capital markets, recent achievements in cross-boundary regulatory cooperation, and ongoing market development and regulatory cooperation initiatives. We reached consensus with the CSRC on further enhancing and expanding the Mainland-Hong Kong mutual market access schemes. We also agreed to further explore new initiatives to promote the healthy development of the Mainland and Hong Kong capital markets.

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

	Six months ended 30.9.2024			Six months ended 31.3.2024			Six months ended 30.9.2023		
	Subscription	Redemption	Net subscription/ (redemption) ^b	Subscription	Redemption	Net subscription/ (redemption) ^b	Subscription	Redemption	Net subscription/ (redemption) ^b
Mainland funds	23	125	(102)	21	112	(91)	201	202	(1)
Hong Kong funds	17,354	6,324	11,031	14,269	5,109	9,160	5,984	4,201	1,782

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

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



The 15th Mainland and Hong Kong Regulatory High-level Meeting in Shenzhen in September 2024

Gatekeeping securities industry

Licence applications under the SFO

During the quarter, we received 2,496 license applications⁵ under the Securities and Futures Ordinance (SFO). Among these were applications from 2,426 individuals, an increase of 30% from the previous quarter and 23% from the same quarter last year, and 70 corporations, an increase of 15% from the previous quarter and 56% from the same quarter last year.

As at 30 September, there were 48,263 licensees and registrants, of which 3,290 were licensed corporations and 111 were registered institutions. During the quarter, the number of new licensees and registrants totalled 3,164⁶, amongst which 3,100 were individuals, and 64 were licensed corporations and registered institutions. Among the licensed corporations approved during the quarter, Type 9 (asset management) regulated activity⁷ (RA) accounted for 89% and Type 4 (advising on securities) for 64%. Compared to 30 June, the number of firms licensed for Type 9 RA increased by 42 to 2,203.



▲ 56% YoY

Corporate licence
applications under
the SFO

⁵ The figure does not include applications for provisional licences.

⁶ Including provisional licensed representatives.

⁷ Each licensed corporation may have multiple RA licences.

Enhancing Hong Kong market competitiveness and appeal

In September, we issued two new quick reference guides to assist visiting and returning professionals in understanding the SFC's pragmatic licensing regime.



New quick reference guides on licensing requirements

Automated trading services

As of 30 September, there were 53 automated trading services (ATS) providers⁸, authorised under Part III of the SFO, while 28 corporations, including 12 dark pool operators, were licensed under Part V of the SFO to provide ATS.

Licensees and registrations under the SFO

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Licensed corporations	3,290	3,246	1.4	3,236	1.7
Registered institutions	111	112	-0.9	112	-0.9
Licensed individuals	44,862	44,493	0.8	45,014	-0.3
Total	48,263	47,851	0.9	48,362	-0.2

Licensing applications under the SFO

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
Applications to conduct new regulated activity	7,456	13,234	13,974	-5.3
Applications for SFC licences [^]	2,496	4,427	3,770	17.4

[^] Figures do not include applications for provisional licences. During the quarter, we received 1,139 provisional licence applications compared with 1,235 in the same quarter last year.

ATS providers

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Under Part III	53	54	-1.9	53	0.0
Under Part V	28	29	-3.4	29	-3.4

⁸ 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

Strengthening connectivity with Middle East markets

Our Chief Executive Officer Ms Julia Leung, Executive Director of Investment Products Ms Christina Choi and other senior executives joined the Hong Kong delegation to Saudi Arabia led by Mr Paul Chan, Financial Secretary of the HKSAR, to strengthen regulatory cooperation with the Kingdom in October. Senior executives of the SFC, the Capital Market Authority (CMA) and Saudi Tadawul Group (parent company of the Saudi Exchange) met to discuss the role of Hong Kong as a connector for Saudi corporates, investors and market participants to tap into the broader Asian markets. The SFC also worked with the CMA to arrange a roundtable discussion connecting Saudi and Hong Kong asset managers.

During their visit, the SFC delegates also witnessed the cross-listing of the first two Hong Kong-listed ETFs on the Saudi Exchange via master-feeder structure, with one tracking an index comprising major Stock Connect-eligible Hong Kong-listed stocks and the other tracking the city's flagship equity benchmark. As at end-October, with market capitalisation in aggregate exceeding US\$1.6 billion, the Saudi feeder ETFs of the two Hong Kong-listed ETFs were the largest in the Saudi ETF market, and their trading was active. The cross-listing marked a new milestone in the connectivity between the two markets, as the two Hong Kong ETFs are the first ETFs listed on the Saudi Exchange to provide Saudi investors with investment exposure to the Hong Kong market.

Industry growth seen in annual asset and wealth management survey

Published in July, *the Asset and Wealth Management Activities Survey for 2023* showed that the overall asset under management (AUM) of Hong Kong's asset and wealth management business grew 2% year-on-year (YoY) in 2023, while net fund inflows surged 342%. The survey results reaffirmed Hong Kong's position as a premier asset and wealth management hub with a highly diversified investor base, globalised asset allocation and robust fund inflows. Investors outside the Mainland and Hong Kong have consistently accounted for 54-56% of total AUM in the past five years, while 60% of the assets managed in Hong Kong are allocated to overseas markets.

Net inflows into local domiciled funds

As at 30 September, there were 948 Hong Kong-domiciled funds, up 0.4% from the previous quarter. Their AUM increased 12.2% from the previous quarter to \$1,665.5 billion (US\$214 billion). Net fund inflows of about \$33.9 billion (US\$4.4 billion) were recorded in the quarter.



Hong Kong-domiciled funds' AUM

▲ 29.5% YoY

Authorising investment products

During the quarter, we authorised 36 unit trusts and mutual funds (including 24 Hong Kong-domiciled funds), one investment-linked assurance schemes (ILAS), three mandatory provident fund (MPF) pooled investment funds, and 113 unlisted structured investment products for public offering in Hong Kong.

Further growth of open-ended fund companies (OFCs)

As at 30 September, there were 435 registered OFCs, of which 64⁹ were newly registered during the quarter. The number of registered OFCs increased 132.6% YoY.



Number of OFCs

▲ 132.6% YoY

⁹ This figure includes 62 private OFCs.

