



**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 2010



## Executive Summary

The combined net profit of all securities dealers and securities margin financiers<sup>1</sup> for 2010 was \$27.1 billion<sup>2</sup>, up 28% from 2009. The increase resulted mainly from the growth in other income such as fund management income, corporate finance income and inter-company management fee income.

The Stock Exchange of Hong Kong Limited (SEHK) recorded an 11% increase in average daily turnover to \$69.1 billion<sup>3</sup> and the Hang Seng Index rose 5% year on year in 2010. The net profit of SEHK participants in 2010 was \$12.5 billion, down 1.35% from 2009. The net profit of Category A and C brokers increased by 9% and 26% respectively in 2010, whereas the net profit of Category B brokers declined 29%, mainly due to an increase in overhead expenses.

At the end of 2010, the total outstanding margin loan reached \$58.5 billion, up 46% from the end of 2009. A major part of the increase was attributable to the 20 largest securities margin financing providers, whose total outstanding margin loan amounted to 79% of the industry total. Average collateral coverage at the end of 2010 decreased to 4.7 times from 5.2 times in 2009.

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 2010.

| <b>Table 1</b>   | <b>Statistical information and financial position of securities dealers and securities margin financiers<sup>a</sup></b> |                   |
|--|--|-------------------|
|  | <b>31/12/2010</b>  | <b>31/12/2009</b> |
| Total number of securities dealers & securities margin financiers                    | 831  | 769               |
| Total number of active cash clients <sup>b</sup>                                     | 1,113,657  | 957,651           |
| Total number of active margin clients <sup>b</sup>                                   | 132,101  | 138,772           |
| <b>Balance sheet (\$ mn)</b>   |  |                   |
| Cash in hand and at bank <sup>c</sup>  | 292,827  | 276,962           |
| Amounts receivable from margin clients <sup>d</sup>                                  | 58,468   | 40,160            |
| Amounts receivable from clients and other dealers arising from dealing in securities | 138,422  | 120,754           |
| Proprietary positions  | 173,873  | 143,467           |
| Other assets   | 147,754  | 137,182           |
| <b>Total assets</b>  | <b>811,344</b>   | <b>718,525</b>    |

<sup>1</sup> "Securities dealers and securities margin financiers" refers 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 given in the report are denominated in Hong Kong dollars.

<sup>3</sup> 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)**

|   | 31/12/2010     | 31/12/2009     |
|---|----------------|----------------|
| <b>Balance sheet (\$ mn) (Cont'd)</b>   |                |                |
| Amounts payable to clients and other dealers arising from dealing in securities | 287,645        | 263,372        |
| Total borrowings from financial institutions                                    | 71,558         | 48,572         |
| Short positions held for own account <sup>e</sup>                               | 107,211        | 36,891         |
| Other liabilities <sup>e</sup>  | 126,899        | 177,965        |
| Total shareholders' funds   | 218,031        | 191,725        |
| <b>Total liabilities and shareholders' funds</b>                                | <b>811,344</b> | <b>718,525</b> |
|   | <b>2010</b>    | <b>2009</b>    |
| <b>Profit and loss (\$ mn)</b>  |                |                |
| Total value of transactions <sup>f</sup>  | 54,372,754     | 46,347,239     |
| Net securities commission income  | 31,079         | 31,676         |
| Gross interest income   | 5,280          | 3,979          |
| Other income <sup>g</sup>   | 82,365         | 62,842         |
| Net profit on proprietary trading   | 10,606         | 12,905         |
| <b>Total income</b>   | <b>129,330</b> | <b>111,401</b> |
| Total overheads and interest expense  | 102,224        | 90,164         |
| <b>Net profit for the period</b>  | <b>27,106</b>  | <b>21,237</b>  |

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 \$119,475 million (31/12/2009: \$114,352 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 31/12/2010</u> | <u>As at 31/12/2009</u> |
| 4.7 times               | 5.2 times               |
- e The increase of \$70 billion in short positions held for own account from 2009 was mainly due to a reporting reclassification of other liabilities by a securities dealer.
- f The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.
- g Other income comprises fund management income, corporate finance income, inter-company management fee 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<sup>a</sup> of SEHK participants for the year ended 31 December 2010 (\$ mn)**

|  | Category A    |               | Category B    |               | Category C    |              | All SEHK Participants |               |
|--|---------------|---------------|---------------|---------------|---------------|--------------|-----------------------|---------------|
|  | 2010          | 2009          | 2010          | 2009          | 2010          | 2009         | 2010                  | 2009          |
| Total value of transactions <sup>b</sup> | 22,172,029    | 20,033,274    | 13,119,355    | 11,826,897    | 6,229,233     | 5,792,149    | 41,520,617            | 37,652,320    |
| Net securities commission income         | 14,145        | 14,590        | 8,249         | 7,993         | 4,879         | 4,297        | 27,273                | 26,880        |
| Gross interest income                    | 592           | 448           | 1,901         | 1,241         | 1,606         | 1,143        | 4,099                 | 2,832         |
| Other income                             | 11,314        | 6,922         | 5,928         | 5,288         | 4,192         | 2,746        | 21,434                | 14,956        |
| Net profit on proprietary trading        | 37            | (372)         | 633           | 314           | 708           | 847          | 1,378                 | 789           |
| <b>Total income</b>                      | <b>26,088</b> | <b>21,588</b> | <b>16,711</b> | <b>14,836</b> | <b>11,385</b> | <b>9,033</b> | <b>54,184</b>         | <b>45,457</b> |
| Salary and staff benefits                | (5,596)       | (4,451)       | (6,345)       | (4,736)       | (3,919)       | (2,835)      | (15,860)              | (12,022)      |
| Other overheads and interest expense     | (13,364)      | (10,611)      | (7,279)       | (5,755)       | (5,137)       | (4,353)      | (25,780)              | (20,719)      |
| <b>Net profit for the period</b>         | <b>7,128</b>  | <b>6,526</b>  | <b>3,087</b>  | <b>4,345</b>  | <b>2,329</b>  | <b>1,845</b> | <b>12,544</b>         | <b>12,716</b> |

Remarks:

a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the exchange. Category A refers to the top 14 SEHK participants by market turnover, Category B refers 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.