



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

Quarterly Report October - December 2020



This third Quarterly Report of the Securities and Futures Commission for financial year 2020-21 covers the period from 1 October to 31 December 2020.

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Highlights



Regulatory enhancements

Competency framework: We consulted the public on proposals to update our competency framework for intermediaries and individual practitioners.

Investor identification: We launched a consultation on proposals to introduce an investor identification regime for the Hong Kong securities market.

Real estate investment trusts (REITs): We concluded a consultation on proposed amendments to the REIT Code to provide Hong Kong REITs with more flexibility in making investments.

Open-ended fund companies (OFCs): We released conclusions to our consultation on anti-money laundering and counter-financing of terrorism measures for OFCs.

Pooled retirement funds (PRFs): We launched a consultation on proposed changes to enhance requirements for the operation of PRFs.

Green and sustainable finance

Climate-related risks in funds: We began a consultation on proposed requirements for fund managers to consider climate-related risks in their investment and risk management processes and make appropriate disclosures.

Steering Group: With other members of the Green and Sustainable Finance Cross-Agency Steering Group, we released a green and sustainable finance strategy alongside five action points for Hong Kong.

International engagement: We and the Hong Kong Monetary Authority became members of the European Commission's International Platform on Sustainable Finance to represent Hong Kong and encourage private capital to make environmentally sustainable investments.

Listing regulation

Listing applications: We vetted 34 new listing applications, including two from companies with weighted voting rights structures and four from pre-profit biotech companies.

Corporate conduct: As part of our review of corporate disclosures, we issued section 179 directions to gather additional information in 10 cases and wrote to detail our concerns in two transactions.

Highlights

Intermediaries

Licensing: As at 31 December 2020, the number of licensees and registrants totalled 47,217, of which 3,122 were licensed corporations.

Supervision: We conducted 74 on-site inspections¹ of licensed corporations to review their compliance with regulatory requirements.

Licensing services: We previewed new electronic licensing functions on WINGS, our online platform for electronic forms and online submission services.

Virtual asset trading platforms: We granted the first licence to a virtual asset trading platform in Hong Kong, which will only serve professional investors.

Anti-money laundering: In a circular and webinars, we shared the findings of our inspections of anti-money laundering and counter-financing of terrorism controls and compliance practices, including the roles and responsibilities of senior management in managing risks and ensuring compliance.

Compliance Forum: At the SFC Compliance Forum 2020, we discussed the latest regulatory developments with financial industry participants.

Products

Product authorisations: We authorised 51 unit trusts and mutual funds (including 23 Hong Kong-domiciled funds) and 18 unlisted structured investment products for public offering in Hong Kong.

Mutual recognition of funds (MRF): We entered into an MRF arrangement with the Securities and Exchange Commission of Thailand in January 2021 which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process.

Enforcement

Disciplinary actions: We disciplined three licensed corporations and three individuals during the quarter resulting in total fines of approximately \$2.72 billion.

Market surveillance: We made 2,157 requests for trading and account records triggered by untoward price and turnover movements.

Regulatory cooperation

International: Our Chief Executive Officer Mr Ashley Alder chaired the meeting of the Board of the International Organization of Securities Commissions which was held virtually in conjunction with the organisation's Annual Meeting in November.

Mainland China: We held the eighth high-level meeting with the China Securities Regulatory Commission to discuss cross-boundary regulatory cooperation and key market development initiatives.

¹ Including inspections conducted remotely in light of the COVID-19 pandemic.

Operational Review



Corporates

IPO policy reform

To strengthen Hong Kong's position as an international financial centre and enhance the quality of our market, we work with The Stock Exchange of Hong Kong Limited (SEHK) to regularly review listing policies. In November, SEHK published a consultation paper on increasing the minimum profit requirement for new listings on the Main Board.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 34 new listing applications, including two from companies with a weighted voting rights structure and four from pre-profit biotech companies. Two companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules¹.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued one letter of concern and six requisition letters directly to listing applicants during the quarter. Amongst our concerns were the accuracy and completeness of the information submitted and the genuineness of the financial information in the prospectus.

Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179² directions to gather additional information in 10 cases and wrote to detail our concerns in two 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.

¹ Chapter 19C sets out the additional requirements, modifications or exceptions for companies that have, or are seeking, a secondary listing.

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.

Corporates

Takeovers matters

In October, we publicly censured and imposed a 24-month cold shoulder order against So Yuk Kwan for breaching the mandatory general offer obligation under the Takeovers Code which was triggered by the increase in the interests of So and his nominee in AV Concept Holdings Limited³.

We publicly censured and imposed an 18-month cold shoulder order on Ngai Lai Ha in November for breaching the mandatory general offer requirement under the Takeovers Code as a result of her purchases of the shares of International Housewares Retail Company Limited⁴.

Listing applications and takeovers activities

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Listing applications	34	177	242	-26.9
Takeovers and share buy-backs transactions	122	347	192	80.7

³ So was the chairman, executive director and chief executive officer of AV Concept Holdings Limited when the breaches took place.

⁴ Ngai was the company's chairperson and executive director at the time.

Intermediaries

Licence applications

As at 31 December 2020, the number of licensees and registrants totalled 47,217, of which 3,122 were licensed corporations.

In the quarter, we received 1,333 licence applications¹ including 55 corporate applications.

Competency framework

In December, we consulted the public on our proposed enhancements to the competency framework, including updating the entry requirements for licence applicants as well as the ongoing competency standards for individual practitioners.

Key proposals include raising the minimum academic qualification requirements, recognising a broader range of qualifications, allowing applicants more flexibility to meet the industry qualification and regulatory examination requirements and enhancing the continuous professional training requirements. To address our concerns about the quality of work performed by some financial advisers on matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs, competence requirements would be upgraded for individuals who are to advise on these matters.

