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Quarterly Report
April - June 2019

This first Quarterly Report of the Securities and Futures Commission for financial year 2019-20 covers the period from 1 April to 30 June 2019.

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Highlights

Regulatory enhancements

Securities margin financing: We concluded a public consultation on proposed guidelines which set out the expected risk management standards for securities margin financing activities.

Account opening: Effective 5 July, the Code of Conduct¹ was amended to cater for the need for intermediaries to adapt their practices as business activities are increasingly conducted online. A new approach for the onboarding of overseas individual clients online also took effect.

Listing regulation: Following the SFC's approval, The Stock Exchange of Hong Kong Limited will adopt new Listing Rules for the suspension of listed companies with a disclaimer or adverse audit opinion on their financial statements.

Supervision

Licensing: As at 30 June, the number of licensees and registrants totalled 47,239, up 4.7% year-on-year, and the total number of licensed corporations increased 8.7% to a record high of 3,017. Changes to our licensing processes and forms fully implemented in April bring our gatekeeping function in line with our front-loaded regulatory approach.

Inspections: We conducted 82 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Listing applications: We vetted 105 new listing applications, up 25% from the previous quarter.

Corporate conduct: As part of our review of corporate disclosure, we issued section 179² directions to gather additional information in 40 cases and wrote to detail our concerns in seven transactions.

Corporate acquisitions: We issued a statement outlining recurring misconduct in corporate acquisitions and disposals which has prompted intervention by the SFC.

¹ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

² Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Highlights

Green and ESG funds: We issued a circular to provide guidance on enhanced disclosures by management companies of SFC-authorized green and environmental, social and governance (ESG) funds in the Hong Kong market.

Prime services and equity derivatives: We issued a circular and a report on the regulatory obligations of Hong Kong prime brokers setting out our expected standards of conduct and internal controls.

Third-party payments: A circular reiterated the importance of mitigating the financial crime and money laundering risks associated with third-party deposits and payments.

Complex financing arrangements: A joint circular with the Hong Kong Monetary Authority reminded banks and licensed corporations to review financing arrangements involving complex, opaque transactions within their groups which may conceal embedded financial risks.

Enforcement

Disciplinary actions: We disciplined five licensed corporations and four representatives during the quarter, resulting in total fines of \$39.5 million. Amongst them, China Merchants Securities (HK) Co., Limited was reprimanded and fined \$27 million for failings in its sponsor work in the listing application of China Metal Recycling (Holdings) Limited.

Restriction notices: We issued restriction notices to 19 brokers prohibiting them from dealing with or processing assets held in client accounts related to suspected market manipulation.

Market surveillance: We made 2,579 requests for trading and account records from intermediaries triggered by untoward price and turnover movements.

Regulatory cooperation

Mainland: We held the fifth high-level meeting with the China Securities Regulatory Commission (CSRC) to discuss cross-boundary regulatory cooperation and key initiatives. We also entered into a tri-partite memorandum of understanding with the Ministry of Finance of the People's Republic of China and the CSRC on access to audit working papers for Hong Kong-listed Mainland companies.

Green finance: We hosted a meeting for senior officials of Mainland, Hong Kong and European Union regulators to discuss global developments in green finance.

Operational Review

Corporates

Listing regulation

Following the SFC's approval, The Stock Exchange of Hong Kong Limited's (SEHK) new Listing Rules for the suspension of listed companies with a disclaimer or adverse audit opinion on their financial statements will apply to preliminary annual results announcements for financial years commencing on or after 1 September. This followed the release of SEHK's May conclusions to its public consultation on proposed suspension requirements which aim to safeguard the quality and reliability of listed companies' financial statements and enhance investor protection.

In July, SEHK issued conclusions to its consultation on proposed amendments to the Listing Rules to tackle the problems associated with backdoor listings and shell activities, adopting all the proposals with a few modifications. Concurrently, we issued a statement explaining our approach to these issues. The SFC will work in parallel with SEHK to monitor the market and intervene using its statutory powers under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance (SFO) where appropriate to tackle these activities.

Climate-related disclosure by listed companies

One priority of the SFC's strategic framework¹ for the development of green finance in Hong Kong is to enhance listed companies' environmental disclosure, with an emphasis on climate-related risks and opportunities. To this end, we have been working closely with SEHK to provide guidance and consult the market on enhancements to the disclosure requirements under the Listing Rules. In May, SEHK published a consultation paper which emphasises the importance of a governance structure for environmental, social and governance (ESG) issues and the board's leadership role and accountability in ESG. Key proposals include the introduction of mandatory disclosure requirements for governance, including processes for identifying material ESG issues. Significant climate-related issues will be required to be disclosed on a "comply-or-explain" basis.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 105 new listing applications, up 25% from 84 in the previous quarter.

We received one listing application from a company with a weighted voting rights structure and three listing applications from pre-profit biotech firms in the quarter.

¹ See the SFC's *Strategic Framework for Green Finance* published in September 2018.

Listing applications and takeovers activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Listing applications received	105	84	25	124	-15.3
Takeovers and share buy-back transactions	103	88	17	111	-7.2

Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179² directions to gather additional information in 40 cases and wrote to detail our concerns in seven transactions. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

In July, we issued a statement outlining recurring misconduct in corporate acquisitions and disposals which has prompted intervention by the SFC. The statement reminds directors and their advisers to comply with their statutory and other legal duties when evaluating or approving the acquisition or disposal of a company or business.

Takeovers matters

In April, we publicly criticised Kwok Tse Wah for breaching the dealing restrictions and dealing disclosure obligations under the Takeovers Code. Kwok, a party acting in concert with the offeror, sold shares in Hopewell Holdings Limited during the offer period. He also failed to disclose the sale publicly within the applicable time limit.

In a decision published in July, the Takeovers and Mergers Panel ruled that a waiver of the general offer obligation under the Takeovers Code should not be granted to China Baowu Steel Group Corporation Limited if it proceeds with the proposed acquisition of a 51% interest in Magang (Group) Holding Company Limited—the controlling shareholder of the SEHK-listed Maanshan Iron & Steel Company Limited—at nil consideration³.

² Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company.

³ Upon completion of the proposed transaction, China Baowu would trigger a mandatory general offer for Maanshan Iron & Steel Company Limited pursuant to the “chain principle” unless a waiver is obtained.

