



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

Financial Review of the Securities Industry

For the year ended 31 December 2017



Executive Summary

The total net profits of all securities dealers and securities margin financiers¹ for 2017 was \$35 billion², up 67% from 2016. The growth was mainly attributable to increases in net securities commission income (due to higher transaction volumes), net profit on proprietary trading and other income.

In 2017, the total value of transactions of all securities dealers and securities margin financiers increased by 16%. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$88.2 billion³, up 32% from 2016. As of the end of 2017, the Hang Seng Index closed at 29,919, 36% higher than its close at the end of the previous year.

In respect of SEHK participants, brokerages in Categories A, B and C reported total net profits of \$3.4 billion, \$7.4 billion and \$5.9 billion respectively.

At the end of 2017, outstanding margin loans totalled \$206 billion, 20% higher than at the end of 2016. The 20 largest providers of securities margin financing collectively accounted for 75% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1b in Table 1) was 4.1 times at the end of 2017.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the year ended 31 December 2017.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	31/12/2017	31/12/2016
Total number of securities dealers and securities margin financiers	1,222	1,104
Total number of active cash clients ^{1a}	1,320,332	1,289,563
Total number of active margin clients ^{1a}	337,599	267,132
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	515,547	446,465
Amounts receivable from margin clients	205,977	171,633
Amounts receivable from clients and other dealers arising from dealing in securities	164,226	125,471
Proprietary positions	139,502	110,756
Other assets	312,152	224,196
Total assets	1,337,404	1,078,521

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

² Unless otherwise stated, figures given in the report are denominated in Hong Kong dollars.

³ Source: Hong Kong Exchanges and Clearing Limited.



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

	31/12/2017	31/12/2016
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	568,641	481,339
Total borrowings from financial institutions	170,411	86,731
Short positions held for own account	62,161	33,194
Other liabilities	164,033	143,941
Total shareholders' funds	372,158	333,316
Total liabilities and shareholders' funds	1,337,404	1,078,521
	2017	2016
Profit and loss (\$ million)		
Total value of transactions ^{1d} (+16%)	73,901,390	63,495,134
Net securities commission income	23,079	18,739
Gross interest income	17,259	14,026
Other income ^{1e}	107,079	98,344
Net profit on proprietary trading	11,667	6,893
Total income (+15%)	159,084	138,002
Total overhead and interest expense	(123,878)	(116,978)
Net profit (+67%)	35,206	21,024
Remarks:		
1a. Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
1b. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis:		
	<u>As at 31/12/2017</u>	<u>As at 31/12/2016</u>
	4.1 times	4.0 times
1c. Cash in hand and at bank includes \$286,461 million in trust monies held on behalf of clients (31/12/2016: \$248,066 million).		
1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1e. Other income comprises inter-company management fee income, advisory fees, asset management fees, underwriting fees and corporate finance income.		
Source: Monthly Financial Returns submitted to the Securities and Futures Commission by licensed corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.		



Table 2 Financial performance of SEHK participants^{2a} by category for the year ended 31 December 2017 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	2017	2016	2017	2016	2017	2016	2017	2016
Total value of transactions ^{2b}	23,406,408	19,487,353	24,813,061	17,512,989	14,576,537	10,101,116	62,796,006	47,101,458
Net securities commission income	4,249	3,225	7,864	6,138	5,822	5,113	17,935	14,476
Gross interest income ^{2c}	2,323	809	5,582	5,416	7,560	6,565	15,465	12,790
Other income	7,709	5,477	10,750	10,224	10,581	8,603	29,040	24,304
Net profit/(loss) on proprietary trading	257	353	327	290	1,064	(2,212)	1,648	(1,569)
Total income	14,538	9,864	24,523	22,068	25,027	18,069	64,088	50,001
Salary and staff benefits	(3,542)	(3,578)	(6,191)	(6,291)	(8,223)	(7,534)	(17,956)	(17,403)
Other overhead and interest expense	(7,567)	(5,779)	(10,957)	(10,023)	(10,913)	(9,209)	(29,437)	(25,011)
Net profit	3,429	507	7,375	5,754	5,891	1,326	16,695	7,587

Remarks:

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

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

2c. The substantial increase in gross interest income for Category A SEHK participants in 2017 was primarily attributable to the change in classification of an SEHK participant from Category B to Category A in December 2016.

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

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