



**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 2019

Executive Summary

In the first half of 2019, the total value of transactions and net securities commission income of all securities dealers and securities margin financiers¹ increased by 10.2% and 3.6%, respectively, compared to the previous six-month period. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$97.9 billion², up 10.3% from the previous six months³. The Hang Seng Index closed at 28,542 on 28 June 2019, up 10.4% from its close on 31 December 2018.

The net profits of all securities dealers and securities margin financiers for the period totalled \$13.8 billion, down 20.3% from the previous six-month period, mainly due to increases in overhead and interest expenses and a decrease in asset management income.

In respect of SEHK participants, brokers in Categories A, B and C reported net profits of \$2.9 billion, \$2.1 billion and \$1.6 billion respectively. The net profits of all SEHK participants amounted to \$6.6 billion in the first half of 2019, up 26% from the previous six-month period.

At the end of June 2019, outstanding margin loans totalled \$169.6 billion, 6% lower than the end of 2018. The 20 largest providers of securities margin financing collectively accounted for 75% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1a in Table 1) was 3.7 times at the end of June 2019.

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 first half of 2019.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	30/6/2019	31/12/2018
Total number of securities dealers and securities margin financiers	1,359	1,312
Total number of active cash clients ^{1b}	1,432,263	1,410,319
Total number of active margin clients ^{1b}	521,726	463,970
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	522,932	515,715
Amounts receivable from margin clients	169,567	180,800
Amounts receivable from clients and other dealers arising from dealing in securities	203,069	158,495
Proprietary positions	122,734	89,096
Other assets	325,535	282,426
Total assets	1,343,837	1,226,532

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 are denominated in Hong Kong dollars.

³ Source: Hong Kong Exchanges and Clearing Limited.

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

	30/6/2019	31/12/2018
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	598,618	531,638
Total borrowings from financial institutions	130,651	111,396
Short positions held for own account	48,311	38,285
Other liabilities	151,756	148,483
Total shareholders' funds	414,501	396,730
Total liabilities and shareholders' funds	1,343,837	1,226,532
	Six months to 30/6/2019	Six months to 31/12/2018
Profit and loss (\$ million)		
Total value of transactions ^{1d} (+10%)	44,735,639	40,579,642
Net securities commission income	10,418	10,056
Gross interest income	11,309	11,662
Other income ^{1e}	56,360	59,333
Net profit on proprietary trading	6,683	6,026
Total income (-3%)	84,770	87,077
Total overhead and interest expenses	(70,935)	(69,717)
Net profit (-20%)	13,835	17,360

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 30/6/2019</u>	<u>As at 31/12/2018</u>
3.7 times	3.7 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 includes \$298,436 million in trust monies held on behalf of clients (31/12/2018: \$285,686 million).

1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

1e. 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^{2a} by category for the half year ended 30 June 2019 (\$ million)

	Category A		Category B		Category C		All SEHK participants	
	1H 2019	2H 2018	1H 2019	2H 2018	1H 2019	2H 2018	1H 2019	2H 2018
Total value of transactions ^{2b}	15,813,586	13,599,092	14,250,514	13,729,015	6,996,707	6,255,491	37,060,807	33,583,598
Net securities commission income	2,202	1,891	3,868	4,043	2,509	2,606	8,579	8,540
Gross interest income	1,526	1,042	3,463	3,957	4,440	4,793	9,429	9,792
Other income	5,882	6,528	4,891	3,741	5,611	5,421	16,384	15,690
Net profit/(loss) on proprietary trading	147	124	161	235	257	(220)	565	139
Total income	9,757	9,585	12,383	11,976	12,817	12,600	34,957	34,161
Salary and staff benefits	(1,754)	(2,422)	(3,140)	(2,583)	(4,594)	(4,745)	(9,488)	(9,750)
Other overhead and interest expenses	(5,110)	(5,411)	(7,110)	(6,769)	(6,627)	(6,973)	(18,847)	(19,153)
Net profit	2,893	1,752	2,133	2,624	1,596	882	6,622	5,258

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.
- 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.