Intermediaries

Licence applications

As at 30 June, the number of licensed corporations reached a record high of 3,017, up 51% from the same period in 2014 and 8.7% from last year. At the same time, the number of licensees and registrants totalled 47,239, up 4.7% year-on-year.

During the quarter, we received 1,756 licence applications¹, down 10.5% from the last quarter and 13.5% year-on-year. The number of corporate applications dropped 14.3% from the last quarter to 66, down 12% year-on-year.

Revamped licensing process

Changes to our licensing processes fully implemented in April bring our gatekeeping function in line with our front-loaded regulatory approach. Starting 11 April, intermediaries are required to use new licensing forms to submit licensing-related information to us.

To help us better track “bad apples”, licensed corporations have to disclose any internal investigation of a licensed individual commenced within six months preceding his or her cessation of accreditation. They should also notify the SFC as soon as practicable if an internal investigation is commenced after the initial notification of cessation, regardless of how long ago the individual left the firm. We issued frequently asked questions (FAQs) in May to provide additional guidance to the industry on the types of information to be disclosed and how we treat the information collected.

Prudential risks

Securities margin financing

In April, we concluded a public consultation on proposed guidelines which set out the expected risk management standards for securities margin financing activities. The guidelines, including qualitative requirements and quantitative benchmarks for margin lending policies and key risk controls, will take effect on 4 October.

Complex financing arrangements

We issued a circular jointly with the Hong Kong Monetary Authority in April to remind banks and licensed corporations to review financing arrangements involving complex, opaque transactions within their groups which may conceal embedded financial risks and make it difficult to conduct rigorous risk assessments. Holding companies or controllers of licensed corporations need to prudently manage group financial risks to ensure they can provide financial support and contain contagion risks that may affect the financial integrity of the licensed corporations.

Conduct risks

Client facilitation

In a May circular, we highlighted our concerns about compliance with the standards of conduct and internal controls expected of licensed brokers providing client facilitation services. The circular related deficient policies and practices identified in our inspections since mid-2018, and reminded the industry of our expected standards, in particular that client consent should be obtained before providing client facilitation services.

Credit rating model risk management

Also in May, we issued a circular to relate our regulatory concerns and good practices noted during our supervision of credit rating agencies’ model risk management and set out expected standards for credit rating model governance, model validation, data quality and the use of credit rating models.

Third-party deposits and payments

Another circular issued in May reiterated the importance of mitigating the financial crime and money laundering risks associated with third-party payments to or from accounts maintained by clients with licensed corporations and associated entities. It elaborated our expected standards in areas where licensed corporations were often found to have failed to implement adequate policies and controls to mitigate these risks, and provided examples of effective measures to promote compliance.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 8 for details.

Intermediaries

Prime services and equity derivatives

Following a thematic review of prime services² and related equity derivatives business in Hong Kong, we issued a circular and a report in June pinpointing the regulatory obligations of prime brokers in Hong Kong and setting out the standards of conduct and internal controls we expect of them. The report also discussed areas for improvement and shared good industry practices noted from the thematic review.

Foreign exchange margin trading on the Mainland

A June circular reminded licensed corporations that it is illegal under Mainland law and regulations for any unapproved institution to conduct foreign exchange margin trading on the Mainland or for any client on the Mainland to entrust an unapproved institution to do so. Licensed corporations which provide or market foreign exchange margin trading to Mainland investors or assist other persons in such activities should review the legality of their activities immediately.

Account opening

Effective 5 July, the amendments to paragraph 5.1 of the Code of Conduct³ were made to cater for the need for intermediaries to adapt their practices as business

activities are increasingly conducted online. To facilitate compliance, we published acceptable account opening approaches on a designated webpage which also features relevant circulars and FAQs.

At the same time, a new approach for the onboarding of overseas individual clients online took effect. It includes the authentication of a client's identity document and verification of a client's biometrics using appropriate technologies, together with an initial payment from the client's designated overseas bank account in an eligible jurisdiction.

Communication with the industry

Compliance Forum 2019

On 17 June, we hosted the SFC Compliance Forum 2019 to exchange views with the industry on our recent guidance on securities margin financing, prime brokerage business, client onboarding and transaction monitoring, as well as regulatory issues noted in selling practices. Management accountability, internal controls and supervision of account executives were also covered. More than 700 participants attended the event.



SFC Compliance Forum 2019

² Prime services refer to one-stop-shop services, including trade execution and clearing, securities borrowing and lending, custody, financing solutions, reporting, capital introduction and consulting services, provided to institutional clients such as hedge fund managers.

³ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Compliance Bulletin

The May issue of the *SFC Compliance Bulletin: Intermediaries* provided an update on the revamped licensing process and highlighted our effort in tracking “bad apples” and how the fitness and propriety of a licensed corporation’s controllers and affiliates may have an impact on the firm. Case studies were provided for illustration.

Seminars and meetings

To help intermediaries implement the new regulatory requirements for online and offline sales of complex products, we organised a number of seminars for more than 1,000 industry participants in April and May.

A circular and FAQs were also issued in June to give further guidance.

We also explained the licensing requirements for private equity firms to two alternative investment management industry associations as well as exchanged views on other issues including the discretionary management power.

Notifications to the SFC

Starting from May, intermediaries can submit notifications under paragraph 12.5 of the Code of Conduct⁴ via a new online service, which is available on the SFC’s online portal, WINGS⁵.

Licensees and registrants

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Licensed corporations	3,017	2,960	1.9	2,775	8.7
Registered institutions	115	116	-0.9	118	-2.5
Licensed individuals	44,107	43,602	1.2	42,206	4.5
Total	47,239	46,678	1.2	45,099	4.7

Licensing applications

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Applications to conduct new regulated activity	5,101	5,469	-6.7	5,894	-13.5
Applications for SFC licences [#]	1,756	1,961	-10.5	2,030	-13.5

[#] Figures do not include applications for provisional licences. During the quarter, we received 929 provisional licence applications compared with 1,096 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
On-site inspections conducted	82	86	-4.7	65	26.2

⁴ Intermediaries must immediately report to the SFC upon the occurrence of any incident under paragraph 12.5 of the Code of Conduct.