New electronic licensing services

In December, we previewed new electronic licensing functions on our online submission platform, WINGS. The new online features include web-based licensing forms with auto-fill and skip logic features and pre-set validation rules to reduce errors as well as electronic signatures. These functions provide greater convenience for the industry, allow us to better integrate our front-loaded, risk-based approach into our licensing work and pave the way for a fully-digitalised licensing process which we plan to launch in mid-2021.

Climate-related risks in funds

In October, we launched a consultation on proposed amendments to the Fund Manager Code of Conduct requiring fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures to investors.

Virtual asset trading platforms

In November, the Financial Services and the Treasury Bureau launched a public consultation proposing a new legislative framework under which we would regulate all centralised virtual asset (VA) exchanges, including those which only trade types of VAs which currently fall outside our jurisdiction.

Separately, we granted the first licence to a VA trading platform in Hong Kong, which will only serve professional investors.

Anti-money laundering

In December, we issued a circular and held two webinars to share the findings of our inspections of anti-money laundering and counter-financing of terrorism (AML/CFT) controls and compliance practices. We highlighted several areas where firms should give priority, including the roles and responsibilities of their senior management in effectively managing AML/CFT risks and ensuring regulatory compliance. The webinars were attended by around 1,400 people from licensed corporations.

Suitability obligations and requirements for complex products

In December, we issued a circular and updated two sets of frequently asked questions (FAQs) to provide guidance to the industry on how to conduct suitability assessments, explain product risks to clients with different degrees of financial sophistication and comply with paragraph 5.5 of the Code of Conduct².

External electronic data storage

We published FAQs in December to provide additional guidance on alternative means to satisfy the requirements of our October 2019 circular on the use of external electronic data storage. Corresponding changes to the FAQs on the premises for business and record keeping were also made.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 7 for details.

² Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Licensees and registrants

	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Licensed corporations	3,122	3,109	0.4	3,084	1.2
Registered institutions	112	112	0	114	-1.8
Licensed individuals	43,983	43,946	0.1	44,239	-0.6
Total	47,217	47,167	0.1	47,437	-0.5

Licensing applications

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Applications to conduct new regulated activity	4,653	13,303	15,848	-16.1
Applications for SFC licences [^]	1,333	3,914	5,315	-26.4

[^] Figures do not include applications for provisional licences. During the quarter, we received 880 provisional licence applications compared with 788 in the same quarter last year.

Intermediary inspections

	Quarter ended 31.12.2020	Quarter ended 30.9.2020	Change (%)	Quarter ended 31.12.2019	YoY change (%)
On-site inspections conducted [^]	74	80	-7.5	76	-2.6

[^] Including inspections conducted remotely in light of the COVID-19 pandemic.

Products

Authorisations

During the quarter ended 31 December, we authorised 51 unit trusts and mutual funds (including 23 Hong Kong-domiciled funds) and 18 unlisted structured investment products for public offering in Hong Kong.

Wealth Management Connect

In January 2021, we entered into a memorandum of understanding (MoU) with the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission (CSRC), State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The MoU provides a framework for the exchange of supervisory information and enforcement cooperation as well as a liaison mechanism for investor protection issues.

Mutual Recognition of Funds (MRF)

Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 31 December, we authorised a total of 50 Mainland funds (including two umbrella funds), and the CSRC approved 29 Hong Kong funds.

As of 31 December, the cumulative net subscription for Mainland funds was about RMB310.39 million and that for Hong Kong funds was about RMB14.42 billion. During the quarter, Mainland funds recorded a net redemption of about RMB123.19 million, compared to a net subscription of RMB103.21 million in the previous quarter. Hong Kong funds recorded a net redemption of about RMB168.27 million this quarter, down from RMB2.35 billion last quarter.

Thailand

We entered into an MRF arrangement with the Securities and Exchange Commission of Thailand in January 2021. The arrangement will allow eligible Hong Kong and Thai public funds to be distributed in the other market

through a streamlined process. The approval process for local feeder funds investing in MRF-eligible master funds in the other market will also be expedited. We organised a webinar in early February 2021 to explain these initiatives to the industry.

Real estate investment trusts (REITs)

In November, we released consultation conclusions on proposed amendments to the Code on Real Estate Investment Trusts to provide Hong Kong REITs with more flexibility in making investments. The amendments took effect on 4 December.

Open-ended fund companies (OFCs)

In December, we released the conclusions to our consultation on proposed customer due diligence requirements for OFCs. The new requirements will enhance the anti-money laundering and counter-financing of terrorism measures in respect of OFCs and better align the requirements for different investment vehicles for funds in Hong Kong. Upon the completion of the legislative process, the new requirements will come into effect after a six-month transition period.

Exchange-traded funds (ETFs)

To reduce the mispricing risk of ETFs, we worked with Hong Kong Exchanges and Clearing Limited (HKEX) to impose price limits on ETFs during the pre-opening session of their first trading day. The limits, which will restrict price swings to 15% in either direction, came into effect on 19 October.

In December, we and HKEX jointly published guidance to the ETF industry on some common issues concerning listing applications, procedures for publishing announcements as well as factors to consider when deciding on a suspension or resumption of either primary market dealing or secondary market trading. More than 100 industry participants attended a joint SFC-HKEX webinar which further explained the guidance.

Products

Pooled retirement funds (PRFs)

In December, we launched a three-month consultation on proposed amendments to the Code on Pooled Retirement Funds to strengthen investor protection in view of the wide participation in Hong Kong by employers and employees of occupational retirement schemes which invest in PRFs. Key proposals include clarifying the obligations of key operators and enhancing the requirements for fund operations and trustees' internal control reviews as well as introducing requirements for different types of investment portfolios.

Electronic dissemination of investment product documents

Following the publication of a circular and frequently asked questions (FAQs) to facilitate the dissemination of post-sale investment product documents in electronic form, we published additional FAQs in October to provide further guidance to the industry.

