



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 2009



Executive Summary

The net profit for all securities dealers and securities margin financiers¹ for 2009 was \$21.2 billion², down 21% from 2008. The decrease was mainly due to a decline in turnover and commission income. On a related note, The Stock Exchange of Hong Kong Limited (SEHK) recorded a decrease in average daily turnover of 14% to \$62.3 billion³ in 2009. On the other hand, net profits for proprietary trading increased by 120% compared to 2008, which may be attributable to the recovery of the stock market. The Hang Seng Index rose 52% in 2009.

Category C brokers in aggregate showed strong recovery in net profit for 2009 whereas both Category A and Category B brokers showed moderate decreases.

At the end of 2009, the total outstanding margin loan reached \$40.2 billion, up 134% from the end of 2008. A major part of the increase was attributable to 20 largest securities margin financing providers, whose total outstanding margin loan amounted to 76% of the industry total. Average collateral coverage at the end of 2009 increased to 5.2 times from 4.4 times in 2008.

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 2009. The key findings of an analysis of SEHK participants by the jurisdictions of controlling shareholders are also summarised in the appendix attached to this paper.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^a		
	31/12/2009	31/12/2008
Total number of securities dealers & securities margin financiers	769	741
Total number of active cash clients ^b	957,651	918,750
Total number of active margin clients ^b	138,772	113,823
Balance sheet (\$ mn)		
Cash in hand and at bank ^c	276,962	251,982
Amounts receivable from margin clients ^d	40,160	17,217
Amounts receivable from clients and other dealers arising from dealing in securities	120,754	86,369
Proprietary positions	143,467	94,003
Other assets	137,182	141,203
Total assets (+22%)	718,525	590,774

¹ "Securities dealers and securities margin financiers" refers to corporations licensed for dealing in securities or securities margin financing. These include both entities that are and those that are not SEHK participants.

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

³ Source of information: Hong Kong Exchanges and Clearing Ltd (HKEx).



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

	31/12/2009	31/12/2008
Balance sheet (\$ mn) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	263,372	211,565
Total borrowings from financial institutions	48,572	37,015
Short positions held for own account	36,891	11,186
Other liabilities	177,965	156,661
Total shareholders' funds (+10%)	191,725	174,347
Total liabilities and shareholders' funds (+22%)	718,525	590,774
	2009	2008
Profit and loss (\$ mn)		
Total value of transactions ^e (-14%)	46,347,239	53,923,632
Net securities commission income (-21%)	31,676	40,120
Gross interest income	3,979	9,586
Other income ^f	62,842	59,188
Net profit on proprietary trading	12,905	5,860
Total income (-3%)	111,401	114,754
Total overheads and interest expense (+3%)	90,164	87,707
Net profit for the period (-21%)	21,237	27,047
Remarks:		
a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.		
b Active clients are clients for whom the 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.		
c Cash in hand and at bank includes trust monies held on behalf of clients totalled \$114,352 million (31/12/2008: \$89,932 million).		
d Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis:		
	<u>As at 31/12/2009</u>	<u>As at 31/12/2008</u>
	5.2 times	4.4 times
e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
f Other income comprises inter-company management fee income, fund management income, corporate finance income and others.		
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 each of the categories^a of SEHK participants for the year ended 31 December 2009 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	2009	2008	2009	2008	2009	2008	2009	2008
Total value of transactions ^b	20,033,274	21,679,903	11,826,897	15,350,173	5,792,149	5,672,544	37,652,320	42,702,620
Net securities commission income	14,590	19,566	7,993	10,882	4,297	3,979	26,880	34,427
Gross interest income	448	1,246	1,241	2,255	1,143	1,793	2,832	5,294
Other income	6,922	5,761	5,288	5,093	2,746	2,307	14,956	13,161
Net profit on proprietary trading	(372)	76	314	868	847	(402)	789	542
Total income	21,588	26,649	14,836	19,098	9,033	7,677	45,457	53,424
Salary and staff benefits	(4,451)	(5,155)	(4,736)	(5,006)	(2,835)	(3,082)	(12,022)	(13,243)
Other overheads and interest expense	(10,611)	(13,242)	(5,755)	(9,138)	(4,353)	(4,431)	(20,719)	(26,811)
Net profit for the period	6,526	8,252	4,345	4,954	1,845	164	12,716	13,370