⁵ Web-based INTeGrated Service.

Products

Authorisations

As of 30 June, 2,799 SFC-authorized collective investment schemes were on offer to the public. During the quarter, we authorised 25 unit trusts and mutual funds and two mandatory provident fund (MPF) pooled investment funds for public offering.

Mutual recognition of funds (MRF)

The Netherlands

We entered into a memorandum of understanding (MoU) on MRF with the Dutch Authority for the Financial Markets (AFM) in May. The MoU allows eligible Hong Kong collective investment schemes, including funds structured in the form of open-ended fund companies, to be distributed in the Netherlands through a streamlined process, and vice versa. It also establishes a framework for information exchange, regular dialogue as well as regulatory cooperation on the cross-border offering of eligible funds.

Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 30 June, we had authorised a total of 51 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 20 Hong Kong funds.



Signing of MoU with the AFM

As of 30 June, the cumulative net subscription for Mainland funds was about RMB300 million and that for Hong Kong funds was about RMB12.9 billion. For the period from April to June 2019, Mainland funds recorded a net redemption of about RMB147 million whilst Hong Kong funds recorded a net subscription of about RMB3.4 billion.

Authorised collective investment schemes^a

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Unit trusts and mutual funds	2,218	2,216	0.1	2,183	1.6
Investment-linked assurance schemes	299	300	-0.3	300	-0.3
Pooled retirement funds	34	34	0	34	0
MPF schemes	31	31	0	31	0
MPF pooled investment funds	192	191	0.5	194	-1
Others	25 ^b	25	0	26	-3.8
Total	2,799	2,797	0.1	2,768	1.1

^a Excluding unlisted structured investment products.

^b Comprising 14 paper gold schemes and 11 real estate investment trusts (REITs).

Products

ETF market-making regime

We have been working with The Stock Exchange of Hong Kong Limited (SEHK) and the industry to explore ways to enhance market efficiency and liquidity to support the long-term development of our exchange-traded fund (ETF) market. Following our approval, SEHK introduced a new buy-in exemption for securities market makers' short-selling transactions associated with ETF market-making activities on 4 July. With effect from 2 July, SEHK synchronised the resignation notice period requirement for securities market makers

and their associated designated specialists¹ with the requirement in the Code on Unit Trusts and Mutual Funds.

Green and ESG funds

We issued a circular in April to provide guidance on disclosures by SFC-authorized green or environmental, social and governance (ESG) funds. We will create a central database of these funds on the SFC's website to increase their visibility.

Unlisted structured investment products

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Unlisted structured investment products ^a	18	32	-43.8	6	200
Authorisations granted under section 105 of the Securities and Futures Ordinance ^b	18	34	-47.1	10	80

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, including equity-linked investments and deposits.

^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

SFC-authorized renminbi investment products

	As at 30.6.2019
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	64
Unlisted funds (non-renminbi denominated) with renminbi share classes	209
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	51
Unlisted structured investment products issued in renminbi ^b	135
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	32
ETFs (non-renminbi denominated) with renminbi trading counters	20
Renminbi gold ETFs ^c	1
Renminbi REITs	1

^a Refers to onshore Mainland investments through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market.

^b The number is on a "one product per key facts statement" basis.

^c Only includes gold ETF denominated in renminbi.

¹ A designated specialist is a corporate client (which may be located overseas or domestically) of a securities market maker registered with SEHK to perform ETF market-making activities. It is required to comply with the same market-making obligations prescribed under the Rules of SEHK for market makers.

Markets

OTC derivatives

In line with the G20's commitment to reform the over-the-counter (OTC) derivatives market, an OTC derivatives regime is being implemented in phases in Hong Kong. In a joint consultation with the Hong Kong Monetary Authority launched in April, we proposed to mandate the use of Unique Transaction Identifiers¹ for the reporting obligation to align with global standards, revise the list of designated jurisdictions for the "masking relief"² of the reporting obligation and update the list of Financial Services Providers (FSP List) under the clearing obligation as an annual exercise. Consultation conclusions related to the FSP List were published in June and conclusions on the other two proposals will follow later.

Extension of futures market After-Hours Trading Session

In April, we approved Hong Kong Exchanges and Clearing Limited's proposal to extend the closing hour of the After-Hours Trading Session for the futures market from 1:00am to 3:00am effective 17 June.

The extension provides greater flexibility to capture investment opportunities during US market hours and effect more timely risk management.

Automated trading services

As of 30 June, the number of automated trading services (ATS)³ providers authorised under Part III of the Securities and Futures Ordinance (SFO) was 49, while 24 corporations, including 15 dark pool operators, were licensed under Part V of the SFO to provide ATS.

Automated trading services providers

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Under Part III	49	50	-2	46 [#]	6.5
Under Part V	24	24	0	25	-4

[#] The number of ATS service providers, some of which have more than one authorisation. In previous reports, the number given indicated the number of authorisations.

¹ An international standard jointly developed by the Committee on Payments and Market Infrastructure and the International Organization of Securities Commissions to uniquely identify OTC derivatives transactions to be reported to trade repositories.

² "Masking relief" allows certain counterparty information to be redacted where there are legal or regulatory obstacles to reporting.

³ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Market Misconduct Tribunal

During the quarter, the Market Misconduct Tribunal (MMT) found that the following companies and persons failed to make timely disclosure of inside information:

- Fujikon Industrial Holdings Limited, its chairman and chief executive officer Yeung Chi Hung and its chief financial officer and company secretary Chow Lai Fung. They were fined a total of \$1.5 million.
- Health and Happiness (H&H) International Holdings Ltd and its chairman and executive director Luo Fei. They were fined \$1.6 million each.

Court proceedings

We commenced legal proceedings under section 214 of the Securities and Futures Ordinance (SFO) to disqualify the former chief financial officer, company secretary and executive director of Fujian Nuoqi Co., Ltd., Au Yeung Ho Yin, for failing to inquire into improper withdrawals of the company's proceeds from its initial public offering, alert the company's board of directors, and ensure that the information disclosed about the use of the proceeds in the company's 2013 annual report was accurate.

We commenced criminal proceedings against Leung Pak Keung, a practising solicitor, for alleged insider dealing in the shares of CASH Financial Services Group Limited.