Authorised collective investment schemes

	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	810	762	6.3	763	6.2
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,384	1,373	0.8	1,402	-1.3
Investment-linked assurance schemes	300	299	0.3	299	0.3
Pooled retirement funds	33	33	0	33	0
Mandatory Provident Fund (MPF) schemes	27	29	-6.9	29	-6.9
MPF pooled investment funds	210	206	1.9	206	1.9
Others	25 ^a	26	-3.8	27	-7.4
Total	2,789	2,728	2.2	2,759	1.1

a Comprising 13 paper gold schemes and 12 REITs.

Authorised unlisted structured investment products

	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Unlisted structured investment products ^a	145	146	-0.7	148	-2

a On a "one product per key facts statement" basis, including equity-linked investments and deposits.

Products

SFC-authorised renminbi investment products

	As at 31.12.2020
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	52
Unlisted funds (non-renminbi denominated) with renminbi share classes	252
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products issued in renminbi ^b	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	35
ETFs (non-renminbi denominated) with renminbi trading counters	18
Renminbi leveraged and inverse products	2
Renminbi gold ETFs ^c	1
Renminbi REITs	1

a Refers to onshore Mainland investments through the Renminbi Qualified Foreign Institutional Investor, 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 ETFs denominated in renminbi.

Markets

Supervision of HKEX

Following our approval, Hong Kong Exchanges and Clearing Limited (HKEX) rolled out enhancements to the Pre-Opening Session in its securities market which help improve price discovery and increase trading liquidity.

Stock Connect expansion

On 27 November, HKEX, Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange jointly announced that more stocks would be eligible under Stock Connect. Shares of biotech companies listed under Chapter 18A of the Listing Rules were included for southbound trading in December and eligible A-shares listed on the SSE's Sci-Tech Innovation Board were included in northbound trading in February 2021.

Investor identification

In December, we launched a consultation on proposals to introduce an investor identification regime at trading level for the securities market in Hong Kong. Under the regime, licensed corporations and registered institutions would submit to a data repository the names and identity document information of their clients who trade securities listed on the Stock Exchange of Hong Kong, allowing the SFC to identify investors who place securities orders.

A separate reporting regime, including clients' identity information, is proposed for over-the-counter securities

transactions. This will provide the SFC with a fuller picture of transactions involving Hong Kong securities.

RTGS account for cash market clearing house

In response to a recommendation of the International Monetary Fund's Financial Sector Assessment Program, we worked together with the Hong Kong Monetary Authority (HKMA), Hong Kong Interbank Clearing Limited and HKEX to open a Hong Kong dollar real time gross settlement (RTGS) account with the HKMA for the cash market clearing house.

Derivatives contracts

We approved the Hang Seng TECH Index futures and options contracts proposed by HKEX to meet the market's need for an exposure management tool covering the technology sector. The futures were launched in November, and the options in January 2021.

Separately, we also approved the launch of futures and options contracts for four stocks¹.

Automated trading services

As of 31 December, the number of automated trading services (ATS) providers² authorised under Part III of the Securities and Futures Ordinance (SFO) was 52, while 24 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Under Part III	52	54	-3.7	51	2
Under Part V	24	25	-4	25	-4

1 Semiconductor Manufacturing International Corporation, Alibaba Health Information Technology Limited, Kingdee International Software Group Company Limited and Ping An Healthcare and Technology Company Limited.
2 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 individuals engaged in insider dealing.

- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, engaged in insider dealing in the shares of China Gas Holdings Limited in 2011.
- Li Yik Shuen engaged in insider dealing in the shares of Meadville Holdings Limited in 2009.

In addition, the MMT found that CMBC Capital Holdings Limited and its six former directors¹ failed to disclose inside information as soon as reasonably practicable and imposed a 15-month disqualification order and a fine of \$1.2 million against the company's former chief executive officer and company secretary Philip Suen Yick Lun. The company's former chairman, Paul Suen Cho Hung, was fined \$900,000. The MMT also ordered the six former directors to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.

Court proceedings

The Eastern Magistrates' Court convicted Chow Chiu Chi, company secretary of China Automation Group Limited, of insider dealing in the company's shares. Chow was sentenced to 45 days of imprisonment and fined \$45,000.

We commenced legal proceedings in the Court of First Instance to seek disqualification orders against Zhou Ling, former chairman and executive director of New Ray Medicine International Holding Limited, and Dai Haidong, the company's former chief executive officer and executive director, for allegedly committing corporate misconduct and breaching their duties to the company. We are also seeking a court order for Zhou to pay compensation to the company.

Disciplinary actions

We disciplined three licensed corporations and three individuals during the quarter resulting in total fines² of approximately \$2.72 billion.

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine
Goldman Sachs (Asia) L.L.C.	Serious lapses and deficiencies in its management supervisory, risk, compliance and anti-money laundering controls in 1Malaysia Development Berhad's bond offerings	US\$350 million (\$2.71 billion)
Fulbright Securities Limited	Internal control failures relating to the detection and prevention of short selling and for failing to report short selling incidents to the SFC in a timely manner	\$3.6 million
Credit Suisse Securities (Hong Kong) Limited	Regulatory breaches in respect of failures in its electronic trading systems	\$2.1 million

¹ Philip Suen Yick Lun, Paul Suen Cho Hung, Lau King Hang, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

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

Enforcement

Other regulatory breaches

Name	Breaches	Action
Pang Hon Pan	Breached staff trading policy and made a wilful misrepresentation to the Securities and Futures Appeals Tribunal	Banned from re-entering the industry for 21 months
Sandra Cheung Wing Yi	Maintained an external securities trading account and conducted personal trades in the account without approval by the firm	Suspended for 12 months
Chan Shun King	Conducted unauthorised transactions in client accounts	Banned from re-entering the industry for 24 months

Restriction notice

During the quarter, we issued a restriction notice to CNI Securities Group Limited prohibiting it from dealing with or processing certain assets held in three client accounts which are related to suspected market manipulation. Our investigation is ongoing.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,157 requests for trading and account records from intermediaries in the quarter.

