



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

## **Financial Review of the Securities Industry**

For the half year ended 30 June 2018



## Executive Summary

In the first half of 2018, the net profits of all securities dealers and securities margin financiers<sup>1</sup> totalled \$20.1 billion<sup>2</sup>, down 7.1% from the previous six-month period. The decrease was mainly attributable to increase in total overheads and interest expense and decrease of asset management income.

The total value of transactions of all securities dealers and securities margin financiers increased by 21.8% in the first half of 2018. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$126.6 billion<sup>3</sup>, up 26.5% from the previous six months. The Hang Seng Index closed at 28,955 on 29 June 2018, down 3.2% as compared to its close on 29 December 2017.

In respect of SEHK participants, Category A, Category B and Category C brokerages reported net profits of \$3.4 billion, \$4.7 billion and \$2.6 billion respectively.

At the end of June 2018, outstanding margin loans totalled \$207.1 billion, up 1% from the end of 2017. Average collateral coverage (as defined in remark 1f in Table 1) was 3.8 times.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the first half of 2018.

<b>Table 1 Statistical information and financial position of securities dealers and securities margin financiers<sup>1a</sup></b>		
	<b>30/6/2018</b>	<b>31/12/2017</b>
Total number of securities dealers and securities margin financiers	1,258	1,222
Total number of active cash clients <sup>1b</sup>	1,360,927	1,320,332
Total number of active margin clients <sup>1b</sup>	395,258	337,599
<b>Balance sheet (\$ million)</b>		
Cash in hand and at bank <sup>1c</sup>	542,432	515,547
Amounts receivable from margin clients	207,133	205,977
Amounts receivable from clients and other dealers arising from dealing in securities	287,695	164,226
Proprietary positions	108,840	139,502
Other assets	323,925	312,152
<b>Total assets</b>	<b>1,470,025</b>	<b>1,337,404</b>

<sup>1</sup> Securities dealers and securities margin financiers refer to corporations licensed for dealing in securities or securities margin financing. Both SEHK participants and non-SEHK participants are included unless otherwise specified.

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

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



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

	<b>30/6/2018</b>	<b>31/12/2017</b>
<b>Balance sheet (\$ million) (cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	688,273	568,641
Total borrowings from financial institutions	159,906	170,411
Short positions held for own account	46,003	62,161
Other liabilities	177,439	164,033
Total shareholders' funds	398,404	372,158
<b>Total liabilities and shareholders' funds</b>	<b>1,470,025</b>	<b>1,337,404</b>
	<b>Six months to 30/6/2018</b>	<b>Six months to 31/12/2017</b>
<b>Profit and loss (\$ million)</b>		
Total value of transactions <sup>1d</sup>	49,058,115	40,272,045
Net securities commission income	13,868	12,728
Gross interest income	10,825	9,170
Other income <sup>1e</sup>	55,754	59,500
Net profit on proprietary trading	8,992	7,442 <sup>1g</sup>
<b>Total income</b>	<b>89,439</b>	<b>88,840</b>
Total overheads and interest expense	(69,309)	(67,166) <sup>1g</sup>
<b>Net profit</b>	<b>20,130</b>	<b>21,674</b>
Remarks:		
1a. Excludes figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office.		
1b. Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
1c. Cash in hand and at bank includes \$307.9 billion in trust monies held on behalf of clients (31/12/2017: \$286.5 billion).		
1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1e. Other income includes inter-company management fee income, asset management fees, advisory fees, underwriting fees and corporate finance income.		
1f. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:		
	<u>As at 30/6/2018</u>	<u>As at 31/12/2017</u>
	3.8 times	4.1 times
1g. The 2H 2017 figures are restated due to a revision of the figures for one licensed corporation.		
<i>Source: Monthly financial returns submitted to the Securities and Futures Commission by corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.</i>		



**Table 2 Financial performance of SEHK participants<sup>2a</sup> by category for the half year ended 30 June 2018 (\$ million)**

	Category A		Category B		Category C		All SEHK Participants	
	1H 2018	2H 2017	1H 2018	2H 2017	1H 2018	2H 2017	1H 2018	2H 2017
Total value of transactions <sup>2b</sup>	16,871,296	13,184,214	16,835,694	14,008,630	7,269,590	6,408,804 <sup>2c</sup>	40,976,580	33,601,648 <sup>2c</sup>
Net securities commission income	2,817	2,425	4,928	4,350	3,410	3,212	11,155	9,987
Gross interest income	1,335	1,185	3,507	2,825	4,325	4,131	9,167	8,141
Other income	5,602	4,444	5,873	5,342	5,035	5,662	16,510	15,448
Net profit on proprietary trading	357	414 <sup>2c</sup>	248	246	(132)	799	473	1,459 <sup>2c</sup>
<b>Total income</b>	<b>10,111</b>	<b>8,468</b>	<b>14,556</b>	<b>12,763</b>	<b>12,638</b>	<b>13,804</b>	<b>37,305</b>	<b>35,035</b>
Total overheads and interest expense	(6,732)	(6,324) <sup>2c</sup>	(9,832)	(9,184)	(10,039)	(9,911)	(26,603)	(25,419) <sup>2c</sup>
<b>Net profit</b>	<b>3,379</b>	<b>2,144</b>	<b>4,724</b>	<b>3,579</b>	<b>2,599</b>	<b>3,893</b>	<b>10,702</b>	<b>9,616</b>

Remarks:

2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on SEHK. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th, and the remainder are grouped under Category C.

2b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

2c. The 2H 2017 figures are restated due to a revision of the figures for some licensed corporations.

Source: Monthly financial returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules.

Disclaimer: The objective of this paper is to provide summary financial data for interested parties for use in benchmarking, research analysis or other purposes. Observations made here should not be taken as definitive market commentaries.