We commenced criminal proceedings against Brilliance Capital Management Limited and its sole director Law Sai Hung for holding out as carrying on a business in a regulated activity, advising on corporate finance, without a licence.

The Eastern Magistrates' Court convicted and fined:

- Chan Wai Chuen, former chief financial officer, company secretary and an executive director of DBA Telecommunication (Asia) Holdings Limited, for his role in a false or misleading statement in the company's results announcement published in 2013.

- Tsoi Wan for manipulating the calculated opening price of Hang Seng Index futures contracts.

The Court of Appeal (CA) dismissed the application by Andrew Left of Citron Research for leave to appeal to the Court of Final Appeal against the determinations of the MMT¹.

The Court of Final Appeal dismissed the application of Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, for leave to appeal against the judgment of the CA ordering a retrial by the MMT on Cheng's suspected insider dealing in the shares of China Gas Holdings Limited.

Disciplinary actions

We disciplined five licensed corporations and four representatives during the quarter, resulting in total fines² of \$39.5 million.

Sponsor failures

We reprimanded and fined China Merchants Securities (HK) Co., Limited \$27 million for failing to discharge its sponsor obligations in the listing application of China Metal Recycling (Holdings) Limited.

Anti-money laundering requirements

We banned Su Xiqiang, former head of retail brokerage and responsible officer of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 10 months for failure to ensure the company's compliance with anti-money laundering and counter financing of terrorism regulatory requirements when handling third-party fund deposits.

Internal control deficiencies

We reprimanded and fined China Merchants Securities (HK) Co., Limited \$5 million for regulatory breaches and internal control failings related to mishandling client money.

¹ On 26 August 2016, the MMT found Left culpable of disclosing false or misleading information inducing transactions in a report on Evergrande Real Estate Group Limited published in June 2012.

² Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Other regulatory breaches

- We reprimanded and fined Credit Suisse (Hong Kong) Limited and Credit Suisse AG a total of \$2.8 million for failing to comply with the disclosure requirements for publishing research reports.
- We suspended the licence of Oei Hong Eng, the chairperson and a responsible officer of Gransing Securities Co., Limited for eight months for attempting to create a false or misleading appearance of active trading in securities.
- We reprimanded and fined Nine Masts Capital Limited \$1.2 million for failures relating to the short selling of Yuzhou Properties Company Limited's shares.
- We banned Wang Can, former licensed representative of China Galaxy International Securities (Hong Kong) Co., Limited for 30 months and fined him for breaching the firm's staff dealing policy.
- We banned Wong Ka Hang, a former licensed representative of Haitong International Futures Limited, for nine months for trading in a client's account without written authorisation.

Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal affirmed our decision to reprimand and fine FT Securities Limited \$3.5 million for regulatory breaches and internal control failures in the preparation and publication of research reports.

Restriction notices

We issued restriction notices to 19 brokers prohibiting them from dealing with or processing assets held in client accounts related to suspected market manipulation in the shares of China Ding Yi Feng Holdings Limited or Smartac Group China Holdings Limited respectively.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,579 requests for trading and account records from intermediaries in the quarter. In addition, we published nine high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement

Enforcement activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
S179 ^a inquiries commenced	9	7	28.6	5	80
S181 ^b inquiries commenced (number of letters sent)	62 (2,579)	69 (2,340)	10.2	75 (2,152)	19.8
S182 ^c directions issued	52	52	0	60	-13.3
Investigations started	55	58	-5.2	61	-9.8
Investigations completed	37	52	-28.8	57	-35.1
Individuals and corporations charged in criminal proceedings	3	1	200	4	-25
Criminal charges laid	5	5	0	37	-86.5
Notices of Proposed Disciplinary Action ^d issued	8	9	-11.1	2	300
Notices of Decision ^e issued	15	7	114.3	12	25
Individuals and corporations subject to ongoing civil proceedings ^f	100	101	-1	110	-9.1
Compliance advice letters issued	64	52	23.1	49	30.6
Cases with search warrants executed	6	6	0	6	0

^a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

^b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

^c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

^d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

^e A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

^f As of the last day of the period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, our Chief Executive Officer, chairs the Board of the International Organization of Securities Commissions (IOSCO) and we participate in all eight IOSCO committees and the Asia-Pacific Regional Committee. Mr Alder chaired the IOSCO Board meeting in May.

Mr Alder co-chaired the 10 April meeting of the CPMI¹-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of central counterparties. In addition, he attended the G20 Finance Ministers and Central Bank Governors Meeting in June, where he presented IOSCO's work on crypto-asset trading platforms and market fragmentation, and co-chaired the Salzburg Global Finance Forum in June, which discussed the changing landscape of the global financial system.

At the IOSCO Asia-Pacific Regional Committee meeting in May, members discussed market conduct issues, supervisory cooperation and cross-border regulatory issues arising out of European Union (EU) regulations which have an impact on the Asia-Pacific region.

Financial Stability Board (FSB)

As part of Mr Alder's participation in the FSB Plenary and Steering Committee, he attended the FSB Plenary meeting in April which discussed crypto-assets, market fragmentation and risks arising from leveraged loans and collateralised loan obligations.

We are actively involved in the work of the FSB Standing Committee on Standards Implementation. In June, Mr Keith Lui, Executive Director of Supervision of Markets, attended a meeting of the FSB Regional Consultative Group for Asia which discussed regional financial stability and risks associated with global trends and climate-related issues.

Together with the Government, Hong Kong Monetary Authority (HKMA) and the Insurance Authority, we worked on the FSB's annual exercise to monitor non-bank financial intermediation as well as on other FSB surveys and workstreams during the quarter.

Mainland China

In May, we held the fifth SFC-CSRC² high-level meeting in Hong Kong to discuss ways to enhance cross-boundary regulatory cooperation and key initiatives including ETF³ Connect, investor identification for southbound trading under Stock Connect and enhancements to the Mainland-Hong Kong Mutual Recognition of Funds arrangement.

In July, we entered into a tri-partite Memorandum of Understanding (MoU) with the Ministry of Finance of the People's Republic of China and the CSRC on access to audit working papers for Hong Kong-listed Mainland companies. The MoU will facilitate our investigations into the affairs of these companies.