We published three 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 cooperation with the CSRC

In December, we held the tenth high-level meeting on cross-boundary enforcement cooperation with the China Securities Regulatory Commission (CSRC) together with a four-party meeting with the Enforcement Bureau of the CSRC, the Commercial Crime Bureau of the Hong Kong Police Force and the Securities Crime Investigation Department of the Mainland Ministry of Public Security to discuss collaboration in combating cross-boundary securities crime. The four authorities exchanged views on cooperation mechanisms and their respective legal environments. The CSRC Investor Protection Bureau introduced the special representative litigation mechanism for securities disputes set out under the new Mainland Securities Law.

Enforcement

Enforcement activities

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
S179 ^a inquiries commenced	13	29	26	11.5
S181 ^b inquiries commenced (number of letters sent)	58 (2,157)	191 (6,940)	186 (7,415)	-6.4
S182 ^c directions issued	54	140	151	-7.3
Investigations started	61	151	158	-4.4
Investigations completed	44	159	145	9.7
Individuals and corporations charged in criminal proceedings	1	9	5	80
Criminal charges laid	1	12	8	50
Notices of Proposed Disciplinary Action ^d issued	5	18	26	-30.8
Notices of Decision ^e issued	7	26	37	-29.7
Individuals and corporations subject to ongoing civil proceedings ^f	161	161	158	1.9
Compliance advice letters issued	73	182	178	2.2
Cases with search warrants executed	10	14	14	0

a Section 179 of the Securities and Futures Ordinance (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 which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

f As of the last day of the reporting period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, the SFC's Chief Executive Officer (CEO), chairs the Board of the International Organization of Securities Commissions (IOSCO). IOSCO's Annual Meeting, held virtually in November, focussed on sustainable finance and issues arising from COVID-19 as well as emerging regulatory developments related to IOSCO's priorities for the year.

We participate in the IOSCO Financial Stability Engagement Group to coordinate IOSCO's engagement with the Financial Stability Board (FSB) when addressing financial market vulnerabilities arising in connection with the COVID-19 pandemic.

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee and the Asia-Pacific Regional Committee (APRC). We lead the APRC's working group on sustainable finance to facilitate capacity building and enhance the regulation of ESG¹ and climate-related disclosures in the region. Mr Tim Lui, the SFC's Chairman, and Ms Julia Leung, our Deputy CEO and Executive Director, Intermediaries, participated in an APRC meeting in November.

Ms Leung co-leads IOSCO's Task Force on Sustainable Finance and a workstream on sustainability and asset management. We are also a member of the Retail Market Conduct Task Force and the Follow-Up Group on market fragmentation, whose current focus is to deepen regulatory and supervisory cooperation.

Mr Alder co-chairs the CPMI-IOSCO²-Steering Group to coordinate policy work for the supervision of central counterparties and other financial market infrastructure.

Financial Stability Board

In his role as the IOSCO Board Chair, Mr Alder participated in virtual FSB meetings, including of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and the Steering Committee Group on Non-bank Financial Intermediation.

We are also actively involved in the work of the FSB Standing Committee on Standards Implementation.

Mainland China

In December, we held the eighth high-level meeting with the China Securities Regulatory Commission in a virtual format to discuss cross-boundary regulatory cooperation and market development initiatives, including the expansion of eligible securities under Stock Connect³ and enhancements to the ETF⁴ cross-listing and MRF schemes.

During the quarter, we worked closely with the Mainland authorities to implement a number of initiatives set out in the Greater Bay Area development plan. These included preparations for launching the Wealth Management Connect scheme and facilitating Hong Kong financial institutions' business operations in the Greater Bay Area.

Green and sustainable finance

In October, we published a consultation paper⁵ on proposed requirements for fund managers to consider climate-related risks in their investment and risk management processes and make appropriate disclosures.

¹ Environmental, social and governance.

² Committee on Payments and Market Infrastructures.

³ These include stocks listed on the Shanghai Stock Exchange STAR Market and Hong Kong-listed pre-revenue biotech stocks.

⁴ Exchange-traded fund.

⁵ See Intermediaries on pages 6-7.

Regulatory engagement

We collaborate with other members⁶ of the Green and Sustainable Finance Cross-Agency Steering Group and stakeholders to advance the development of green and sustainable finance in Hong Kong. In November, we hosted a steering group meeting co-chaired by Mr Alder and Mr Eddie Yue of the Hong Kong Monetary Authority (HKMA). In December, the steering group jointly released a strategic plan with near-term action points to strengthen Hong Kong's financial ecosystem.

Ms Julia Leung chairs the Climate Change Technical Expert Group which provides technical views and helps formulate our regulatory policies to manage climate risks and offer practical guidance to the asset management industry.

In December, the HKMA and the SFC became members of the European Commission's (EC) International Platform on Sustainable Finance (IPSF) which encourages private capital to make environmentally sustainable investments. We actively participate in the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

Other regulatory engagement

During the quarter, Mr Alder engaged with industry associations to discuss the regulatory response to COVID-19 and market stress⁷. We held virtual meetings and calls to discuss emerging regulatory developments with the EC, Australian Securities and Investments Commission, New Zealand Financial Markets Authority, Monetary Authority of Singapore, US Securities and Exchange Commission and the Commodity Futures Trading Commission, Autorité des marchés financiers of France, UK Financial Conduct Authority and the Japan Financial Services Agency.

In November, we held our 12th Bilateral Regulatory Meeting with the Taiwan Financial Supervisory Commission via video conference to exchange views on the use of regulatory technology as well as COVID-19 challenges and regulatory responses.

⁶ These include the Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

⁷ Including the Securities Industry and Financial Markets Association, Investment Company Institute, Official Monetary and Financial Institutions Forum and the Asian Corporate Governance Association.

Stakeholders

We engage with stakeholders to help them understand our work and provide them with up-to-date regulatory information.

