



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

Financial Review of the Securities Industry

For the half year ended 30 June 2022

Executive Summary

In the first half of 2022, the total value of transactions and net securities commission income of all securities dealers and securities margin financiers¹ decreased by 11% and 23%, respectively, compared to the previous six-month period. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) was \$138.3 billion², down 5% from the previous six months³. The Hang Seng Index closed at 21,860 on 30 June 2022, 7% lower than its close on 31 December 2021.

The net profits of all securities dealers and securities margin financiers totalled \$13.5 billion, down 50% from the previous six-month period. The drop was mainly attributable to decreases in net securities commission income, net profit on proprietary trading and other income.

The net profits of all SEHK participants totalled \$1.9 billion in the first half of 2022, down 77% from the previous six-month period. Participants in Categories A and B reported total net profits of \$1.8 billion and \$2.9 billion, whereas the total net loss of Category C brokers widened to \$2.8 billion from \$722 million in the previous six-month period. The total net loss was mainly attributable to lower net securities commissions and other income⁴.

At the end of June 2022, outstanding margin loans totalled \$180.4 billion, 17% lower than the end of 2021. The 20 largest providers of securities margin financing collectively accounted for 80% of the industry's total outstanding margin loans. Average collateral coverage⁵ was 4.2 times at the end of June 2022.

Table 1 summarises the statistical information and financial highlights for securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the first half of 2022.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	30/6/2022	31/12/2021
Total number of securities dealers and securities margin financiers	1,429	1,433
Total number of active cash clients ^{1b}	2,046,235	1,939,379
Total number of active margin clients ^{1b}	2,402,127	2,219,721
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	696,073	694,492
Amounts receivable from margin clients	180,374	218,436
Amounts receivable from clients and other dealers arising from dealing in securities	291,788	211,398
Proprietary positions	126,737	148,661
Other assets	400,903	385,566
Total assets	1,695,875	1,658,553

¹ Securities dealers and securities margin financiers refer to corporations licensed for dealing in securities or securities margin financing. Both SEHK participants and non-SEHK participants are included unless otherwise specified.

² Unless otherwise stated, figures provided in this report are denominated in Hong Kong dollars.

³ Average daily turnover on SEHK for the six-month period ended 31 December 2021 was \$146.2 billion (Source: Hong Kong Exchanges and Clearing Limited).

⁴ Other income that showed a substantial drop mainly included advisory fees and inter-company management fee income.

⁵ As defined in remark 1a in Table 1.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers (cont'd)

	30/6/2022	31/12/2021
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	885,520	770,952
Total borrowings from financial institutions	75,384	98,429
Short positions held for own account	17,510	16,718
Other liabilities	216,126	244,242
Total shareholders' funds	501,335	528,212
Total liabilities and shareholders' funds	1,695,875	1,658,553
	Six months to 30/6/2022	Six months to 31/12/2021
Profit and loss (\$ million)		
Total value of transactions ^{1d}	67,932,539	76,394,306
Net securities commission income	11,024	14,309
Gross interest income	8,089	8,864
Other income ^{1e}	73,958	88,323
Net profit on proprietary trading	3,859	7,854
Total income	96,930	119,350
Total overhead and interest expenses	(83,389)	(92,351)
Net profit	13,541	26,999
Remarks:		
1a. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis:		
	<u>As at 30/6/2022</u>	<u>As at 31/12/2021</u>
	4.2 times	4.2 times
1b. Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
1c. Cash in hand and at bank included \$456,205 million in trust monies held on behalf of clients (31/12/2021: \$452,407 million).		
1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1e. Other income mainly comprises inter-company management fee income, asset management fees, advisory fees and underwriting fees.		
Source: Monthly Financial Returns submitted to the Securities and Futures Commission by licensed corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.		

Table 2 Financial performance of SEHK participants^{2a} by category for the half year ended 30 June 2022 (\$ million)

	Category A		Category B		Category C		All SEHK participants	
	1H 2022	2H 2021	1H 2022	2H 2021	1H 2022	2H 2021	1H 2022	2H 2021
Total value of transactions	28,733,131	31,589,531	19,126,301	22,616,909	6,941,172	7,832,409	54,800,604	62,038,849
Net securities commission income	2,167	2,945	4,438	5,471	2,287	3,109	8,892	11,525
Gross interest income	1,185	1,570	3,393	3,814	2,923	3,092	7,501	8,476
Other income	6,838	7,771	6,773	9,043	4,996	6,209	18,607	23,023
Net profit/(loss) on proprietary trading	99	19	688	1,155	(502)	(509)	285	665
Total income	10,289	12,305	15,292	19,483	9,704	11,901	35,285	43,689
Salary and staff benefits	(2,231)	(2,224)	(4,190)	(4,130)	(3,886)	(4,489)	(10,307)	(10,843)
Other overhead and interest expenses	(6,237)	(7,450)	(8,240)	(8,789)	(8,571)	(8,134)	(23,048)	(24,373)
Net profit/(loss)	1,821	2,631	2,862	6,564	(2,753)	(722)	1,930	8,473

Remarks:

2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on SEHK. Category A participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th and the remainder is grouped under Category C.

Source: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules.

Disclaimer: The objective of this paper is to provide summary financial data for interested parties to use in benchmarking, research, analysis or other purposes. Observations made here should not be taken as definitive market commentaries.