



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 2016



Executive Summary

In the first half of 2016, the net profits of all securities dealers and securities margin financiers¹ totalled \$8.4 billion², down 49% from the previous six months. The drop was mainly attributable to decreases in net securities commission income (driven by lower transaction volumes), net profit on proprietary trading and other income.

The total value of transactions of all securities dealers and securities margin financiers decreased by 29% in the first half of 2016. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) stood at \$67.5 billion³, down 22% from the previous six months. The Hang Seng Index closed at 20,794 on 30 June 2016, down 5% as compared to its close on 31 December 2015.

In respect of SEHK participants, net profits reported by Category A and Category B brokerages were \$0.3 billion and \$2.3 billion respectively, while Category C brokerages reported a net loss of around \$0.7 billion.

At the end of June 2016, outstanding margin loans totalled \$153.3 billion, up 6% from the end of 2015. Average collateral coverage (as defined in remark 1c in Table 1) was 4.1 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 2016.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^{1a}		
	30/6/2016	31/12/2015
Total number of securities dealers and securities margin financiers	1,035	1,002
Total number of active cash clients ^{1b}	1,278,316	1,259,868
Total number of active margin clients ^{1b}	254,934	241,948
Balance sheet (\$ million)		
Cash in hand and at bank ^{1d}	415,330	429,002
Amounts receivable from margin clients	153,319	145,307
Amounts receivable from clients and other dealers arising from dealing in securities	214,699	139,869
Proprietary positions	136,772	170,125
Other assets	215,448	205,673
Total assets	1,135,568	1,089,976

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

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

³ 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)

	30/6/2016	31/12/2015
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	541,010	466,208
Total borrowings from financial institutions	100,529	111,265
Short positions held for own account	50,972	61,198
Other liabilities	127,851	146,989
Total shareholders' funds	315,206	304,316
Total liabilities and shareholders' funds	1,135,568	1,089,976
	Six months to 30/6/2016	Six months to 31/12/2015
Profit and loss (\$ million)		
Total value of transactions ^{1e} (-29%)	33,384,647	46,803,592
Net securities commission income	8,740	12,082
Gross interest income	6,687	6,319
Other income ^{1f}	45,675	50,256
Net profit on proprietary trading	567	7,534
Total income (-19%)	61,669	76,191
Total overheads and interest expense	53,244	59,581
Net profit (-49%)	8,425	16,610

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 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 30/6/2016</u> | <u>As at 31/12/2015</u> |
| 4.1 times | 4.4 times |
- 1d Cash in hand and at bank includes \$234 billion in trust monies held on behalf of clients (31/12/2015: \$225 billion).
- 1e Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.
- 1f Other income includes inter-company management fee income, asset management fees, advisory fees, underwriting fees and corporate finance income.

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.



Table 2 Financial performance of SEHK participants^{2a} by category for the half year ended 30 June 2016 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	1H 2016	2H 2015	1H 2016	2H 2015	1H 2016	2H 2015	1H 2016	2H 2015
Total value of transactions ^{2b}	9,967,217	12,989,518	8,265,220	10,438,222	4,922,414	5,369,104	23,154,851	28,796,843
Net securities commission income	1,615	2,223	2,699	3,944	2,461	3,311	6,775	9,478
Gross interest income	393	480	2,693	2,756	3,023	2,517	6,109	5,752
Other income	2,893	4,422	4,218	4,376	4,322	3,888	11,432	12,686
Net profit/loss on proprietary trading	141	143	265	(48)	(2,388)	322	(1,982)	417
Total income	5,043	7,268	9,874	11,027	7,417	10,039	22,334	28,333
Total overheads and interest expense	(4,785)	(5,325)	(7,615)	(10,104)	(8,068)	(9,255)	(20,468)	(24,684)
Net profit/loss	258	1,943	2,258	923	(650)	784	1,866	3,650

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 is grouped under Category C.

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

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.