



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 2016



Executive Summary

The total net profits of all securities dealers and securities margin financiers¹ for 2016 was \$21 billion², down 51% from 2015. The decline was mainly attributable to decreases in net securities commission income (due to lower transaction volumes), net profit on proprietary trading and other income.

In 2016, the total value of transactions of all securities dealers and securities margin financiers, decreased by 25%. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$66.9 billion³, down 37% from 2015. As of the end of 2016, the Hang Seng Index closed at 22,000, 0.4% higher than its close at the end of the previous year.

In respect of SEHK participants, brokerages in Categories A, B and C reported total net profits of \$0.5 billion, \$5.8 billion and \$1.3 billion respectively.

At the end of 2016, outstanding margin loans totalled \$171.6 billion, 18% higher than at the end of 2015. The 20 largest providers of securities margin financing collectively accounted for 73% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1b in Table 1) was four times at the end of 2016.

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 2016.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	31/12/2016	31/12/2015
Total number of securities dealers and securities margin financiers	1,104	1,002
Total number of active cash clients ^{1a}	1,289,563	1,259,868
Total number of active margin clients ^{1a}	267,132	241,948
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	446,465	429,002
Amounts receivable from margin clients	171,633	145,307
Amounts receivable from clients and other dealers arising from dealing in securities	125,471	139,869
Proprietary positions	110,756	170,125
Other assets	224,196	205,673
Total assets	1,078,521	1,089,976

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 given in the report 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)

	31/12/2016	31/12/2015
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	481,339	466,208
Total borrowings from financial institutions	86,731	111,265
Short positions held for own account	33,194	61,198
Other liabilities	143,941	146,989
Total shareholders' funds	333,316	304,316
Total liabilities and shareholders' funds	1,078,521	1,089,976
	2016	2015
Profit and loss (\$ million)		
Total value of transactions ^{1d} (-25%)	63,495,134	84,787,467
Net securities commission income	18,739	28,656
Gross interest income	14,026	12,203
Other income ^{1e}	98,344	106,044
Net profit on proprietary trading	6,893	16,799
Total income (-16%)	138,002	163,702
Total overhead and interest expense	(116,978)	(120,499)
Net profit (-51%)	21,024	43,203
Remarks:		
1a. 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.		
1b. 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 31/12/2016</u>	<u>As at 31/12/2015</u>
	4.0 times	4.4 times
1c. Cash in hand and at bank includes \$248,066 million in trust monies held on behalf of clients (31/12/2015: \$225,099 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.		
<i>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.</i>		



Table 2 Financial performance of SEHK participants^{2a} by category for the year ended 31 December 2016 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	2016	2015	2016	2015	2016	2015 ^{2c}	2016	2015 ^{2c}
Total value of transactions ^{2b}	19,487,353	29,761,631	17,512,989	24,449,821	10,101,116	11,061,501	47,101,458	65,272,953
Net securities commission income	3,225	4,859	6,138	10,317	5,113	7,485	14,476	22,661
Gross interest income	809	990	5,416	5,571	6,565	4,390	12,790	10,951
Other income	5,477	9,684	10,224	8,278	8,603	8,852	24,304	26,814
Net profit/(loss) on proprietary trading	353	344	290	326	(2,212)	2,549	(1,569)	3,219
Total income	9,864	15,877	22,068	24,492	18,069	23,276	50,001	63,645
Salary and staff benefits	(3,578)	(3,887)	(6,291)	(7,247)	(7,534)	(7,350)	(17,403)	(18,484)
Other overhead and interest expense	(5,779)	(6,831)	(10,023)	(9,940)	(9,209)	(9,096)	(25,011)	(25,867)
Net profit	507	5,159	5,754	7,305	1,326	6,830	7,587	19,294

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.

2c. The 2015 figures are restated due to a revision of the figures for some licensed corporations.

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.