In October, we hosted the SFC Compliance Forum as a one-day virtual event for industry participants where we discussed the risks and opportunities facing the securities industry and capital markets, the management of liquidity, prudential and market risks and the latest developments in sustainable finance as well as private wealth management and family offices.

At November's virtual Hong Kong FinTech Week, which we co-organised, our senior management spoke about our regulatory approach to virtual assets and elaborated on the Government's legislative proposal to regulate all centralised virtual asset exchanges. Also in November, our Chief Executive Officer Mr Ashley Alder delivered a keynote speech and participated in a panel discussion at the Hong Kong Green Finance Association Annual Forum.

We organised three virtual workshops in November and December to introduce the new electronic licensing functions on our online submission platform, WINGS¹. The webinars were attended by over 1,000 participants from licensed corporations, banks, compliance advisory firms and law firms.

During the quarter, we supported four industry events and our senior executives participated in 32 local and international webinars and virtual meetings. We also held meetings with industry associations to understand their views on regulatory issues. In December, we gave a presentation at a Hong Kong Institute of Certified Public Accountants webinar on regulatory issues including the implications for family offices of our licensing regime.

In December, we released an issue of the Takeovers Bulletin which highlighted the need to conduct sufficient due diligence to identify all the regulatory approvals necessary for offers to be completed.

We also issued 21 circulars providing guidance on a variety of matters including SFC-authorised real estate investment trusts, over-the-counter derivatives reporting, and the findings of our inspections of firms' anti-money laundering and counter-financing of terrorism measures.

In October, we introduced a redesigned corporate website which provides an improved user experience in terms of navigation, functionality and information search.

Publications and other communication

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Press releases	35	99	97	2.1
Policy statements and announcements	1	8	6	33.3
Consultation papers	4	7	3	133.3
Consultation conclusions	2	6	4	50
Industry-related publications	1	8	10	-20
Codes and guidelines ^a	2	6	5	20
Circulars to industry	21	53	54	-1.9
Corporate website average daily page views ^b	28,028	36,298	46,635	-22.2
General enquiries	1,745	5,334	4,753	12.2

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

¹ See Intermediaries on pages 6-7.

Corporate Developments



Board

In October, Ms Agnes Chan Sui-kuen and Mr Edward Cheng Wai-sun were reappointed as Non-Executive Directors for two years, effective 20 October 2020 and 1 January 2021, respectively.

Finance

Our income for the quarter was \$736 million, slightly higher than last quarter and 64% more than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$151 billion, slightly higher than \$149 billion recorded in the previous quarter. Our expenditure for the quarter was \$467 million, 11% lower than last quarter and 4% lower than the same quarter last year. We recorded a surplus of \$269 million for the quarter.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$4.3 billion as of 31 December.

Staffing

As of 31 December, we had 929 staff members, up from 925 a year ago. Our split-team arrangements allowed staff to work from home on rotations during the fourth outbreak of COVID-19.

Information technology

During the quarter, new functions were introduced on WINGS, a common platform for SFC electronic forms and submission services, including interactive licensing forms and electronic signatures to facilitate more accurate submissions and straight-through processing¹.

The SMARTS² surveillance system was enhanced with additional risk detection features covering the Hang Seng TECH Index to keep track of daily price and volume volatility in real time and identify abnormal movements and potential risks. The system can also now detect suspicious trading activities during the Pre-opening Session.

Also during the quarter, we upgraded our remote access capacity to cover all staff when work-from-home arrangements are in place. We also expanded the range of applications available to staff when they are away from the office to allow them to collaborate and complete most work processes remotely.

¹ See Intermediaries on pages 6-7.

² SMARTS is the acronym for Securities Markets Automated Research Training and Surveillance, the SFC's automated surveillance and trading analysis system.

Corporate Developments

Finance

(\$ million)	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Income	736	2,094	1,238	69
Expenses including depreciation	467	1,514	1,441	5.1
Surplus/(loss)	269	580	(203)	N/A

Activity Data

Table 1 Takeovers activities

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	13	28	30	-6.7
Privatisations	8	24	12	100
Whitewash waiver applications	4	22	11	100
Other applications under Code on Takeovers and Mergers ¹	95	268	216	24.1
Off-market and general offer share buy-backs	2	4	5	-20
Other applications under Code on Share Buy-backs ¹	0	1	2	-50
Total	122	347	276	25.7
Executive Statements				
Sanctions imposed with parties' agreement ²	2	4	3	33.3
Takeovers and Mergers Panel				
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	2	-100
Statements issued by the Panel ³	0	0	2	-100

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.

3 Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 2 Breaches noted during on-site inspections¹

	Quarter ended 31.12.2020	Nine months ended 31.12.2020 ⁵	Nine months ended 31.12.2019	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	2	7	-71.4
Failure to safekeep client securities	5	10	22	-54.5
Failure to maintain proper books and records	5	13	16	-18.8
Failure to safekeep client money	8	18	30	-40
Unlicensed dealing and other registration issues	4	8	13	-38.5
Breach of licensing conditions	1	1	3	-66.7
Breach of requirements of contract notes/statements of account/receipts	9	15	24	-37.5
Failure to make filing/notification	2	2	3	-33.3
Breach of margin requirements	2	3	4	-25
Dealing malpractices	0	2	5	-60
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	69	169	210	-19.5
Breach of Corporate Finance Adviser Code of Conduct	0	5	4	25
Breach of Fund Manager Code of Conduct	45	116	60	93.3
Breach of regulation of online trading	1	1	6	-83.3
Non-compliance with anti-money laundering guidelines	34	118	277	-57.4
Breach of other rules and regulations of the Exchanges ³	0	3	10	-70
Internal control weaknesses ⁴	120	341	339	0.6
Others	22	52	132	-60.6
Total	329	879	1,165	-24.5