Remarks:

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

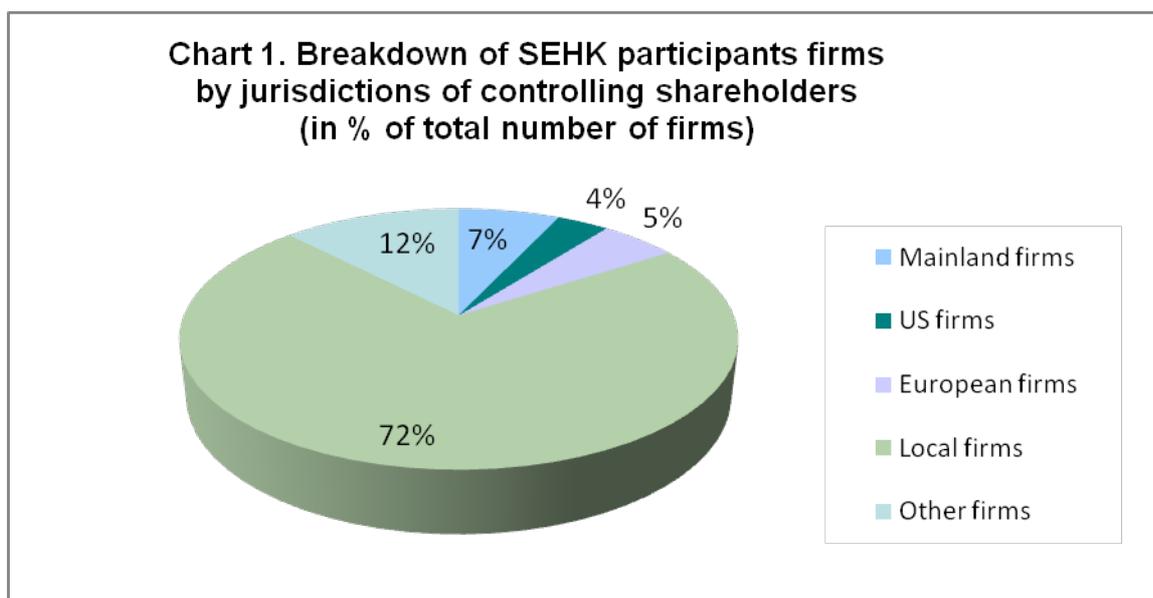


Appendix

Analysis of SEHK Participants by the jurisdictions of controlling shareholders (31 December 2009)⁴

As at the end of 2009, there were a total of 470 SEHK participant firms of which 72% were owned by local shareholders and the rest were owned by Mainland or foreign shareholders.

Chart 1 shows the distribution of the SEHK participants by the jurisdictions in which their controlling shareholders were based⁵.



Business performance

Chart 2 shows the performance of each type of SEHK participants in terms of the value of transactions in 2008 and 2009. Transaction value by participant type is measured as a percentage of the market total.

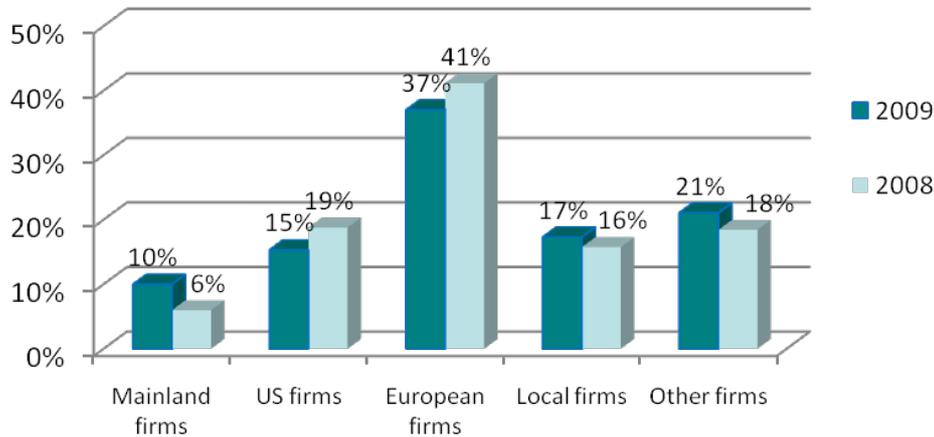
European firms had the largest market share in both 2008 and 2009, accounting for 37% of total market share in 2009, although this was 4% lower than in 2008. US firms also experienced a moderate decrease in market share from 19% to 15% in 2009. The decrease in market share of European firms and US firms was primarily driven by a drop in the value of transactions handled by major European firms and US firms in 2009. On the other hand, the value of transactions for Mainland firms increased significantly in 2009, bringing their market share from 6% in 2008 to 10%. Local firms' market share also increased, albeit slightly from 16% to 17% in 2009.

