



**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 2014



## Executive Summary

The total net profits of all securities dealers and securities margin financiers<sup>1</sup> for 2014 was \$26.6 billion<sup>2</sup>, up 59% from 2013. The growth was attributable to increased interest income which was led by growth in total outstanding margin loans, as well as net profits on proprietary trading and other income.

In 2014, the total value of transactions of all securities dealers and securities margin financiers increased by 8%. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) stood at \$69.5 billion<sup>3</sup>, up 11% from 2013. On 31 December 2014, the Hang Seng Index closed at 23,605, 1% higher than its close at the previous year end.

In respect of SEHK participants, Category A, Category B and Category C brokerages reported total net profits of \$2.9 billion, \$6.3 billion and \$3.3 billion respectively.

At the end of 2014, outstanding margin loans totalled \$111.5 billion, 30% higher than at the end of 2013. The increase was mainly contributed by the 20 largest providers of securities margin financing, which collectively accounted for 79% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1c in Table 1) was 4.2 times at the end of 2014.

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 2014.

<b>Table 1 Statistical information and financial position of securities dealers and securities margin financiers<sup>1a</sup></b>		
	<b>31/12/2014</b>	<b>31/12/2013</b>
Total number of securities dealers and securities margin financiers	951	927
Total number of active cash clients <sup>1b</sup>	1,157,599	1,079,550
Total number of active margin clients <sup>1b</sup>	181,593	150,545
<b>Balance sheet (\$ million)</b>		
Cash in hand and at bank <sup>1d</sup>	341,124	286,388
Amounts receivable from margin clients	111,549	85,794
Amounts receivable from clients and other dealers arising from dealing in securities	197,043	146,898
Proprietary positions	219,491	189,300
Other assets	211,338	176,858
<b>Total assets</b>	<b>1,080,545</b>	<b>885,238</b>

<sup>1</sup> 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.

<sup>2</sup> Unless otherwise stated, figures given in the report are denominated in Hong Kong dollars.

<sup>3</sup> Source: Hong Kong Exchanges and Clearing Limited.



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

	31/12/2014	31/12/2013
<b>Balance sheet (\$ million) (cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	470,507	366,299
Total borrowings from financial institutions	119,060	67,358
Short positions held for own account	94,473	101,044
Other liabilities	144,626	109,737
Total shareholders' funds	251,879	240,800
<b>Total liabilities and shareholders' funds</b>	<b>1,080,545</b>	<b>885,238</b>
	<b>2014</b>	<b>2013</b>
<b>Profit and loss (\$ million)</b>		
Total value of transactions <sup>1e</sup>	57,970,022	53,538,483
Net securities commission income	21,179	20,096
Gross interest income	9,421	7,666
Other income <sup>1f</sup>	94,071	86,107
Net profit on proprietary trading	11,223	8,579
<b>Total income (+11%)</b>	<b>135,894</b>	<b>122,448</b>
Total overheads and interest expense	(109,281)	(105,746)
<b>Net profit (+59%)</b>	<b>26,613</b>	<b>16,702</b>
Remarks:		
1a Excludes 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.		
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 covers the total amount of margin loan due from these clients on a given date on an industry-wide basis:		
	<u>As at 31/12/2014</u>	<u>As at 31/12/2013</u>
	4.2 times	3.9 times
1d Cash in hand and at bank includes \$164,813 million in trust monies held on behalf of clients (31/12/2013: \$144,068 million).		
1e 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.		



**Table 2 Financial performance of SEHK participants<sup>2a</sup> by category for the year ended 31 December 2014 (\$ million)**

	Category A		Category B		Category C		All SEHK Participants	
	2014	2013	2014	2013	2014	2013	2014	2013
Total value of transactions <sup>2b</sup>	20,970,014	19,649,116	15,517,944	13,176,278	7,549,944	6,315,052	44,037,902	39,140,446
Net securities commission income	3,830	4,281	7,367	6,623	5,067	4,251	16,264	15,155
Gross interest income	824	746	4,069	2,928	3,161	2,531	8,054	6,205
Other income	9,175	11,249	8,856	6,591	7,255	6,307	25,286	24,147
Net profit on proprietary trading	357	167	439	173	1,842	914	2,638	1,254
<b>Total income</b>	<b>14,186</b>	<b>16,443</b>	<b>20,731</b>	<b>16,315</b>	<b>17,325</b>	<b>14,003</b>	<b>52,242</b>	<b>46,761</b>
Salary and staff benefits	(5,154)	(6,061)	(5,774)	(4,683)	(6,525)	(5,887)	(17,453)	(16,631)
Other overheads and interest expense	(6,167)	(7,150)	(8,616)	(7,601)	(7,487)	(6,358)	(22,270)	(21,109)
<b>Net profit</b>	<b>2,865</b>	<b>3,232</b>	<b>6,341</b>	<b>4,031</b>	<b>3,313</b>	<b>1,758</b>	<b>12,519</b>	<b>9,021</b>

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.

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.