Enhancing Hong Kong market competitiveness and appeal

Growth of ETF and L&I products markets

As at 30 September, 173 SFC-authorized ETFs and 21 SFC-authorized leveraged and inverse (L&I) products were listed on SEHK (in aggregate up 11% from a year ago), with total market capitalisation of \$496 billion (US\$64 billion). During the quarter, these ETFs and L&I products recorded net inflows of \$6.3 billion (US\$0.8 billion) and an average daily turnover of \$17.2 billion (US\$2.2 billion), equivalent to 14% of the turnover of Hong Kong's stock market.

As at 30 September, 16 ETFs are eligible for southbound trading. During the last six months, southbound ETF trading had an average daily turnover of \$1.9 billion (US\$248 million), contributing 6% of the eligible Hong Kong ETFs and L&I products' total turnover.

SFC-authorized ETFs and L&I products^{a,b}

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Number of SFC-authorized ETFs and L&I products ^c	194	179	8.0	175	11.0
Market capitalisation ^d (\$ billion)	496.0	386.4	28.0	369.5	34.0

	Six months ended 30.9.2024	Six months ended 31.3.2024	Change (%)	Six months ended 30.9.2023	YoY change (%)
Average daily turnover (\$ billion)	16.4	13.4	23.0	14.1	17.0
Net fund flow ^d (\$ billion) – Net inflow (outflow)	5.9	52.2	N/A	21.2	N/A

^a Based on data from HKEX.

^b The statistics only cover authorised ETFs and L&I products listed and traded on HKEX's securities market.

^c Multiple counters of an ETF and L&I product are counted as one product.

^d Market capitalisation and fund flow statistics are calculated based on units/shares of all authorised ETFs and L&I products held in Hong Kong.

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

Six months ended	Number of eligible Hong Kong ETFs as at period end	Market capitalisation as at period end (\$ million)	Southbound trading average daily turnover (\$ million)	As % of the eligible ETFs' total turnover (%)	Fund inflow/ (outflow) (\$ million)
30.9.2024	16	301,491	1,946	7.1	636
31.3.2024	8	196,197	2,140	10.2	9,405
30.9.2023	6	203,005	3,217	14.0	13,777

[^] Based on data from HKEX.

Enhancing Hong Kong market competitiveness and appeal

Update on 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 SFC supported HKEX's formation of an industry taskforce comprising representatives from industry associations and fund managers to gather insights and feedback to help finalise the IFP's business design. The SFC joined the first introductory meeting of the taskforce in September.

The IFP 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.

Authorised collective investment schemes

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	948 ^a	926	2.4	923	2.7
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,438	1,425	0.9	1,416	1.6
ILAS	320	319	0.3	314	1.9
Pooled retirement funds	32	32	0.0	32	0.0
MPF schemes	25	26	-3.8	26	-3.8
MPF pooled investment funds	199	197	1.0	191	4.2
Others	26 ^b	26	0.0	25	4.0
Total	2,988	2,951	1.3	2,927	2.1

^a This figure includes 116 approved pooled investment funds (retail APIFs) which MPFs may invest into and may also be offered to the public in Hong Kong.

^b Comprising 15 paper gold schemes and 11 REITs.

Registered OFCs

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
OFCs	435 [^]	302	44.0	187	132.6

[^] This figure includes 403 private OFCs.

Authorised unlisted structured investment products

	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Unlisted structured investment products [^]	331	311	6.4	277	19.5

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

Enhancing Hong Kong market competitiveness and appeal

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

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of \$93 billion (US\$11.9 billion), which was primarily attributed to money market funds.

	Six months ended 30.9.2024			Six months ended 31.3.2024			Six months ended 30.9.2023		
	Subscription	Redemption	Net subscription/ (redemption) ^b	Subscription	Redemption	Net subscription/ (redemption) ^b	Subscription	Redemption	Net subscription/ (redemption) ^b
Bond	8,297	6,500	1,796	5,874	6,015	(141)	5,649	5,722	(73)
Equity	7,672	9,273	(1,601)	5,282	7,956	(2,674)	6,275	8,640	(2,364)
Mixed	2,426	3,974	(1,548)	1,802	3,195	(1,393)	2,542	4,335	(1,792)
Money market	65,529	51,155	11,374	36,835	29,815	7,020	24,775	21,771	3,003
Feeder funds ^c	18	5	13	2	6	(4)	0	0	0
Index ^d	46,313	44,630	1,683	34,206	28,527	5,679	35,553	31,301	4,252
Guaranteed	0	2	(2)	0	3	(3)	0	3	(3)
Commodity and virtual asset ^e	662	441	221	171	169	2	15	69	(54)
Total ^b	127,917	115,981	11,936 ^f	84,171	75,685	8,486	74,809	71,840	2,969

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

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

^c The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded from the total NAV figures in the “Feeder funds” category to better reflect the total asset under management.

^d Including equity and fixed income index tracking funds, exchange-traded funds and leveraged and inverse products.

^e 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.

^f This figure includes net outflows of \$8.2 billion (US\$1.1 billion) reported by retail approved pooled investment funds which MPFs may invest in and may also be offered to the public in Hong Kong.

Enhancing Hong Kong market competitiveness and appeal

SFC-authorised RMB investment products

	As at 30.9.2024
Unlisted products	
Unlisted funds primarily investing in onshore Mainland securities markets ^a or offshore RMB bonds, fixed-income instruments or other securities	58
Unlisted funds (non-RMB denominated) with RMB share classes	442
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	43
Unlisted structured investment products issued in RMB ^b	330
ILAS with policy currency in RMB	8
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore RMB bonds, fixed-income instruments or other securities	51
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	42
RMB leveraged and inverse products	1
RMB gold ETFs ^c	1
RMB REITs	1

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

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

^c Only includes gold ETFs denominated in RMB.

Leading market transformation via technology and ESG

Tokenisation to increase industry efficiency

As a key member of the Project Ensemble Architecture Community¹, the SFC plays a crucial role in helping to develop a regulatory framework which supports the sustainable growth of the tokenised asset market in Hong Kong. We continue to work closely with the Hong Kong Monetary Authority (HKMA) and the Fintech industry to discuss and explore new tokenisation ideas. To build and scale the tokenisation market in Hong Kong, the SFC co-leads tokenisation initiatives for the asset management industry with the HKMA under Project Ensemble.

