



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 2012



Executive Summary

In the first half of 2012, the total value of transactions of all securities dealers and securities margin financiers¹ decreased by 9.2%. During the period, the average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) stood at \$56.7 billion², down 14.1% from the previous six months. The Hang Seng Index closed at 19,441 at the end of June 2012, 5.5% higher than its 18,434 close at the end of December 2011.

The decrease in the total transaction volume resulted in a decline in the net securities commission income. However, the total net profit of all securities dealers and securities margin financiers for the period increased to \$2.8 billion, compared to \$1.9 billion for the preceding six months. This was mainly attributable to increases in the net profit on proprietary trading and other income, including advisory fees and asset management fees.

In respect of SEHK participants, Category A brokerages reported a net profit of \$2 billion and Category B and C brokerages reported net losses of \$0.1 billion and \$0.4 billion respectively. The decrease in overhead expenses incurred by Category A brokerages led to a significant increase in their total net profit.

At the end of June 2012, the total outstanding margin loan was \$51.2 billion, up 2.1% from the end of 2011. Average collateral coverage was 3.7 times^{1c}.

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 2012.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^{1a}		
	30/6/2012	31/12/2011
Total number of securities dealers, securities margin financiers	908	856
Total number of active cash clients ^{1b}	1,022,953	1,042,151
Total number of active margin clients ^{1b}	137,797	135,201
Balance sheet (\$ mn)		
Cash in hand and at bank ^{1d}	283,582	294,981
Amounts receivable from margin clients	51,219	50,171
Amounts receivable from clients and other dealers arising from dealing in securities	151,684	99,286
Proprietary positions	116,741	114,284
Other assets	151,661	142,096
Total assets	754,887	700,818

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 Source of information: Hong Kong Exchanges and Clearing Limited. Unless otherwise stated, figures given in the report are denominated in HK dollars.



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

	30/6/2012	31/12/2011
Balance sheet (\$ mn) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	307,969	252,342
Total borrowings from financial institutions	58,648	61,430
Short positions held for own account	63,351	62,492
Other liabilities	93,222	96,764
Total shareholders' funds	231,697	227,790
Total liabilities and shareholders' funds (+7.7%)	754,887	700,818
	6 months to 30/6/2012	6 months to 31/12/2011
Profit and loss (\$ mn)		
Total value of transactions ^{1e}	24,966,273	27,503,592
Net securities commission income	9,838	11,067
Gross interest income	3,240	3,276
Other income ^{1f}	37,419	36,064
Net profit on proprietary trading	3,248	1,143
Total income (+4.3%)	53,745	51,550
Total overheads and interest expense	(50,901)	(49,648)
Net profit for the period (+49.5%)	2,844	1,902

Remarks:

1a 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.

1b Active clients are 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 30/6/2012</u>	<u>As at 31/12/2011</u>
3.7 times	3.9 times

1d Cash in hand and at bank includes \$114,608 million in trust monies held on behalf of clients (31/12/2011: \$115,368 million).

1e The 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; advisory fees; asset management fees; underwriting fees; and corporate finance income.

Sources: 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. Unless otherwise stated, figures given in the report are denominated in HK dollars.



Table 2 Financial performance of each of the three categories^{2a} of SEHK participants for the half year ended 30 June 2012 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	H1 2012	H2 2011	H1 2012	H2 2011	H1 2012	H2 2011	H1 2012	H2 2011
Total value of transactions ^{2b}	9,760,116	11,608,447	5,586,909	6,466,080	2,333,780	2,629,595	17,680,805	20,704,122
Net securities commission income	2,739	3,346	3,077	3,652	1,705	1,794	7,521	8,792
Gross interest income	354	397	1,087	1,072	1,085	1,108	2,526	2,577
Other income	5,593	5,798	2,367	1,980	1,833	2,220	9,793	9,998
Net profit/(loss) on proprietary trading	94	8	5	(4)	(111)	(201)	(12)	(197)
Total income	8,780	9,549	6,536	6,700	4,512	4,921	19,828	21,170
Total overheads and interest expense	(6,788)	(8,310)	(6,655)	(6,658)	(4,898)	(5,345)	(18,341)	(20,313)
Net profit/(loss) for the period	1,992	1,239	(119)	42	(386)	(424)	1,487	857

Remarks:

2a SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the 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 remainders are grouped under Category C.

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

Sources: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules. Unless otherwise stated, figures given in the report are denominated in HK dollars.

Disclaimer: As 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.