The fifth SFC-CSRC high-level Meeting

During the quarter, we organised in-house training sessions for senior executives from Mainland authorities to enhance mutual understanding and communication in cross-boundary regulatory work. We also met with the CSRC and the Shenzhen Stock Exchange to exchange views on the regulation of listed companies and supervision of securities margin financing activities.

Green finance

As set out in our strategic framework⁴, Hong Kong is well-positioned to contribute to green finance development locally and complement the Mainland's comprehensive framework for green finance. Globally, we participate in the IOSCO Sustainable Finance Network and the Central Banks and Supervisors Network for Greening the Financial System.

¹ The Committee on Payments and Market Infrastructures.

² The China Securities Regulatory Commission.

³ Exchange-traded funds.

⁴ See the SFC's *Strategic Framework for Green Finance* published in September 2018.

Regulatory engagement

On 9 May, we hosted a green finance meeting which was attended by senior EU, Mainland and Hong Kong regulators and officials where we discussed global developments in green finance and the roles played by regulators, corporate environmental, social and governance (ESG) disclosures and the integration of ESG into the investment process by asset managers.



Green finance meeting with local and overseas regulators

Other regulatory engagement

During the quarter, we met with the Australian Securities and Investments Commission (ASIC), Securities and Exchange Commission of Thailand, Abu Dhabi Financial Services Regulatory Authority and overseas government representatives to keep abreast of emerging regulatory developments. We are collaborating with ASIC on a joint review of global financial institutions with a primary focus on foreign exchange operations including their governance, risk management and controls. We will publish a report setting out our regulatory expectations in these areas following the review.

Stakeholders

By engaging with stakeholders, we help them understand our work and provide them with up-to-date regulatory information.

During the quarter, we supported three industry events and our senior executives spoke at 28 local and international conferences. In June, we hosted the SFC Compliance Forum 2019, attended by more than 700 participants, to exchange views with the industry. We also met with various industry associations to understand their views on regulatory issues.

We released the following publications in the quarter:

- The May issue of the *SFC Compliance Bulletin: Intermediaries* provided an update on our revamped licensing processes and highlighted the need to track the movement of “bad apples” who can potentially repeat their misbehaviour at another firm.
- The *Takeovers Bulletin*, issued in June, reminded listed companies to submit transaction-related announcements for approval.
- Our *Annual Report 2018-19*, released in June, summarised the SFC’s work during the year and our strategic priorities.

We issued 26 circulars informing industry participants about a wide range of matters, including the conduct and internal controls expected of licensed brokers providing client facilitation services, credit rating model risk management and disclosure requirements for green funds.

Publications and other communications

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Quarter ended 30.6.2018	YoY change (%)
Press releases	34	34	36	-5.6
Consultation papers	1	1	2	-50
Consultation conclusions	2	0	4	-50
Industry-related publications	2	3	2	0
Codes and guidelines ^a	3	4	1	200
Circulars to industry	26	20	24	8.3
Corporate website average daily page views ^b	69,278	75,552	67,880	2.1
General enquiries	1,548	1,609	1,828	-15.3

^a Includes updates to previous versions.

^b The average number of web pages browsed per day during the reporting period.

Corporate Developments

Board

In March, the Financial Secretary appointed Mr Nicky Lo Kar-chun and Mr Clement Chan Kam-wing as Non-Executive Directors (NEDs) for a two-year term beginning 24 April and 26 May, respectively.

Mr Thomas Atkinson and Ms Christina Choi were reappointed as Executive Director for three years, effective 3 May and 1 August, respectively. In July, Mr Lester Huang was reappointed as NED for two years, effective 15 November.

During the quarter, Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung stepped down as NEDs.

SFC Advisory Committee

Mr Freeman Chan Yuk-sing, Ms Winnie Pun Wing-nin, Ms June Wong Wai-man, Ms Catherine Yien Yu-yu and Mr Yim Lok-kui were appointed by the Financial Secretary as new members of the Advisory Committee¹ for two years effective 1 June.

Regulatory committees

New appointments and reappointments to the following committees² took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Committee on Real Estate Investment Trusts
- Public Shareholders Group
- SFC (HKEC Listing) Committee
- Share Registrars' Disciplinary Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

Full membership lists, with titles and affiliations, and details of the responsibilities of each committee are available on the SFC website (www.sfc.hk).

¹ The Advisory Committee offers insight and advice on policy matters related to the performance of the SFC's functions.

² Each of these committees is set up under the Securities and Futures Ordinance and specialises in particular regulatory areas.

Corporate Developments

Finance

Our income for the quarter was \$412 million, 28% lower than the previous quarter and 6% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$97 billion for the quarter, 8% lower than the \$105 billion recorded in the previous quarter. Our expenditure for the quarter was \$465 million, 12% lower than the last quarter and 8% higher than the same quarter last year.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$4 billion as of 30 June.

Staffing

As of 30 June, we had 908 staff members, up from 887 a year ago.

Finance

(\$ million)	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Quarter ended 30.6.2018 [#]	YoY change (%)
Income	412	575	439	-6
Expenses including depreciation	465	527	432	8
(Loss)/surplus	(53)	48	7	N/A

[#] Prior-year figures have been restated to align with the current period's presentation.

Activity Data

Table 1 Breaches noted during on-site inspections

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	2	0	4	-50
Failure to safekeep client securities	9	6	50	14	-35.7
Failure to maintain proper books and records	7	0	N/A	8	-12.5
Failure to safekeep client money	18	1	1,700	9	100
Unlicensed dealing and other registration issues	6	7	-14.3	5	20
Breach of licensing conditions	2	0	N/A	0	N/A
Breach of requirements of contract notes/ statements of account/receipts	6	8	-25	12	-50
Failure to make filing/notification	0	1	-100	0	0
Breach of margin requirements	3	0	N/A	4	-25
Dealing malpractices	2	1	100	1	100
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	93	50	86	115	-19.1
Breach of Corporate Finance Adviser Code of Conduct	1	2	-50	0	N/A
Breach of Fund Manager Code of Conduct	17	18	-5.6	9	88.9
Breach of regulation of on-line trading	4	1	300	1	300
Non-compliance with anti-money laundering guidelines	99	56	76.8	33	200
Breach of other rules and regulations of the Exchanges ²	5	2	150	7	-28.6
Internal control weaknesses ³	100	115	-13	127	-21.3
Others	55	15	266.7	19	189.5
Total	429	285	50.5	368	16.6