1 Including inspections conducted remotely in light of the COVID-19 pandemic.

2 Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

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

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

5 Figures have been adjusted for the period.

Table 3 Hong Kong-domiciled authorised funds

a) Number of funds by type	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Bond	151	136	11	134	12.7
Equity	190	185	2.7	186	2.2
Mixed ¹	66	61	8.2	58	13.8
Money market	30	28	7.1	28	7.1
Fund of funds	88	78	12.8	81	8.6
Index ²	140	129	8.5	132	6.1
Guaranteed	1	3	-66.7	3	-66.7
Sub-total	666	620	7.4	622	7.1
Umbrella structures	144	142	1.4	141	2.1
Total	810	762	6.3	763	6.2

b) Assets under management by type	Total NAV (US\$ million) as at 31.12.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 31.12.2019	YoY change (%)
Bond	37,707	28,245	33.5	29,763	26.7
Equity	57,995	39,238	47.8	49,238	17.8
Mixed ¹	17,196	14,629	17.5	14,595	17.8
Money market	8,438	7,331	15.1	6,373	32.4
Fund of funds ³	16,863	13,166	28.1	18,000	-6.3
Index ²	46,233	32,168	43.7	38,521	20
Guaranteed	55	59	-6.8	67	-17.9
Total⁴	184,486	134,835	36.8	156,557	17.8

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Presented as "Diversified" previously.

2 Including exchange-traded funds and leveraged and inverse products.

3 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020 and 31 December 2019.

4 Figures may not add up to total due to rounding.

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Luxembourg	1,034	1,032	0.2	1,041	-0.7
Ireland	237	222	6.8	220	7.7
United Kingdom	34	37	-8.1	51	-33.3
Other Europe	0	0	N/A	3	-100
Mainland China	51	50	2	50	2
Bermuda	1	1	0	1	0
Cayman Islands	22	26	-15.4	30	-26.7
Others	5	5	0	6	-16.7
Total	1,384	1,373	0.8	1,402	-1.3

b) Assets under management by origin	Total NAV (US\$ million) as at 31.12.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 31.12.2019	YoY change (%)
Luxembourg	1,345,312	884,452 ¹	52.1	1,107,091	21.5
Ireland ²	279,016	204,098	36.7	250,627	11.3
United Kingdom	78,866	60,602	30.1	83,239	-5.3
Other Europe	0	0	N/A	150	-100
Mainland China	26,450	18,496	43	19,252	37.4
Bermuda	128	142	-9.9	145	-11.7
Cayman Islands ²	5,041	4,685	7.6	7,407	-31.9
Others	76,062	54,638	39.2	48,959	55
Total^{2,3}	1,810,875	1,227,114¹	47.6	1,516,870	19.4

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report was published.

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020 and 31 December 2019.

3 Figures may not add up to total due to rounding.

Activity Data

c) Number of funds by type	As at 31.12.2020	As at 31.3.2020	Change (%)	As at 31.12.2019	YoY change (%)
Bond	344	329	4.6	337	2.1
Equity	750	760	-1.3	774	-3.1
Mixed ¹	127	123	3.3	124	2.4
Money market	16	15	6.7	15	6.7
Fund of funds	23	26	-11.5	26	-11.5
Index ²	42	41	2.4	44	-4.5
Hedge	1	1	0	0	N/A
Other specialised ³	0	0	N/A	1	-100
Sub-total	1,303	1,295	0.6	1,321	-1.4
Umbrella structures	81	78	3.8	81	0
Total	1,384	1,373	0.8	1,402	-1.3

d) Assets under management by type	Total NAV (US\$ million) as at 31.12.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 31.12.2019	YoY change (%)
Bond	632,771	469,281	34.8	570,876	10.8
Equity	875,251	532,133 ⁵	64.5	687,340	27.3
Mixed ¹	160,234	123,753	29.5	155,032	3.4
Money market	11,974	13,877	-13.7	13,400	-10.6
Fund of funds ⁴	1,192	891	33.8	1,141	4.5
Index ²	129,325	87,036	48.6	88,936	45.4
Hedge	128	142	-9.9	0	N/A
Other specialised ³	0	0	N/A	145	-100
Total^{4,6}	1,810,875	1,227,114⁵	47.6	1,516,870	19.4

1 Presented as "Diversified" previously.

2 Including exchange-traded funds.

3 Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

4 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020 and 31 December 2019.

5 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report was published.

6 Figures do not add up to total due to rounding.

Table 5 Complaints against intermediaries and market activities

	Quarter ended 31.12.2020	Nine months ended 31.12.2020	Nine months ended 31.12.2019	YoY change (%)
Conduct of licensees	211	603	418	44.3
Conduct of registered institutions	6	15	25	-40
Listed companies and disclosure of interests	1,013	2,483	1,695	46.5
Market misconduct ¹	234	685	409	67.5
Product disclosure	2	83	6	1,283.3
Unlicensed activities	15	78	147	-46.9
Breach of offers of investments	6	73	90	-18.9
Boiler rooms and suspicious websites	152	470	387	21.4
Scams and frauds ²	182	437	194	125.3
Other financial activities not regulated by the SFC ³	75	238	204	16.7
Total	1,896	5,165	3,575	44.5

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking services.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Income					
Levies		1,479,250	972,326	514,290	306,990
Fees and charges		146,211	118,998	37,707	45,229
Net investment income					
Investment income		469,525	177,781	182,685	120,621
Less: custody and advisory expenses		(7,585)	(5,854)	(3,084)	(1,915)
Recoveries from the Investor Compensation Fund	6(a)	4,593	4,544	1,587	1,503
Exchange gain/(loss)		1,504	(29,608)	2,128	(23,947)
Other income		1,091	292	862	192
		2,094,589	1,238,479	736,175	448,673
Expenses					
Staff costs and directors' emoluments	6(b)	1,104,907	1,057,169	358,404	349,743
Depreciation					
Fixed assets		62,026	31,054	22,481	10,527
Right-of-use assets		194,596	157,686	35,616	57,068
Other premises expenses		31,008	33,401	8,367	11,268
Finance costs		7,008	2,519	2,220	349
Other expenses		114,718	159,418	39,889	58,704
		1,514,263	1,441,247	466,977	487,659
Surplus/(loss) and total comprehensive income for the period		580,326	(202,768)	269,198	(38,986)