In August, the Project Ensemble Sandbox was launched for firms to conduct end-to-end testing of tokenised asset transactions using tokenised money in a sandbox environment. We will collaborate with the HKMA to provide regulatory guidance and address the industry's concerns that arise from the use cases.

Since the sandbox launch, we have seen encouraging progress as a local bank completed a first-of-its-kind simulation of the dealing and trading process of a tokenised money market fund using tokenised deposits in the sandbox.



CEO Ms Julia Leung and senior executives at the Project Ensemble Sandbox launch ceremony

¹ Currently, the Community consists of the HKMA, SFC, BIS Innovation Hub Hong Kong Centre, CBDC Expert Group, and 10 members from the private sector.

Leading market transformation via technology and ESG

Ms Julia Leung, our Chief Executive Officer (CEO), delivered opening remarks at the sandbox launch ceremony, where she recognised the sandbox as a clear example of how innovation and regulation can go hand in hand to blaze a new path for our financial markets. She also acknowledged the collective efforts made by the regulatory community as well as a cross-section of financial professionals, technology experts, academics and international organisations. Other SFC senior executives also joined the event to provide technical and implementation details.



Reviewing **15**
VATP licence applications

Enhancing the virtual asset regulatory regime continuously

The SFC is reviewing the licence applications of 15 virtual asset trading platform (VATP) applicants, 11 of which are deemed-to-be-licensed VATP applicants².

During the quarter, we conducted on-site inspections of a number of deemed-to-be-licensed VATP applicants, with a focus on their safeguarding of client assets, know-your-client processes and cybersecurity requirements. These are fundamental requirements for protecting investor interests which apply to all SFC-licensed intermediaries, including VATPs.

In light of public responses to the Financial Services and the Treasury Bureau's (FSTB) consultation paper on a legislative proposal to regulate over-the-counter (OTC) spot trading of VA businesses in Hong Kong, the SFC continues to work closely with the FSTB, Customs and Excise Department and the HKMA on the proposed VA OTC regime.

Promoting Fintech development

During the quarter, the SFC promoted Fintech development by speaking on Fintech-related topics at a number of press conferences, panel discussions, interviews and roundtables arranged by international organisations, local government agencies and the industry. Dr Eric Yip, Executive Director of Intermediaries, spoke at the Hong Kong FinTech Week in October, a key local fintech event every year. He emphasised the SFC will continue to adopt a pragmatic and proactive approach in building and advancing a holistic regulatory framework, to strike a balance between market development and investor protection.



Dr Eric Yip, Executive Director of Intermediaries, speaking at Hong Kong FinTech Week 2024

Licensees under the AMLO

	As at 30.9.2024	As at 30.6.2024	QoQ change (%)	As at 30.9.2023
Licensed providers	2	2	0	0
Licensed individuals	43	31	38.7	0
Total	45	33	36.4	0

Licensing applications under the AMLO

	Quarter ended 30.9.2024	Six months ended 30.9.2024	QoQ change (%)	Six months ended 30.9.2023	YoY change (%)
Applications for SFC licences	21	120	-78.8	24	492

² As of November 2024.

Leading market transformation via technology and ESG



CEO Ms Leung and senior executives at the STF plenary meeting in September 2024

Advancing Hong Kong's leading role in sustainable finance

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

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

In September, Ms Leung and other senior SFC representatives attended the STF plenary meeting held in Singapore. The meeting covered the implementation of the ISSB Standards, carbon markets, transition plans, environmental, social and governance (ESG) ratings and data products, and IOSCO's participation in this year's United Nations Climate Change Conference in Baku (commonly known as COP29). We also participated in bilateral meetings with various other securities regulators to discuss the latest developments and policy initiatives on sustainable finance.

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 across the region.

During the quarter, we joined two recently established advisory groups of the United Nations Sustainable Stock Exchanges Initiative (UNSSE). The Transition Plans Advisory Group aims to assist members in their efforts to guide their market participants in adopting and implementing climate transition plans, while the Small and Medium Enterprises (SMEs) and Sustainability Advisory Group will develop practical tools and guidance for members to help these SMEs integrate sustainability principles into their operations, while taking into consideration their unique constraints.

In addition, we actively participated in other international initiatives³ to advance the global sustainable finance agenda.

Local efforts at Green and Sustainable Finance Cross-Agency Steering Group

We co-chair with the HKMA the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)⁴ and participate in all of its working groups.

At the Steering Group's meeting in August, co-chaired by our CEO Ms Leung and the HKMA's Chief Executive Mr Eddie Yue, members discussed key progress made and the next steps for adopting the IFRS Sustainability



The Steering Group's meeting in August 2024

³ We have signed the ISSB's COP28 Declaration of Support. We are also a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the UNSSE.

⁴ Established in May 2020, the Steering Group is co-chaired by the SFC and HKMA. Other members include the FSTB, Environment and Ecology Bureau, Insurance Authority, Mandatory Provident Fund Schemes Authority, Accounting and Financial Reporting Council and Hong Kong Exchanges and Clearing Limited.

Leading market transformation via technology and ESG

Disclosure Standards in Hong Kong. The meeting also focused on the future plans of the Hong Kong Taxonomy for Sustainable Finance⁵ and the Prototype Hong Kong Green Fintech Map⁶, alongside initiatives to facilitate transition finance, foster the growth of carbon markets, and build industry capacity.

Adopting global sustainability disclosure standards

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

We collaborate with the Stock Exchange of Hong Kong Limited (SEHK) to enhance climate-related disclosure requirements for listed companies in Hong Kong. SEHK's new rules will take effect in phases from 1 January 2025, making Hong Kong among the world's first jurisdictions to enhance its climate-related disclosure requirements based on the IFRS S2 Climate-related Disclosures.

Under the Steering Group, the SFC co-chairs with the FSTB a working group on sustainability disclosures. The working group is developing a roadmap on Hong Kong's full adoption of the IFRS Sustainability Disclosure Standards, comprising four key areas of sustainability reporting, assurance, data and technology, as well as capacity building.