⁴ Source of information: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK Participants in accordance with the Securities and Futures (Financial Resources) Rules.

⁵ For ease of reference, firms owned by local shareholders are hereinafter referred to as "local firms." "Mainland firms" refer to those with shareholders from the Mainland, while "European firms" and "US firms" are those with shareholders from Europe (including UK) and the US respectively. Those with shareholders from Japan, Taiwan, Australia, Singapore etc are referred to as "other firms."



Chart 2. Distribution of the transactions value of SEHK participants (in % of the overall total)



In terms of total net profits in 2009, US firms ranked first among all SEHK participants, making profits of \$3.4 billion in aggregate, closely followed by local firms with profits of \$3.17 billion. US firms saw a 33% decrease in total net profits from 2008, mainly due to a reduction in turnover of major firms, and partly due to the winding down of Lehman Brothers Securities Asia Limited. European firms showed a similar percentage decrease again on a reduction in turnover.

Nevertheless, the total net profits of other types of SEHK participants showed year-on-year increases. For example, the net profits of Mainland firms increased by 16% in 2009 on increased turnover. Please see Chart 3 for an analysis of their total net profits and Chart 4 for the average net profits per firm in each of the five categories.

Chart 3. Total net profits of SEHK participants (\$ bn)

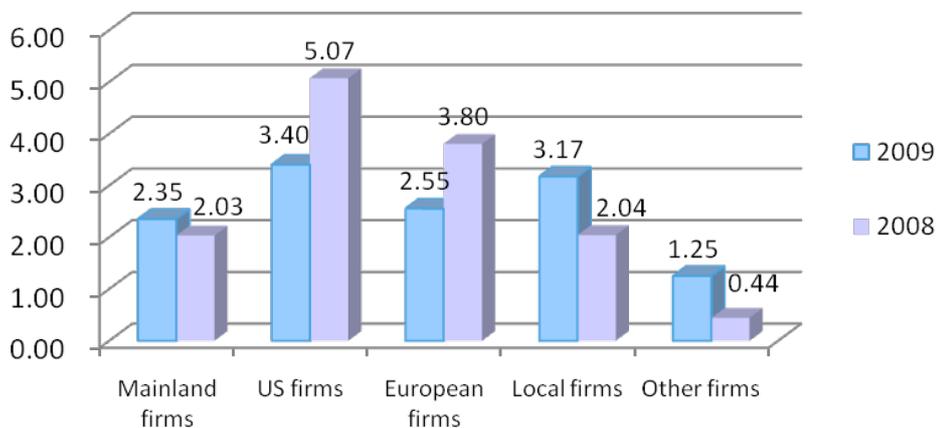
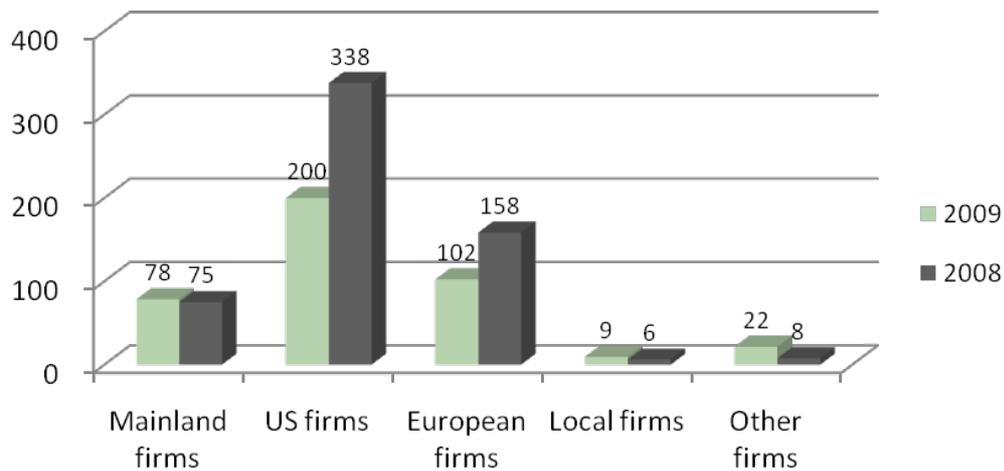