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		288,081	135,712
Right-of-use assets		1,013,519	324,040
Deposits for leases		37,585	33,767
Financial assets at amortised costs – debt securities		3,079,176	1,600,123
		4,418,361	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		145,044	984,239
Financial assets at fair value through profit or loss			
Debt securities		432,540	419,469
Pooled funds		1,033,477	648,510
Debtors, deposits and prepayments		277,383	265,200
Fixed deposits with banks		2,347,710	2,832,302
Cash at bank and in hand		36,444	51,871
		4,272,598	5,201,591
Current liabilities			
Fees received in advance		8,801	47,097
Creditors and accrued charges		299,398	167,043
Lease liabilities		137,254	96,115
Provisions	3	16,969	66,532
		462,422	376,787
Net current assets		3,810,176	4,824,804
Total assets less current liabilities		8,228,537	6,918,446
Non-current liabilities			
Lease liabilities		864,945	203,558
Provisions	3	88,346	19,968
		953,291	223,526
Net assets		7,275,246	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,232,406	3,652,080
		7,275,246	6,694,920

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		287,934	135,658
Right-of-use assets		1,013,436	324,040
Deposits for leases		37,585	33,767
Financial assets at amortised costs – debt securities		3,079,176	1,600,123
		4,418,131	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		145,044	984,239
Financial assets at fair value through profit or loss			
Debt securities		432,540	419,469
Pooled funds		1,033,477	648,510
Debtors, deposits and prepayments		277,521	274,141
Fixed deposits with banks		2,347,710	2,832,302
Cash at bank and in hand		24,264	29,836
		4,260,556	5,188,497
Current liabilities			
Fees received in advance		8,801	47,097
Creditors and accrued charges		287,208	153,895
Lease liabilities		137,236	96,115
Provisions	3	16,969	66,532
		450,214	363,639
Net current assets		3,810,342	4,824,858
Total assets less current liabilities		8,228,473	6,918,446
Non-current liabilities			
Lease liabilities		864,881	203,558
Provisions	3	88,346	19,968
		953,227	223,526
Net assets		7,275,246	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		4,232,406	3,652,080
		7,275,246	6,694,920

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2020 (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 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the period	–	–	(202,768)	(202,768)
Balance at 31 December 2019	42,840	3,000,000	3,824,614	6,867,454
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	580,326	580,326
Balance at 31 December 2020	42,840	3,000,000	4,232,406	7,275,246

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the period		580,326	(202,768)
Adjustments for:			
Depreciation – Fixed assets		62,026	31,054
Depreciation – Right-of-use assets		194,596	157,686
Provisions for reinstatement		(12,197)	–
Finance costs		7,008	2,519
Interest income on deposits for leases		(212)	–
Investment income		(469,525)	(177,781)
Exchange difference		(1,616)	29,635
Loss on disposal of fixed assets		4,889	3
		365,295	(159,652)
Increase in right-of-use assets		(50)	–
Increase in debtors, deposits and prepayments		(23,043)	(17,076)
(Decrease)/increase in fees received in advance		(38,296)	50,700
Increase in creditors and accrued charges		111,569	81,844
Decrease in provisions for reinstatement		(37,940)	–
Net cash generated from/(used in) operating activities		377,535	(44,184)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		353,378	1,373,433
Interest received		91,111	113,549
Debt securities at fair value through profit or loss purchased		(150,699)	(326,992)
Debt securities at fair value through profit or loss sold or redeemed		146,429	722,468
Pooled funds sold		3,485	153,396
Debt securities at amortised cost purchased		(1,512,389)	(1,086,352)
Debt securities at amortised cost redeemed at maturity		860,401	342,842
Fixed assets purchased		(194,037)	(43,102)
Proceeds from fixed assets disposal		2	–
Net cash (used in)/generated from investing activities		(402,319)	1,249,242
Cash flows from financing activities			
Principal element of lease payments		(114,971)	(148,325)
Interest element of lease payments		(7,008)	(2,519)
Net cash used in financing activities		(121,979)	(150,844)
Net (decrease)/increase in cash and cash equivalents		(146,763)	1,054,214
Cash and cash equivalents at the beginning of the nine-month period		753,406	289,657
Cash and cash equivalents at the end of the nine-month period	2	606,643	1,343,871

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	570,199	1,277,201
Cash at bank and in hand	36,444	66,670
	606,643	1,343,871

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have 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.

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) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2020. 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 2020 included in this report does not constitute the Group'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), are made up to 31 December 2020. We eliminated all material intra group 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the nine months ended 31 December 2020.

2. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank and in hand	36,444	51,871
Fixed deposits with banks	2,347,710	2,832,302
Amounts shown in the condensed consolidated statement of financial position	2,384,154	2,884,173
Less: Amounts with an original maturity beyond three months	(1,777,511)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	606,643	753,406

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

4. Exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange loss or income was mainly driven by the USD revaluation on financial assets.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

5. 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 31 December 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

6. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the related parties transactions disclosed in elsewhere in these condensed consolidated financial statements, the Group has the following 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 period, \$4,593,000 was recovered from the ICF for the ICC's expenses (2019: \$4,544,000). As at 31 December 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$176,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited Nine months ended	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	25,662	26,839
Retirement scheme contributions	2,307	2,320
	27,969	29,159

The total remuneration is included in "staff costs and directors' emoluments" on page 26. 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 this report and the unaudited condensed financial statements for the nine months ended 31 December 2020.

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 31 December 2020 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 nine months ended 31 December 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

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 nine months.