Sustainability-related education and outreach

In July, we organised a seminar titled "Developing a comprehensive sustainability disclosures ecosystem" for more than 100 university students. The seminar covered the latest local and global trends in sustainable finance, the crucial role of disclosures in guiding capital towards sustainability and transition goals, use cases of carbon credits for corporate decarbonisation, and the potential of green Fintech as a catalyst for scaling sustainable finance. The seminar also showcased the greenhouse gas emissions calculation and estimation tools developed by the Steering Group and the Hong Kong University of Science and Technology.



"Developing a comprehensive sustainability disclosures ecosystem" seminar in July 2024

During the quarter, Ms Christine Kung delivered keynote speeches at CDP's⁷ "From Policy to Action: The Role of Taxonomies and ESG Ratings Regulation Streamlining the Transition" and Mitsubishi UFJ Financial Group's "NOW (Net Zero World)", highlighting the importance of sustainability disclosures in facilitating transition finance and meeting climate ambitions. She also participated in the United Nations Pre-Summit of the Future Dialogue on Accelerating Progress Towards Global Sustainable Development and the inaugural Joint Climate Finance Conference's industry roundtable organised by the HKMA and the Dubai Financial Services Authority.

231

SFC-authorised ESG funds' AUM



▲ 9.9% YoY to

\$1,360.9 billion

Authorising ESG funds

As at 30 September, there were 231 SFC-authorised ESG funds with total assets under management (AUM) of \$1,360.9 billion (US\$175.1 billion), decreasing 0.9% and increasing 3.5% from the previous quarter respectively.

⁵ The Hong Kong Taxonomy for Sustainable Finance is a local green classification framework which encompasses 12 economic activities under four sectors: power generation, transportation, construction, and water and waste management.

⁶ The Steering Group, Cyberport and Invest Hong Kong launched this map to help corporates and financial firms identify green and sustainable financial technology solutions that meet their business needs.

⁷ CDP is a not-for-profit charity which runs the global disclosure system for investors, companies, cities and regions to manage their environmental impacts.

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 resource management

Our income for the quarter was \$553 million, up 5.9% from the previous quarter and 42.9% from the same quarter last year. On a six-month basis, our income increased 34.4% year-on-year. Average daily turnover in Hong Kong's securities market was \$112 billion, up 20.4% from the same quarter last year. Our expenditure for the quarter was \$557 million, which remained stable compared to the previous quarter and was up 9.4% from the same quarter last year. On a six-month basis, our expenditure was up 9.0% year-on-year. We recorded a deficit of \$4 million for the quarter.

As of 30 September, our reserves stood at \$7.5 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 September, we had 945 staff members, up from 934 a year ago.

Board appointments

Dr Kelvin Wong Tin-yau, SBS, JP, was appointed the Chairman of the SFC for a term of three years, effective 20 October 2024.¹ He succeeded Mr Tim Lui, GBS, JP, who stepped down on 19 October after having chaired the SFC for six years.

During the quarter, changes to Board membership² included the appointment of Mr Vincent Chan Chun-hung and the re-appointment of Mr Victor Dawes, SC, BBS, as the SFC's Non-Executive Directors (NEDs), both for a term of two years from 1 August 2024. Dr James Lin stepped down as NED in July.

Finance

(\$ million)	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY Change (%)
Income	553	1,075	800	34.4
Expenses including depreciation	557	1,116	1,024	9.0
Deficit	(4)	(41)	(224)	-81.7

¹ Post-reporting period.

² Post-reporting period. Mr Keith Pogson was appointed and Mr Chew Fook-aun was re-appointed as NEDs, respectively for a term of two years. The term of Mr Pogson began on 20 October 2024 and the renewed term of Mr Chew will begin on 1 January 2025. Ms Agnes Chan, BBS, stepped down as NED in October 2024.

Enhancing SFC's institutional resilience and efficiency

Driving regulatory and operational efficiency

In July, we launched a new one-stop online application and submission system named e-IP for investment products. The industry can now submit new product applications and post-authorisation or registration submissions, track progress, and settle fee payments through the new platform. Prior to the launch, an industry webinar was held, with over 700 participants representing product issuers, management companies, advisory firms and industry associations. At the initial stage, a parallel run of existing application and regulatory submission channels up to November 2024 was conducted.

During the quarter, we introduced a generative artificial intelligence (GAI) solution designed to expedite everyday tasks, such as writing-related assignments, conducting basic research and acquiring regulatory knowledge. To ensure proper and secure implementation, we provided staff with usage guidelines and controls regarding the adoption of GAI.

Commitment to carbon neutrality

The SFC has once again received the highest Platinum rating in Swire Properties' Green Performance Pledge programme for 2023-24, demonstrating our commitment to environmental sustainability. We are one of the six tenants to achieve this rating out of over 100 participants. Over the past three years, we have reduced energy and water consumption, and waste generation. We have already achieved a 48.6% reduction in carbon emissions in 2023-24, with our 2030 target at 50%. We conducted energy audits, water flow tests, and upgraded energy-efficient lighting for further emission reduction. Our combined efforts with our CSR Green initiatives to reduce waste and enhance recycling practices in the office are also gaining momentum. We will continue to work towards our sustainability goals for a greener future.

Proactive communications for regulatory transparency and efficiency

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 10 local and international events covering asset management, mutual market access scheme, Fintech, corporate governance and ESG. We were the supporting organisation of four industry events.

In September, our then-Chairman Mr Tim Lui delivered a keynote speech on how to unlock potential during new waves of change at The Hong Kong Institute of Bankers' (HKIB) Annual Banking Conference. He highlighted the importance of innovation and sustainable finance in future-proofing Hong Kong's financial industry and emphasised the SFC's commitment to providing regulatory clarity, certainty and consistency to nurture both Fintech and ESG developments in Hong Kong.



Then-Chairman Mr Tim Lui at HKIB Annual Banking Conference

Enhancing SFC's institutional resilience and efficiency

Mr Lui delivered another keynote speech in September – at the Directors' Symposium of The Hong Kong Institute of Directors (HKIoD), where he also accepted the award of HKIoD's honorary fellowship. He shared how the board of directors should lead initiatives to develop corporate agility and adapt businesses to emerging challenges through innovation. He also stressed that the SFC is committed to corporate governance and director standards in Hong Kong.