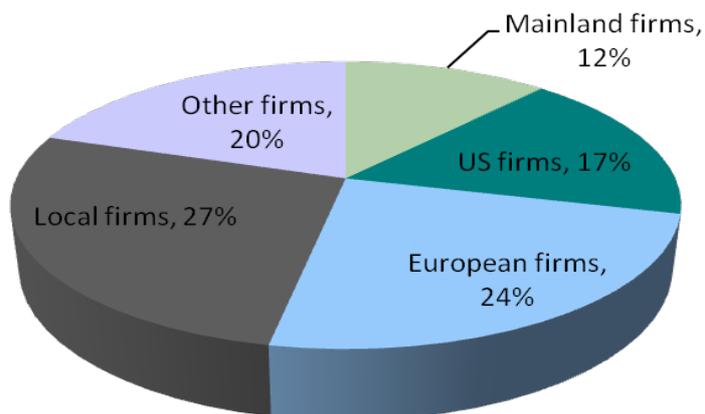
Chart 4. Average net profits per SEHK participants (\$ mn)



Distribution of capital⁶

The total capital of all SEHK participant firms amounted to \$114 billion. The breakdown (as shown in Chart 5 below) is as follows: local firms accounted for 27%, followed by European firms (24%), other firms (20%), US firms (17%) and Mainland firms (12%).

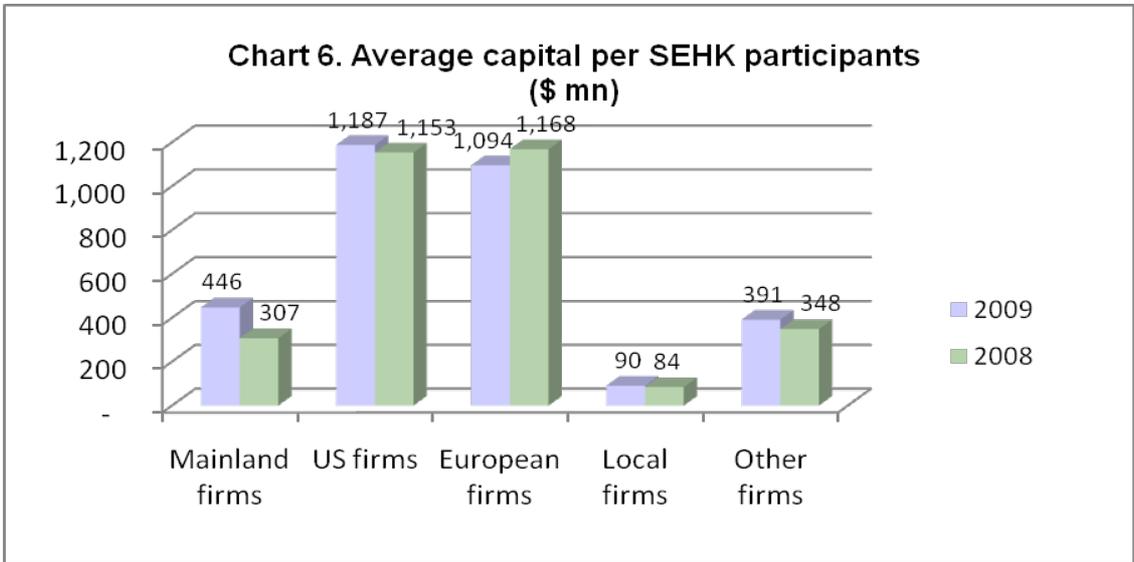
Chart 5. Breakdown of the capital by participants type (as at 31 December 2009) (in % of the overall total)



⁶ Capital refers to the shareholders funds reported by SEHK participants in their monthly financial returns.