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

² The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ Deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

Activity Data

Table 2 Authorised unit trusts and mutual funds – by type

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Bond	471	474	-0.6	446	5.6
Equity	1,001	1,005	-0.4	1,002	-0.1
Diversified	182	181	0.6	174	4.6
Money market	44	44	0	45	-2.2
Fund of funds	110	110	0	113	-2.7
Index ¹	168	162	3.7	160	5
Guaranteed	3	3	0	3	0
Other specialised ²	5	5	0	5	0
Sub-total	1,984	1,984	0	1,948	1.8
Umbrella structures	234	232	0.9	235	-0.4
Total	2,218	2,216	0.1	2,183	1.6

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

Table 3 Authorised unit trusts and mutual funds – by type and assets under management

	Total NAV (US\$ million) as at 30.6.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 30.6.2018	YoY change (%)
Bond	573,230	534,298	7.3	517,696	10.7
Equity	719,175	721,365	-0.3	737,678	-2.5
Diversified	163,768	165,708	-1.2	179,493	-8.8
Money market	22,445	22,284	0.7	20,357	10.3
Fund of funds	22,841	22,581	1.2	22,522	1.4
Index ¹	101,263	96,164	5.3	93,861	7.9
Guaranteed	70	72	-2.8	95	-26.3
Other specialised ²	712	748	-4.8	999	-28.7
Total	1,603,504	1,563,220	2.6	1,572,701	2

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

Activity Data

Table 4 Authorised unit trusts and mutual funds – by origin

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Hong Kong	792	789	0.4	765	3.5
Luxembourg	1,058	1,064	-0.6	1,028	2.9
Ireland	222	218	1.8	233	-4.7
United Kingdom	53	53	0	54	-1.9
Mainland China	51	50	2	50	2
Other Europe	3	3	0	3	0
Bermuda	1	1	0	1	0
Cayman Islands	30	30	0	41	-26.8
Others	8	8	0	8	0
Total	2,218	2,216	0.1	2,183	1.6

Table 5 Authorised unit trusts and mutual funds – by origin and assets under management

	Total NAV (US\$ million) as at 30.6.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 30.6.2018	YoY change (%)
Hong Kong	154,982	154,831	0.1	151,987	2
Luxembourg	1,074,490	1,059,476	1.4	1,062,352	1.1
Ireland	228,645	207,154	10.4	210,085	8.8
United Kingdom	74,981	73,987	1.3	80,166	-6.5
Mainland China	18,570	19,615	-5.3	18,262	1.7
Other Europe	145	140	3.6	131	10.7
Bermuda	156	153	2	167	-6.6
Cayman Islands	8,332	7,718	8	8,779	-5.1
Others	43,203	40,146	7.6	40,771	6
Total	1,603,504	1,563,220	2.6	1,572,701¹	2

¹ The figure does not add up to total due to rounding.

Activity Data

Table 6 Takeovers activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	6	11	-45.5	18	-66.7
Privatisations	4	1	300	1	300
Whitewash waiver applications	6	5	20	8	-25
Other applications under Code on Takeovers and Mergers ¹	83	68	22.1	77	7.8
Off-market and general offer share buy-backs	3	2	50	4	-25
Other applications under Code on Share Buy-backs ¹	1	1	0	3	-66.7
Total	103	88	17	111	-7.2
Executive Statements					
Sanctions imposed with parties' agreement ²	1	0	N/A	1	0
Takeovers and Mergers Panel					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	1	-100
Hearings before the Panel (disciplinary and non-disciplinary)	1	0	N/A	0	N/A

¹ Including stand-alone applications and those made during the course of a code-related transaction.

² Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 7 Complaints against intermediaries and market activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Conduct of licensees	149	121	23.1	121	23.1
Conduct of registered institutions	16	5	220	3	433.3
Listed companies and disclosure of interests	433	495	-12.5	258	67.8
Market misconduct ¹	204	99	106.1	97	110.3
Product disclosure	3	5	-40	2	50
Unlicensed activities	50	30	66.7	57	-12.3
Breach of offers of investments	69	10	590	9	666.7
Boiler rooms and suspicious websites	149	104	43.3	95	56.8
Scams and frauds ²	50	38	31.6	74	-32.4
Other financial activities not regulated by SFC ³	77	83	-7.2	138	-44.2
Total	1,200	990	21.2	854	40.5

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading and banking complaints.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Income			
Levies		344,341	391,558
Fees and charges		37,432	29,994
Investment income net of third party expenses			
Investment income		49,355	19,734
Less: custody and advisory expenses		(1,971)	(1,996)
Recoveries from the Investor Compensation Fund		1,517	1,484
Exchange loss		(18,707)	(2,121)
Other income		94	131
		412,061	438,784
Expenses			
Staff costs and directors' emoluments	8(b)	348,407	330,855
Premises			
Rent		-	50,171
Rates, management fees and others		11,728	11,450
Other expenses		43,256	31,105
Depreciation		60,277	7,865
Finance costs	2	1,084	-
		464,752	431,446
(Loss)/surplus and total comprehensive income for the quarter		(52,691)	7,338

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		97,917	94,835
Right-of-use assets	2	235,640	–
Financial assets at amortised costs – debt securities		522,592	981,502
		856,149	1,076,337
Current assets			
Financial assets at amortised costs – debt securities		936,962	563,877
Financial assets at fair value through profit or loss			
Debt securities		788,750	795,946
Pooled funds		926,339	925,476
Debtors, deposits and prepayments		263,071	227,018
Fixed deposits with banks		3,669,978	3,653,456
Cash at bank and in hand		47,105	71,908
		6,632,205	6,237,681
Current liabilities			
Fees received in advance		29,460	8,850
Creditors and accrued charges		158,838	189,855
Lease liabilities	2	197,134	–
		385,432	198,705
Net current assets		6,246,773	6,038,976
Total assets less current liabilities		7,102,922	7,115,313
Non-current liabilities			
Lease liabilities	2	33,827	–
Provisions	4	51,564	45,091
		85,391	45,091
Net assets		7,017,531	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,974,691	4,027,382
		7,017,531	7,070,222