Then-Chairman Mr Tim Lui (middle) receiving the award of HKIoD's honorary fellowship

Also in September, when speaking at The Hong Kong Chartered Governance Institute's 14th Biennial Corporate Governance Conference, CEO Ms Julia Leung called on Hong Kong's listed companies to step up corporate governance to raise global competitiveness, and the city to move on with corporate governance reforms. She urged listed companies to embrace diversity and inclusion and also emphasised the importance of robust internal controls and the critical role of non-executive directors in ensuring good corporate governance.



CEO Ms Julia Leung at The Hong Kong Chartered Governance Institute's 14th Biennial Corporate Governance Conference

At the GIR Live: Asia-Pacific Investigations Summit 2024 held in Singapore in September, Executive Director of Enforcement Mr Christopher Wilson emphasised the critical role of a robust regulatory framework in sustaining Asia's financial market growth. He highlighted the challenges posed by technological advancements and global connectivity, and shared the SFC's approach to "CRAFT" an effective investigation strategy through: Collaboration, Rapid Response, Alliance, Flexibility and Technology.



Executive Director of Enforcement Mr Christopher Wilson at GIR Live: Asia-Pacific Investigations Summit 2024

In September, we published the *Financial Review of the Securities Industry for the first half of 2024*, which summarised financial performance data and statistics on securities dealers and securities margin financiers. The report revealed that Hong Kong's securities industry posted further growth in total net profits for the first half of 2024 amidst higher average daily market turnover and increases in the number of active cash and margin clients.

Enhancing SFC's institutional resilience and efficiency

In September, we published a joint annual survey with the Hong Kong Monetary Authority on the sale of non-exchange-traded investment products. The survey revealed a strong sales rebound with a 14% increase in total transaction amount to \$4,338 billion in 2023, due to improved overall market sentiment, easing of inflationary pressures and anticipation of the end of the monetary tightening cycle. The number of firms engaged in the sale of investment products grew to 380 in 2023 and about 68% of the firms reported increases in transaction amount. Participating clients also grew by 15% to over 940,000. Money market funds remained the top-selling collective investment schemes while sovereign bonds accounted for 44% of total debt securities sold, up from 29% in 2022, due to investors' preference for lower risk products with more stable yields. Sales of equity-linked products accounted for 61% of all structured products

sales, up from 53% in 2022, driven by the improved stock market performance. The findings enable both regulators to better understand market trends, identify potential risks, and formulate regulatory strategies to protect investors.

During the quarter, we issued 13 circulars to guide the industry on a wide range of topics, including e-IP, distribution of research reports of eligible Mainland exchange-traded funds under Stock Connect, and anti-money laundering and counter-financing terrorism. A total of 77 posts were published on the SFC's social media platforms to promote public awareness of various matters, such as alerts against scams and suspicious investment products, latest developments on sustainability and regulatory updates.

Publications and other communications

	Quarter ended 30.9.2024	Six months ended 30.9.2024
Press releases	45	98
Policy statements and announcements	0	1
Consultation papers	1	2
Consultation conclusions	3	4
Industry-related publications	4	5
Codes and guidelines ^a	7	8
Circulars to industry	13	26
Social media posts ^b	77	177
Corporate website average daily page views ^c	67,965	67,545
General enquiries	918	1,903

^a Includes updates to previous versions.

^b Includes posts on the SFC's Facebook, LinkedIn and WeChat pages.

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

Operational Data

Table 1 Takeovers activities

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	10	20	13	53.8
Privatisations	6	12	10	20.0
Whitewash waiver applications	3	6	10	-40.0
Other applications under Code on Takeovers and Mergers ¹	68	127	141	-9.9
Off-market and general offer share buy-backs	2	3	4	-25.0
Other applications under Code on Share Buy-backs ¹	0	0	0	0.0
Total	89	168	178	-5.6
Executive Statements				
Sanctions imposed with parties' agreement ²	0	0	0	0.0
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0.0
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	0	0.0
Statements issued by the Panel ³	0	0	0	0.0

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

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

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

Operational Data

Table 2 Breaches noted during on-site inspections

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	9	5	80.0
Failure to safekeep client securities	18	25	20	25.0
Failure to maintain proper books and records	7	14	8	75.0
Failure to safekeep client money	16	30	21	42.9
Unlicensed dealing and other registration issues	5	11	11	0.0
Breach of requirements of contract notes/statements of account/receipts	20	32	17	88.2
Failure to make filing/notification	1	5	0	N/A
Breach of margin requirements	4	8	7	14.3
Dealing malpractices	0	1	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	99	192	161	19.3
Breach of Corporate Finance Adviser Code of Conduct	2	6	7	-14.3
Breach of Fund Manager Code of Conduct	25	56	44	27.3
Breach of regulation of on-line trading	1	3	8	-62.5
Non-compliance with anti-money laundering guidelines	68	142	157	-9.6
Breach of other rules and regulations of the Exchanges ²	4	7	4	75.0
Internal control weaknesses ³	282	472	224	110.7
Others	40	77	33	133.3
Total	594	1,090	727	49.9

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

² The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ 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 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Bond	165	165	0.0	172	-4.1
Equity	202	203	-0.5	205	-1.5
Mixed	112	111	0.9	112	0.0
Money market	73	67	9.0	59	23.7
Feeder funds	52	50	4.0	50	4.0
Index ¹	165	156	5.8	156	5.8
Guaranteed	1	1	0.0	1	0.0
Commodity and virtual asset ²	17	12	41.7	12	41.7
Sub-total	787	765	2.9	767	2.6
Umbrella structures	161	161	0.0	156	3.2
Total	948	926	2.4	923	2.7

b) Assets under management by type	Total NAV (US\$ million) as at 30.9.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.9.2023	YoY change (%)
Bond	28,907	25,928	11.5	24,907	16.1
Equity	50,326	44,854	12.2	44,883	12.1
Mixed	25,820	25,175	2.6	24,873	3.8
Money market	39,918	28,010	42.5	19,967	99.9
Feeder funds ³	30	15	100.0	18	66.7
Index ¹	68,351	53,588	27.5	50,331	35.8
Guaranteed	29	30	-3.3	30	-3.3
Commodity and virtual asset ²	973	682	42.7	522	86.4
Total⁴	214,353	178,280	20.2	165,532	29.5

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

² 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.