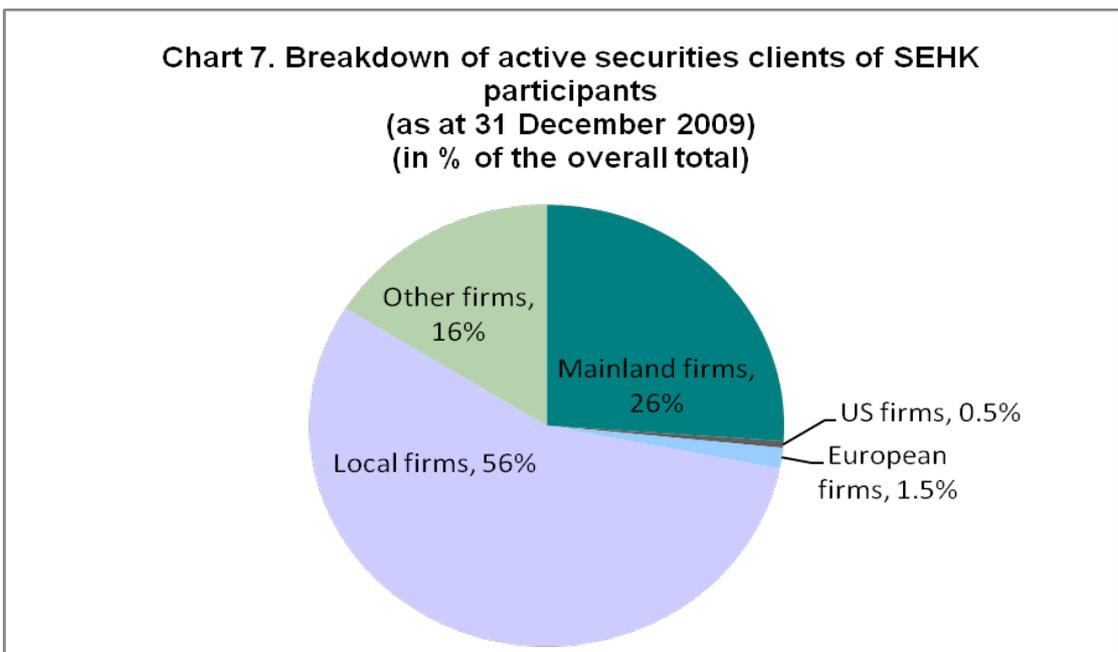


US firms had the largest amount of capital with an average per firm of \$1,187 million. This is followed by European firms at \$1,094 million, Mainland firms at \$446 million, other firms at \$391 million, and local firms at \$90 million. Please see Chart 6 for a 2008-to-2009 comparison of the average capital per SEHK participants. It is noted that the average capital of Mainland firms has grown by 45%, given that some of them increased their share capital during the year.



Clientele

In terms of active securities clientele, local firms accounted for 56% of the market total while Mainland firms had 26%. Both types of firms mainly focus on the retail market. On the other hand, US firms and European firms, which mainly focus on institutional clients, made-up only 2% of the total active securities clients in Hong Kong.





Securities margin financing business

Chart 8 compares the distribution (in percentage) of the total amount of outstanding margin loans by the five types of SEHK participants in 2009.

Local firms and Mainland firms dominated the securities margin financing market. The market share of Mainland firms in securities margin financing business (in terms of comparing the total amount of their outstanding margin loans to the overall total) rose from 14% to 40%, mainly due to increased margin financing by major Mainland firms. Out of the top 20 firms showing the highest amounts of outstanding margin loans as at 31 December 2009, 10 were Mainland firms.