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		97,831	94,738
Right-of-use assets	2	235,640	–
Financial assets at amortised costs – debt securities		522,592	981,502
		856,063	1,076,240
Current assets			
Financial assets at amortised costs – debt securities		936,962	563,877
Financial assets at fair value through profit or loss			
Debt securities		788,750	795,946
Pooled funds		926,339	925,476
Debtors, deposits and prepayments		260,868	233,187
Fixed deposits with banks		3,669,978	3,653,456
Cash at bank and in hand		46,110	49,747
		6,629,007	6,221,689
Current liabilities			
Fees received in advance		29,460	8,850
Creditors and accrued charges		155,554	173,766
Lease liabilities	2	197,134	–
		382,148	182,616
Net current assets		6,246,859	6,039,073
Total assets less current liabilities		7,102,922	7,115,313
Non-current liabilities			
Lease liabilities	2	33,827	–
Provisions	4	51,564	45,091
		85,391	45,091
Net assets		7,017,531	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,974,691	4,027,382
		7,017,531	7,070,222

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2018	42,840	3,000,000	4,121,924	7,164,764
Surplus and total comprehensive income for the quarter	–	–	7,338	7,338
Balance at 30 June 2018	42,840	3,000,000	4,129,262	7,172,102
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the quarter	–	–	(52,691)	(52,691)
Balance at 30 June 2019	42,840	3,000,000	3,974,691	7,017,531

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Cash flows from operating activities			
(Loss)/surplus for the quarter		(52,691)	7,338
Adjustments for:			
Depreciation		60,277	7,865
Investment income		(49,355)	(19,734)
Exchange difference		18,703	1,614
Loss on disposal of fixed assets		2	–
		(23,064)	(2,917)
(Increase)/decrease in debtors, deposits and prepayments		(29,375)	3,879
Increase/(decrease) in fees received in advance		20,610	(596)
(Decrease)/increase in creditors and accrued charges		(30,339)	30,775
Increase in non-current liabilities		–	1,313
Net cash (used in)/generated from operating activities		(62,168)	32,454
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		285,203	596,622
Interest received		29,490	31,748
Debt securities at fair value through profit or loss purchased		(80,717)	(81,019)
Debt securities at fair value through profit or loss sold or redeemed		91,017	76,680
Pooled funds sold		1,103	1,150
Debt securities at amortised costs redeemed at maturity		78,454	–
Fixed assets purchased		(13,065)	(9,599)
Net cash generated from investing activities		391,485	615,582
Cash flows from financing activities			
Principal elements of lease payments		(49,180)	–
Net cash used in financing activities		(49,180)	–
Net increase in cash and cash equivalents		280,137	648,036
Cash and cash equivalents at the beginning of the quarter		289,657	292,105
Cash and cash equivalents at the end of the quarter	3	569,794	940,141

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2019 \$'000	at 30 Jun 2018 \$'000
Fixed deposits with banks	522,689	895,310
Cash at bank and in hand	47,105	44,831
	569,794	940,141

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Securities and Futures Commission (SFC) since the annual financial statements for the year ended 31 March 2019. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2019 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), (the Group) are made up to 30 June 2019. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements.

We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2019 to the interim financial information, except for the adoption of HKFRS 16, *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2019.

2. Changes in accounting policies

Impact on the interim financial information

Nature of change

HKFRS 16 primarily affects the accounting as a lessee of leases for assets which are previously classified as operating leases. The application of the new accounting model leads to an increase in both assets and liabilities and impacts the timing of the expense recognition in the condensed consolidated statement of profit or loss and other comprehensive income over the period of the lease. The Group applied the simplified transition approach and did not restate comparative amounts for the period prior to first adoption.

Prior to the adoption of HKFRS 16, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as a lessee are classified as operating leases. We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the condensed consolidated statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

Upon adoption of HKFRS 16, leases are recognised in the condensed consolidated statement of financial position as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Impact

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease liabilities include the net present value of future lease payments and are subsequently measured at amortised costs. The right-of-use assets are measured at net present value (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received) and depreciated on a straight-line basis during the lease term. For short-term leases and leases of low-value assets, lease rentals are recognised under operating expenses in the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease terms.

The Group has applied HKFRS 16 from 1 April 2019. As permitted by the simplified transitional approach of HKFRS 16, comparatives were not restated. As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$285,936,000 and lease liabilities of \$280,141,000. The discount rate applied to the lease liabilities was 1.55%. Overall net assets increased by \$5,795,000. Surplus decreased by \$1,117,000 for the quarter as a result of adopting HKFRS 16. During the quarter ended 30 June 2019, the Group recognised depreciation expense for right-of-use assets of \$50,296,000 and interest expense on lease liabilities of \$1,084,000.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Cash at bank and in hand	47,105	71,908
Fixed deposits with banks	3,669,978	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,717,083	3,725,364
Less: Amounts with an original maturity beyond three months	(3,147,289)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	569,794	289,657

4. Provisions

Provisions represent premises reinstatement cost to restore the premises to its original condition when the lease expires.

5. Ageing analysis of debtors and creditors

There was no material overdue debtors and creditors balance included in "debtors, deposits and prepayment" and "creditors and accrued charges" respectively as at 30 June 2019. Therefore, we do not provide an ageing analysis of debtors and creditors.

6. Exchange risk

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.

7. Investments in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IFEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 June 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as 31 March 2019: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

8. Related party transactions

We have related party relationships with the ICF, Unified Exchange Compensation Fund (UECF), Securities Ordinance (Chapter 333) – Dealers’ Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers’ Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers’ Security Fund (SMF). In addition to the related parties relationship disclosed in elsewhere in these condensed consolidated financial statements, we have the following significant related party transactions.

- a) Reimbursement from the ICF for all the ICC’s expenses, in accordance with Section 242(1) of the SFO

During the quarter, \$1,517,000 was recovered from the ICF for the ICC’s expenses (2018: \$1,484,000). As at 30 June 2019, the amount due to the ICF from the ICC was \$428,000 (as at 31 March 2019: \$54,000).

- b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Directors’ fees and salaries, allowances and benefits in kind	8,614	8,307
Retirement scheme contributions	775	761
	9,389	9,068

The total remuneration is included in “staff costs and directors’ emoluments” on page 24. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2019.

Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mr Thomas Allan Atkinson
Dr William Wong Ming Fung, SC
Mr Tai Chi Kin Calvin

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

Keith Lui
Chairman

12 August 2019

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Income			
Net investment income/(loss)		15,971	(6,028)
Exchange difference		(6,342)	(1,267)
		9,629	(7,295)
Expenses			
Investor Compensation Company Limited expenses	2	1,517	1,484
Auditor's remuneration		52	51
Bank charges		-	230
Professional fees		-	1,064
		1,569	2,829
Surplus/(deficit) and total comprehensive income for the quarter		8,060	(10,124)

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Current assets		
Interest receivable	25,138	25,425
Due from Investor Compensation Company Limited	428	54
Fixed deposits with banks	2,373,730	2,365,483
Cash at bank	616	845
	2,399,912	2,391,807
Current liabilities		
Creditors and accrued charges	347	302
	347	302
Net current assets	2,399,565	2,391,505
Net assets	2,399,565	2,391,505
Representing:		
Compensation fund	2,399,565	2,391,505

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Deficit and total comprehensive income for the quarter	-	-	(10,124)	(10,124)
Balance at 30 June 2018	994,718	108,923	1,247,385	2,351,026
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the quarter	-	-	8,060	8,060
Balance at 30 June 2019	994,718	108,923	1,295,924	2,399,565

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Cash flows from operating activities			
Surplus/(deficit) for the quarter		8,060	(10,124)
Adjustments for:			
Net investment (income)/loss		(15,971)	6,028
Exchange difference		6,342	1,267
		(1,569)	(2,829)
Increase in amount due from Investor Compensation Company Limited		(374)	(409)
Increase in creditors and accrued charges		45	79
Net cash used in operating activities		(1,898)	(3,159)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		161,615	–
Debt securities purchased		–	(145,306)
Debt securities sold or redeemed		–	132,602
Pooled fund sold		–	338,934
Interest received		16,186	14,370
Net cash generated from investing activities		177,801	340,600
Net increase in cash and cash equivalents		175,903	337,441
Cash and cash equivalents at beginning of the quarter		32,944	55,933
Cash and cash equivalents at end of the quarter	3	208,847	393,374

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2019 \$'000	at 30 Jun 2018 \$'000
Fixed deposits with banks	208,231	15,042
Cash at bank	616	378,332
	208,847	393,374

The notes on pages 38 and 39 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2019. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2019 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2019.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2019, the ICC incurred costs of \$1,517,000 for its operation (for the quarter ended 30 June 2018: \$1,484,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Cash at bank	616	845
Fixed deposits with banks	2,373,730	2,365,483
Amounts shown in the condensed statement of financial position	2,374,346	2,366,328
Less: Amounts with an original maturity of beyond three months	(2,165,499)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	208,847	32,944

Investor Compensation Fund

4. Material related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2018 and 2019.

5. Contingent liabilities

As at the date of this report, there are 15 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,227,000 (at 31 March 2019: \$2,121,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2019.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2019, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 41 to 46.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mr Thomas Allan Atkinson
Dr William Wong Ming Fung, SC
Mr Tai Chi Kin Calvin
Ms Mak Po Shuen

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

Keith Lui
Chairman

31 July 2019

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2019 \$'000	30 Jun 2018 \$'000
Income			
Interest income		390	271
Recoveries	2	(1)	–
		389	271
Expenses			
Auditor's remuneration		26	25
Surplus and total comprehensive income for the quarter		363	246

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 June 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2019 \$'000	Audited at 31 Mar 2019 \$'000
Current assets			
Equity securities received under subrogation	2	–	1
Interest receivable		221	187
Accounts receivable		9	9
Fixed deposits with banks		90,494	88,338
Cash at bank		822	1,922
		91,546	90,457
Current liabilities			
Creditors and accrued charges		10,351	10,325
Relinquished trading rights payable to SEHK	3	950	800
		11,301	11,125
Net current assets		80,245	79,332
Net assets		80,245	79,332
Representing:			
Compensation fund		80,245	79,332

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 3) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000		
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804	
Net contributions from SEHK	350	-	-	-	-	-	350	
Surplus and total comprehensive income for the quarter	-	-	-	-	246	-	246	
Balance at 30 June 2018	53,850	353,787	630,000	6,502	26,979	(994,718)	76,400	
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	550	-	-	-	-	-	550	
Surplus and total comprehensive income for the quarter	-	-	-	-	363	-	363	
Balance at 30 June 2019	55,050	353,787	630,000	6,502	29,624	(994,718)	80,245	

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Cash flows from operating activities		
Surplus for the quarter	363	246
Adjustments for:		
Interest income	(390)	(271)
Recoveries	1	–
	(26)	(25)
Increase in creditors and accrued charges	26	25
Increase in relinquished trading rights payable to SEHK	150	–
Net cash generated from operating activities	150	–
Cash flows from investing activities		
Interest received	356	239
Net cash generated from investing activities	356	239
Cash flows from financing activities		
Net trading rights deposits from SEHK	550	350
Net cash generated from financing activities	550	350
Net increase in cash and cash equivalents	1,056	589
Cash and cash equivalents at beginning of the quarter	90,260	86,749
Cash and cash equivalents at end of the quarter	91,316	87,338

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2019 \$'000	at 30 Jun 2018 \$'000
Fixed deposits with banks	90,494	87,132
Cash at bank	822	206
	91,316	87,338

The notes on pages 45 and 46 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2019 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the interim financial information on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

This interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2019. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2019 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2019.

2. Recoveries/Equity securities received under subrogation

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in Recoveries.

As at 30 June 2019, the equity securities received under subrogation amounted to \$318 (at 31 March 2019: \$1,191). The balance as at 30 June 2019 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the quarter, deposits of \$700,000 in respect of 14 new trading rights were received from SEHK.

At 30 June 2019, there were 19 trading rights in total of \$950,000 that have been relinquished but not yet refunded (at 31 March 2019: 16). The net trading right deposits from SEHK at 30 June 2019, excluding the relinquished trading rights payable, amounted to \$55,050,000 (at 31 March 2019: \$54,500,000).

Unified Exchange Compensation Fund

4. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2019 and 2018.

Securities and Futures Commission

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