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

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

Operational Data

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Luxembourg	1,086	1,066	1.9	1,064	2.1
Ireland	253	258	-1.9	251	0.8
United Kingdom	25	26	-3.8	29	-13.8
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
Total	1,438	1,425	0.9	1,416	1.6

b) Assets under management by origin	Total NAV (US\$ million) as at 30.9.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.9.2023	YoY change (%)
Luxembourg	1,250,698	1,172,193	6.7	1,070,678	16.8
Ireland	279,209	248,008	12.6	217,213 ²	28.5
United Kingdom	74,629	75,359	-1.0	65,422	14.1
Mainland China	18,269	17,112	6.8	19,273	-5.2
Bermuda	99	116	-14.7	117	-15.4
Cayman Islands	1,206	1,171	3.0	1,204	0.2
Others	78,645	63,680	23.5	56,995	38.0
Total¹	1,702,756	1,577,641	7.9	1,430,900²	19.0

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

² These figures differ from those disclosed in the *Quarterly Report July - September 2023* due to a revised figure reported after the report's issuance.

Operational Data

c) Number of funds by type	As at 30.9.2024	As at 31.3.2024	Change (%)	As at 30.9.2023	YoY change (%)
Bond	364	358	1.7	357	2.0
Equity	781	775	0.8	774	0.9
Mixed	164	163	0.6	156	5.1
Money market	12	12	0.0	12	0.0
Feeder funds	3	3	0.0	3	0.0
Index ¹	25	25	0.0	25	0.0
Hedge	1	1	0.0	1	0.0
Commodity ²	1	1	0.0	1	0.0
Sub-total	1,351	1,338	1.0	1,329	1.7
Umbrella structures	87	87	0.0	87	0.0
Total	1,438	1,425	0.9	1,416	1.6

d) Assets under management by type	Total NAV (US\$ million) as at 30.9.2024	Total NAV (US\$ million) as at 31.3.2024	Change (%)	Total NAV (US\$ million) as at 30.9.2023	YoY change (%)
Bond	506,433	453,231	11.7	410,151 ⁵	23.5
Equity	861,089	823,726	4.5	758,898	13.5
Mixed	177,190	166,913	6.2	150,314	17.9
Money market	13,909	11,777	18.1	10,497	32.5
Feeder funds ³	0	0	0.0	0	0.0
Index ¹	70,332	62,796	12.0	48,402	45.3
Hedge	99	116	-14.7	117	-15.4
Commodity ²	73,704	59,082	24.7	52,521	40.0
Total⁴	1,702,756	1,577,641	7.9	1,430,900⁵	19.0

¹ Including equity and fixed income index tracking funds and exchange-traded funds.

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

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

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

⁵ These figures differ from those disclosed in the *Quarterly Report July-September 2023* due to a revised figure reported after the report's issuance.

Operational Data

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.9.2024	Six months ended 30.9.2024	Six months ended 30.9.2023	YoY change (%)
Conduct of licensees	371	764	280	172.9
Conduct of registered institutions	7	8	4	100.0
Listed companies and disclosure of interests	199	753	520	44.8
Market misconduct ¹	82	158	189	-16.4
Product disclosure	8	10	0	N/A
Unlicensed activities	43	97	193	-49.7
Breach of offers of investments	5	5	40	-87.5
Boiler rooms and suspicious websites	48	82	99	-17.2
Scams and frauds ²	83	185	246	-24.8
Other financial activities not regulated by the SFC ³	58	128	138	-7.2
Total	904	2,190	1,709	28.1

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading and banking services.

Securities and Futures Commission

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

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

Introduction

We have reviewed the interim financial information set out on pages 42 to 49, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) as at 30 September 2024 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 3 December 2024

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Levies	421,534	353,947
Fees and charges	29,388	31,057
Net investment income		
Investment income	124,697	6,744
Less: custody and advisory expenses	(2,748)	(2,615)
Recoveries from the Investor Compensation Fund	1,621	1,532
Exchange loss	(22,371)	(3,879)
Other income	781	109
	552,902	386,895
Expenses		
Staff costs and directors' emoluments	413,134	388,051
Depreciation		
Fixed assets	48,576	25,246
Right-of-use assets	2,741	36,602
Other premises expenses	9,651	9,025
Finance costs	24,618	1,543
Other expenses	58,698	49,029
	557,418	509,496
Deficit and total comprehensive income for the quarter	(4,516)	(122,601)

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2024 is for information only.

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income			
Levies		837,144	706,203
Fees and charges		59,135	55,961
Net investment income			
Investment income		212,694	52,083
Less: custody and advisory expenses		(5,353)	(5,471)
Recoveries from the Investor Compensation Fund	7(a)	3,189	3,052
Exchange loss		(32,762)	(12,434)
Other income		781	853
		1,074,828	800,247
Expenses			
Staff costs and directors' emoluments	7(b)	837,811	780,382
Depreciation			
Fixed assets		95,015	50,501
Right-of-use assets		5,484	73,222
Other premises expenses		19,241	17,939
Finance costs		48,984	3,085
Other expenses		109,704	98,780
		1,116,239	1,023,909
Deficit and total comprehensive income for the period		(41,411)	(223,662)

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Non-current assets			
Fixed assets		4,353,746	4,410,812
Right-of-use assets		15,993	21,477
Deposits and prepayments		335,414	335,414
Financial assets at amortised cost – debt securities	8(b)	1,728,530	2,102,479
		6,433,683	6,870,182
Current assets			
Financial assets at amortised cost– debt securities	8(b)	1,371,139	898,557
Financial assets at fair value through profit or loss – pooled funds	8(a)	1,231,381	1,087,666
Debtors, deposits and prepayments		284,547	196,080
Fixed deposits with banks	2	496,350	610,147
Cash held for Grant Scheme	3	36,103	58,656
Cash at bank and in hand	2	32,447	146,154
		3,451,967	2,997,260
Current liabilities			
Fees received in advance		7,390	8,497
Creditors and accrued charges		264,354	199,132
Bank loan	4	18,262	18,262
Lease liabilities		6,838	9,212
Provisions for reinstatement costs		574	574
		297,418	235,677
Net current assets		3,154,549	2,761,583
Total assets less current liabilities		9,588,232	9,631,765
Non-current liabilities			
Bank loan	4	2,002,333	2,001,319
Lease liabilities		9,743	12,879
Provisions for reinstatement costs		1,190	1,190
		2,013,266	2,015,388
Net assets		7,574,966	7,616,377
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		1,186,800	1,186,800
Accumulated surplus		6,345,326	6,386,737
		7,574,966	7,616,377