On behalf of the Committee

Rico Leung

Chairman

10 February 2021

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Income					
Interest income		18,893	46,705	3,414	14,771
Exchange gain/(loss)		513	(9,940)	670	(8,176)
		19,406	36,765	4,084	6,595
Expenses					
Investor Compensation Company Limited expenses	2	4,593	4,544	1,587	1,503
Auditor's remuneration		148	142	38	36
		4,741	4,686	1,625	1,539
Surplus and total comprehensive income for the period		14,665	32,079	2,459	5,056

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

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets		
Interest receivable	2,834	7,185
Due from Investor Compensation Company Limited	176	138
Fixed deposits with banks	2,439,793	2,420,558
Cash at bank	362	651
	2,443,165	2,428,532
Current liabilities		
Creditors and accrued charges	236	268
	236	268
Net current assets	2,442,929	2,428,264
Net assets	2,442,929	2,428,264
Representing:		
Compensation fund	2,442,929	2,428,264

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 nine months ended 31 December 2020 (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 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	32,079	32,079
Balance at 31 December 2019	994,718	108,923	1,319,943	2,423,584
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	14,665	14,665
Balance at 31 December 2020	994,718	108,923	1,339,288	2,442,929

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

Condensed statement of cash flows

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Surplus for the period		14,665	32,079
Adjustments for:			
Interest income		(18,893)	(46,705)
Exchange (gain)/loss		(513)	9,940
		(4,741)	(4,686)
Increase in amount due from Investor Compensation Company Limited		(38)	(246)
Decrease in creditors and accrued charges		(32)	(38)
Net cash used in operating activities		(4,811)	(4,970)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(60,655)	644,868
Interest received		23,244	54,897
Net cash (used in) generated from investing activities		(37,411)	699,765
Net (decrease)/increase in cash and cash equivalents		(42,222)	694,795
Cash and cash equivalents at the beginning of the nine-month period		1,086,662	32,944
Cash and cash equivalents at the end of the nine-month period	3	1,044,440	727,739

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	1,044,078	727,253
Cash at bank	362	486
	1,044,440	727,739

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

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2020.

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 nine months ended 31 December 2020, the ICC incurred costs of \$4,593,000 for its operation (for the nine months ended 31 December 2019: \$4,544,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	362	651
Fixed deposits with banks	2,439,793	2,420,558
Amounts shown in the condensed statement of financial position	2,440,155	2,421,209
Less: Amounts with an original maturity of beyond three months	(1,395,715)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,044,440	1,086,662

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

4. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the nine months ended 31 December 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

There are 9 outstanding claims as at the date of this report. The maximum liability in respect of these claims in aggregate is \$1,567,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit 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 this report and the unaudited condensed financial statements for the nine months ended 31 December 2020.

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 31 December 2020, 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 31 December 2020 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 nine months ended 31 December 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Yiu Ka Yan Wilfred

Ms Kwok Hom Siu

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 nine months.

On behalf of the Committee

Rico Leung

Chairman

1 February 2021

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Income					
Interest income		680	1,359	109	496
Recoveries	2	3,845	(1)	219	–
		4,525	1,358	328	496
Expenses					
Auditor's remuneration		70	67	16	15
Surplus and total comprehensive income for the period		4,455	1,291	312	481

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 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets			
Interest receivable		55	243
Accounts receivable		9	9
Fixed deposits with banks		97,425	92,879
Cash at bank		104	470
		97,593	93,601
Current liabilities			
Creditors and accrued charges		10,293	10,306
Relinquished trading rights payable to SEHK	4	1,300	1,250
		11,593	11,556
Net current assets		86,000	82,045
Net assets		86,000	82,045
Representing:			
Compensation fund		86,000	82,045

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 nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Unaudited						
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	1,000	–	–	–	–	–	1,000
Surplus and total comprehensive income for the period	–	–	–	–	1,291	–	1,291
Balance at 31 December 2019	55,500	353,787	630,000	6,502	30,552	(994,718)	81,623
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(500)	–	–	–	–	–	(500)
Surplus and total comprehensive income for the period	–	–	–	–	4,455	–	4,455
Balance at 31 December 2020	54,950	353,787	630,000	6,502	35,479	(994,718)	86,000

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 nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Surplus for the period		4,455	1,291
Adjustments for:			
Interest income		(680)	(1,359)
Recoveries		–	1
		3,775	(67)
Decrease in creditors and accrued charges		(13)	(13)
Increase in relinquished trading rights payable to SEHK		50	100
Net cash generated from operating activities		3,812	20
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		8,134	–
Interest received		868	1,278
Net cash generated from investing activities		9,002	1,278
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(500)	1,000
Net cash (used in)/generated from financing activities		(500)	1,000
Net increase in cash and cash equivalents		12,314	2,298
Cash and cash equivalents at the beginning of the nine-month period		31,999	90,260
Cash and cash equivalents at the end of the nine-month period	3	44,313	92,558

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	44,209	91,967
Cash at bank	104	591
	44,313	92,558

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

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (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.

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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2020.

2. Recoveries/Equity securities received under subrogation

The Fund received \$3,845,000 in total from certain liquidators which was recognised as recoveries for the nine months ended 31 December 2020 (for the nine months ended 31 December 2019: nil).

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 31 December 2020, the equity securities received under subrogation amounted to \$167 (as at 31 March 2020: \$142). The balance as at 31 December 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	104	470
Fixed deposits with banks	97,425	92,879
Amounts shown in the condensed statement of financial position	97,529	93,349
Less: Amounts with an original maturity of beyond three months	(53,216)	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	44,313	31,999

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

4. 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 Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. 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 nine-month period, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 December 2020, 26 trading rights totalling \$1,300,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the period was as follows:

	Unaudited Nine months ended	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	350	1,600
Less: relinquished trading rights refunded	(800)	(500)
Adjustment for: net increase in relinquished trading rights payable to SEHK	(50)	(100)
Balance carried forward	54,950	55,500

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the nine months ended 31 December 2020 and 2019.

Securities and Futures Commission

54/F, One Island East
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