



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

Financial Review of the Securities Industry

For the year ended 31 December 2012



Executive Summary

The total net profit of all securities dealers and securities margin financiers¹ for 2012 was \$7.6 billion², down 22% from 2011. The drop in net profit was mainly attributable to a decrease in commission income as a result of the fall in total transaction volume.

In 2012, the total value of transactions of all securities dealers and securities margin financiers decreased by 17%. During the year, the average daily turnover on the Stock Exchange of Hong Kong Ltd (SEHK) stood at \$53.9 billion³, down 23% from 2011. The Hang Seng Index closed at 22,656 on 31 December 2012, 23% higher than its close at 18,434 at the end of December 2011.

In respect of SEHK participants, Category A brokerages reported a net profit of \$3.4 billion, and Category B and C brokerages reported net profits of \$0.5 billion and \$0.4 billion respectively.

At the end of 2012, the total outstanding margin loan was \$58.8 billion, up 17% from the end of 2011. The increase was attributable mainly to the 20 largest securities margin financing providers which collectively accounted for 78% of the industry's total outstanding margin loan. Average collateral coverage^{1c} at the end of 2012 increased to 4.2 times from 3.9 times in 2011.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the year ended 31 December 2012.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^{1a}		
	31/12/2012	31/12/2011
Total number of securities dealers & securities margin financiers	907	856
Total number of active cash clients ^{1b}	1,045,751	1,042,151
Total number of active margin clients ^{1b}	139,375	135,201
Balance sheet (\$ mn)		
Cash in hand and at bank ^{1d}	269,912	294,981
Amounts receivable from margin clients	58,812	50,171
Amounts receivable from clients and other dealers arising from dealing in securities	149,865	99,286
Proprietary positions	175,191	114,284
Other assets	169,357	142,096
Total assets	823,137	700,818

¹ "Securities dealers and securities margin financiers" refers 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 given in the report are denominated in Hong Kong dollars.

³ Source of information: Hong Kong Exchanges and Clearing Ltd.



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

	31/12/2012	31/12/2011
Balance sheet (\$ mn) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	349,854	252,342
Total borrowings from financial institutions	85,348	61,430
Short positions held for own account	64,444	62,492
Other liabilities	97,878	96,764
Total shareholders' funds	225,613	227,790
Total liabilities and shareholders' funds (+17%)	823,137	700,818
	2012	2011
Profit and loss (\$ mn)		
Total value of transactions ^{1e}	47,658,360	57,159,686
Net securities commission income	18,331	25,953
Gross interest income	7,213	6,399
Other income ^{1f}	76,829	77,524
Net profit on proprietary trading	8,050	3,671
Total income (-3%)	110,423	113,547
Total overheads and interest expense	102,783	103,764
Net profit for the period (-22%)	7,640	9,783

Remarks:

1a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office are excluded.

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 Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:

<u>As at 31/12/2012</u>	<u>As at 31/12/2011</u>
4.2 times	3.9 times

1d Cash in hand and at bank include \$127,378 million in trust monies held on behalf of clients (31/12/2011: \$115,368 million).

1e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

1f Other income comprises inter-company management fee income, advisory fees, asset management fees, underwriting fees and corporate finance income.

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. Unless otherwise stated, figures given in the report are denominated in Hong Kong dollars.



Table 2 Financial performance of each of the categories^{2a} of SEHK participants for the year ended 31 December 2012 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	2012	2011	2012	2011	2012	2011	2012	2011
Total value of transactions ^{2b}	18,340,487	23,532,597	10,581,107	13,348,145	4,819,012	6,171,092	33,740,606	43,051,835
Net securities commission income	4,974	8,230	5,830	7,976	3,306	4,017	14,110	20,223
Gross interest income	765	707	2,178	2,267	2,327	2,092	5,270	5,066
Other income	12,164	12,155	4,090	4,036	4,280	4,413	20,534	20,604
Net profit / (loss) on proprietary trading	222	99	142	(26)	936	(163)	1,300	(90)
Total income	18,125	21,191	12,240	14,253	10,849	10,359	41,214	45,803
Salary and staff benefits	(6,459)	(6,637)	(5,066)	(5,528)	(4,362)	(4,428)	(15,887)	(16,593)
Other overheads and interest expense	(8,289)	(10,618)	(6,712)	(7,140)	(6,132)	(5,802)	(21,133)	(23,560)
Net profit for the period	3,377	3,936	462	1,585	355	129	4,194	5,650

Remarks:

2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on SEHK. Category A SEHK 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.

2b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Source: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules. Unless otherwise stated, figures given in the report are denominated in Hong Kong dollars.

Disclaimer: As 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.