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	–	(223,662)	(223,662)
Balance at 30 September 2023	42,840	3,375,000	4,272,631	7,690,471
Balance at 1 April 2024	42,840	1,186,800	6,386,737	7,616,377
Deficit and total comprehensive income for the period	–	–	(41,411)	(41,411)
Balance at 30 September 2024	42,840	1,186,800	6,345,326	7,574,966

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Cash flows from operating activities			
Deficit for the period		(41,411)	(223,662)
Adjustments for:			
Depreciation – Fixed assets		95,015	50,501
Depreciation – Right-of-use assets		5,484	73,222
Finance costs		48,984	3,085
Interest income on deposits for leases		–	(146)
Investment income		(212,694)	(52,083)
Exchange loss		32,648	11,225
Loss on disposal of fixed assets		7	16
		(71,967)	(137,842)
Increase in right-of-use assets		–	(7)
(Increase)/decrease in debtors, deposits and prepayments		(92,451)	23,525
Decrease in cash held for Grant Scheme		22,553	27,452
Decrease in fees received in advance		(1,107)	(800)
Increase in creditors and accrued charges		68,755	60,451
Net cash used in operating activities		(74,217)	(27,221)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		25,050	1,551,881
Interest received		59,828	138,362
Debt securities at fair value through profit or loss purchased		–	(72,193)
Debt securities at fair value through profit or loss sold or redeemed		–	466,030
Pooled funds sold		3,165	3,054
Debt securities at amortised cost purchased		(2,368,873)	(321,868)
Debt securities at amortised cost redeemed at maturity		2,247,562	278,005
Fixed assets purchased		(40,705)	(30,348)
Net cash (used in)/generated from investing activities		(73,973)	2,012,923
Cash flows from financing activities			
Principal element of lease payments		(5,510)	(71,519)
Interest element of lease payments		(154)	(3,085)
Interest expense on bank loan		(48,600)	–
Net cash used in financing activities		(54,264)	(74,604)
Net (decrease)/increase in cash and cash equivalents		(202,454)	1,911,098
Cash and cash equivalents at the beginning of the six-month period		731,251	407,901
Cash and cash equivalents at the end of the six-month period	2	528,797	2,318,999

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2024 \$'000	At 30 Sep 2023 \$'000
Fixed deposits with banks	496,350	2,242,111
Cash at bank and in hand	32,447	76,888
	528,797	2,318,999

The notes on pages 46 to 49 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 30 September 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 September 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 six months ended 30 September 2024.

2. Cash and cash equivalents

	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Cash at bank and in hand	32,447	146,154
Fixed deposits with banks	496,350	610,147
Amounts shown in the condensed consolidated statement of financial position	528,797	756,301
Less: Amounts with an original maturity beyond three months	–	(25,050)
Cash and cash equivalents in the condensed consolidated statement of cash flows	528,797	731,251

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

3. 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.

4. 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.

5. Foreign 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.

6. Consolidation

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

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

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

As at 30 September 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).

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

7. Related party transactions

The Group has related party relationships with the ICF and the Unified Exchange Compensation Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions and balances.

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

During the period, \$3,189,000 was recovered from the ICF for the ICC's expenses (30 September 2023: \$3,052,000). As at 30 September 2024, the ICC had an amount due to the ICF of \$74,000 (as at 31 March 2024: \$148,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Directors' fee and salaries, allowances and benefits in kind	18,237	15,544
Retirement scheme contributions	1,600	1,365
	19,837	16,909

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

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

8. Fair value measurement

(a) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2024.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 September 2024 (Unaudited)</u>				
Pooled funds	1,231,381	–	–	1,231,381
<u>At 31 March 2024 (Audited)</u>				
Pooled funds	1,087,666	–	–	1,087,666

During the six months ended 30 September 2024 and the year ended 31 March 2024, there were no 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 the different levels of the 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 markets.

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

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

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>At 30 September 2024 (Unaudited)</u>					
Financial assets at amortised cost – debt securities	3,099,669	3,001,866	–	3,001,866	–
<u>At 31 March 2024 (Audited)</u>					
Financial assets at amortised cost – 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 six months ended 30 September 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 September 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 52 to 58.

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

Dr Lin, James C.

(retired on 1 August 2024)

Mr Wan Chi Yiu, Andrew

Mr Yih, Dieter, JP

(appointed on 1 August 2024)

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

3 December 2024

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

Introduction

We have reviewed the interim financial information set out on pages 53 to 58, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2024 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 December 2024

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Interest income	33,692	30,997
Exchange loss	(7,750)	(846)
	25,942	30,151
Expenses		
Investor Compensation Company Limited expenses	1,621	1,532
Auditor's remuneration	59	57
	1,680	1,589
Surplus and total comprehensive income for the quarter	24,262	28,562

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2024 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income			
Interest income		67,187	57,532
Exchange loss		(11,394)	(3,255)
		55,793	54,277
Expenses			
Investor Compensation Company Limited expenses	2	3,189	3,052
Auditor's remuneration		117	114
		3,306	3,166
Surplus and total comprehensive income for the period		52,487	51,111

The notes on pages 57 and 58 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Current assets			
Interest receivable		28,765	55,366
Amount due from the Investor Compensation Company Limited		74	148
Fixed deposits with banks	3	2,663,449	2,584,342
Cash at bank	3	664	648
		2,692,952	2,640,504
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		239	278
		3,633	3,672
Net current assets		2,689,319	2,636,832
Net assets		2,689,319	2,636,832
Representing:			
Compensation fund		2,689,319	2,636,832

The notes on pages 57 and 58 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 period	–	–	–	–	51,111	51,111
Balance at 30 September 2023	994,718	108,923	5,470	617	1,464,518	2,574,246
Balance at 1 April 2024	994,718	108,923	5,470	617	1,527,104	2,636,832
Surplus and total comprehensive income for the period	–	–	–	–	52,487	52,487
Balance at 30 September 2024	994,718	108,923	5,470	617	1,579,591	2,689,319

The notes on pages 57 and 58 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Cash flows from operating activities			
Surplus for the period		52,487	51,111
Adjustments for:			
Interest income		(67,187)	(57,532)
Exchange loss		11,394	3,255
		(3,306)	(3,166)
Change in amount due from/to the Investor Compensation Company Limited		74	(309)
Decrease in creditors and accrued charges		(39)	(39)
Net cash used in operating activities		(3,271)	(3,514)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		579,076	(78,230)
Interest received		93,622	63,728
Net cash generated from/(used in) investing activities		672,698	(14,502)
Cash flows from financing activity			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		–	6,087
Net cash generated from financing activity		–	6,087
Net increase/(decrease) in cash and cash equivalents		669,427	(11,929)
Cash and cash equivalents at the beginning of the six-month period		702,082	164,980
Cash and cash equivalents at the end of the six-month period	3	1,371,509	153,051

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2024 \$'000	At 30 Sep 2023 \$'000
Fixed deposits with banks	1,370,845	152,463
Cash at bank	664	588
	1,371,509	153,051

The notes on pages 57 and 58 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2024, the ICC incurred costs of \$3,189,000 for its operations (for the six months ended 30 September 2023: \$3,052,000).

3. Cash and cash equivalents

	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Cash at bank	664	648
Fixed deposits with banks	2,663,449	2,584,342
Amounts shown in the condensed statement of financial position	2,664,113	2,584,990
Less: Amounts with an original maturity beyond three months	(1,292,604)	(1,882,908)
Cash and cash equivalents in the condensed statement of cash flows	1,371,509	702,082

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 September 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. Upon the winding-up of SDD and CDD in June 2023, the SFC had \$5,470,000 and \$617,000 remaining balances paid into the Fund from the SDD and the CDD respectively.

6. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the Unified Exchange Compensation Fund, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 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 September 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 six months ended 30 September 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 six months ended 30 September 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 September 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 September 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 61 to 67.

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.

(retired on 1 August 2024)

Mr Wan Chi Yiu, Andrew

Mr Yih, Dieter, JP

(appointed on 1 August 2024)

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

8 November 2024

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

Introduction

We have reviewed the interim financial information set out on pages 62 to 67, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2024 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and selected explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Emphasis of matter

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 November 2024

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Interest income	1,087	1,148
Expense		
Auditor's remuneration	28	27
Surplus and total comprehensive income for the quarter	1,059	1,121

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2024 is for information only.

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Income		
Interest income	2,181	2,052
Expense		
Auditor's remuneration	56	54
Surplus and total comprehensive income for the period	2,125	1,998

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Current assets			
Interest receivable		558	612
Fixed deposits with banks	3	99,595	99,009
Cash at bank	3	287	353
		100,440	99,974
Current liabilities			
Creditors and accrued charges		10,217	10,226
Relinquished trading rights payable to SEHK	4	1,700	1,650
		11,917	11,876
Net current assets		88,523	88,098
Net assets		88,523	88,098
Representing:			
Compensation fund		88,523	88,098

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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	(1,100)	–	–	–	–	–	(1,100)
Surplus and total comprehensive income for the period	–	–	–	–	1,998	–	1,998
Balance at 30 September 2023	51,050	353,787	630,000	6,502	40,116	(994,718)	86,737
Balance at 1 April 2024	50,050	353,787	630,000	6,502	42,477	(994,718)	88,098
Net contributions to SEHK	(1,700)	–	–	–	–	–	(1,700)
Surplus and total comprehensive income for the period	–	–	–	–	2,125	–	2,125
Balance at 30 September 2024	48,350	353,787	630,000	6,502	44,602	(994,718)	88,523

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2024 \$'000	30 Sep 2023 \$'000
Cash flows from operating activities			
Surplus for the period		2,125	1,998
Adjustment for:			
Interest income		(2,181)	(2,052)
		(56)	(54)
Decrease in creditors and accrued charges		(9)	(5)
Increase/(decrease) in relinquished trading rights payable to SEHK		50	(150)
Net cash used in operating activities		(15)	(209)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		24,700	24,194
Interest received		2,235	1,920
Net cash generated from investing activities		26,935	26,114
Cash flows from financing activity			
Net trading rights deposits refunded to SEHK		(1,700)	(1,100)
Net cash used in financing activity		(1,700)	(1,100)
Net increase in cash and cash equivalents		25,220	24,805
Cash and cash equivalents at the beginning of the six-month period		62,362	69,384
Cash and cash equivalents at the end of the six-month period	3	87,582	94,189

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2024 \$'000	At 30 Sep 2023 \$'000
Fixed deposits with banks	87,295	93,712
Cash at bank	287	477
	87,582	94,189

The notes on pages 66 and 67 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 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 included in "Recoveries". Dividend income, if any, is also included in "Recoveries".

As at 30 September 2024, the equity securities received under subrogation amounted to \$11 (as at 31 March 2024: \$15). The balances as at 30 September 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 six months ended 30 September 2024 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Sep 2024 \$'000	Audited At 31 Mar 2024 \$'000
Cash at bank	287	353
Fixed deposits with banks	99,595	99,009
Amounts shown in the condensed statement of financial position	99,882	99,362
Less: Amounts with an original maturity beyond three months	(12,300)	(37,000)
Cash and cash equivalents in the condensed statement of cash flows	87,582	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 six months ended 30 September 2024, deposits of \$1,650,000 in respect of 33 relinquished trading rights were refunded to SEHK. As at 30 September 2024, 34 trading rights totalling \$1,700,000 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 period was as follows:

	Unaudited Six months ended	
	30 Sep 2024 \$'000	30 Sep 2023 \$'000
Balance at the beginning of the six-month period	50,050	52,150
Add: new trading rights issued	–	150
Less: relinquished trading rights refunded	(1,650)	(1,400)
Adjustment for: net (increase)/decrease in relinquished trading rights payable to SEHK	(50)	150
Balance at the end of the six-month period	48,350	51,050

5. Related party transactions

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



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