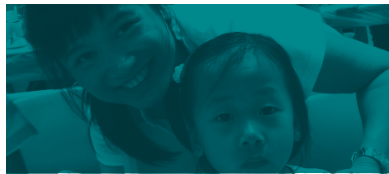
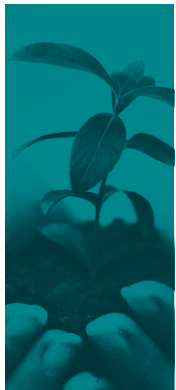
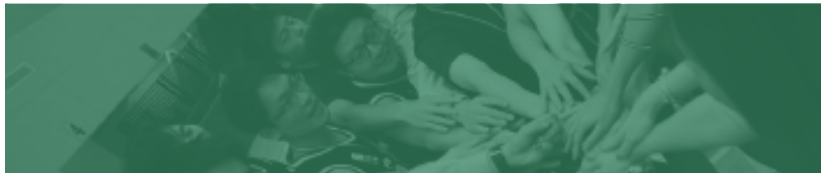




SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會



# Quarterly Report

October – December 2013

This third Quarterly Report of the Securities and Futures Commission for financial year 2013-14 covers the period from 1 October to 31 December 2013.

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# Highlights

Below is a high-level summary of our work during the reporting period:

## Product development

- **Renminbi product offerings:** We authorized four unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and three RQFII A-share exchange-traded funds this quarter.
- **Open-ended fund companies:** We continued to provide technical support to the Government in developing a legal and regulatory framework for open-ended fund companies in Hong Kong.

## Listing matters

- **Corporate regulation:** We set up a dedicated Corporate Regulation team in December to take on broader, more proactive oversight of listed companies as a statutory regulator under the Securities and Futures Ordinance.
- **Inside information disclosure:** We continued to work with listed companies to enhance disclosure standards. During 2013, corporate announcements about inside information had increased by 52% from 2012.
- **Review of listing applications:** Under the new initial public offering (IPO) sponsor regime, effective 1 October, two listing applications were returned because the application proof was not substantially complete.

## Market infrastructure and trading

- **OTC derivatives clearing:** We approved OTC Clearing Hong Kong Limited's application to be a recognised over-the-counter (OTC) derivatives clearing house, which commenced operations in November.
- **Block trading facility:** A block trading facility was introduced in the after-hours futures trading session following our approval of Hong Kong Exchanges and Clearing Limited's rule amendments.

## Enforcement

- In the quarter, we successfully prosecuted three individuals for market misconduct and disciplined eight licensees. Our prosecutions and disciplinary action resulted in total fines of over \$5.3 million.
- We obtained restoration orders from the court, the first of their kind in insider dealing cases, against Tiger Asia Management LLC and Du Jun<sup>1</sup>. They were ordered to pay \$69.2 million to investors who transacted with them.
- The court continued an interim order to freeze assets of up to \$1,968 million of Qunxing Paper Holdings Company Limited. We alleged that the company's IPO prospectus and results announcements contained materially false or misleading information.
- We reached disciplinary resolutions with HSBC Securities Brokers (Asia) Limited, which was reprimanded and fined \$5 million for providing inaccurate information during a licence application process, and The Royal Bank of Scotland N.V., which made repurchase offers to 12 professional investors<sup>2</sup>.

## International collaboration

- We led the Working Group on Shadow Banking, co-chaired by Mr Ashley Alder, Chief Executive Officer, in finalising a *Report on Shadow Banking in Asia*, which was approved by the Financial Stability Board Regional Consultative Group for Asia.
- In October, we signed a memorandum of understanding for closer co-operation with the Financial Regulatory Commission of Mongolia.

<sup>1</sup> A former Managing Director of Morgan Stanley Asia Limited

<sup>2</sup> The repurchase offers were made at full principal value of the 12 investors' investment in Lehman Brothers-related equity-linked notes.

# Operational Review

## Intermediaries

### Approving licensing applications

We received 1,581 licence applications<sup>1</sup> this quarter, down 18.4% from the last quarter but up 20.2% compared with the same quarter last year. As at 31 December, the total number of licensees and registrants remained stable at around 39,000.

### Promoting compliance

Following the launch of the enhanced regulation for initial public offering (IPO) sponsors on 1 October, we published a set of frequently asked questions on our website, covering, among other topics, eligibility to act as principal, examination exemptions and team structure charts.

In November, we conducted three anti-money laundering and counter-terrorist financing seminars for licensed corporations in collaboration with the Financial Services and The Treasury Bureau and the Joint Financial Intelligence Unit with more than 670 attendees. The seminars aimed at enhancing industry participants' awareness and understanding of key aspects of systems and controls in this area.

### Licensees and registrants

	As at 31.12.2013	As at 31.3.2013	Change (%)	As at 31.12.2012	YoY change (%)
Licensed corporations	1,956	1,905	2.7	1,897	3.1
Registered institutions	121	117	3.4	117	3.4
Licensed individuals	37,029	36,724	1	37,222	-0.5
<b>Total</b>	<b>39,106</b>	<b>38,746</b>	<b>1</b>	<b>39,236</b>	<b>-0.3</b>

### Licensing applications

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Applications to conduct new regulated activity received	4,279	14,718	13,394	9.9
Applications for SFC licences received <sup>1</sup>	1,581	5,009	4,608	8.7

### Intermediary inspection

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Risk-based, on-site inspections conducted	93	232	222	4.5

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 883 provisional licence applications compared with 666 in the same quarter last year.

# Investment products

## Expanding range of renminbi products

We authorized four unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and three RQFII A-share exchange-traded funds (ETFs) this quarter. One of them is managed by Hang Seng Investment Management Limited, being the first local financial institution to issue an RQFII ETF in Hong Kong. There were 11 SFC-authorized RQFII A-share ETFs and 26 authorized RQFII unlisted funds as at 31 December.

## Introducing dual-counter arrangement for Hong Kong dollar-denominated ETF

In November, a renminbi trading counter for a Hong Kong dollar-denominated ETF was added under the dual counter arrangement of The Stock Exchange of Hong Kong Limited. This enables investors to trade units of the ETF in both Hong Kong dollar and renminbi on the secondary market<sup>1</sup>.

## Establishing renminbi share classes for non-renminbi-denominated funds

As a recent development, we have allowed, on a case-by-case basis, Hong Kong-domiciled SFC-authorized funds managed by SFC-licensed corporations to offer renminbi share classes where the funds may have limited or no renminbi-denominated underlying investments<sup>1</sup>.

## Developing legal and regulatory framework for OFC

We continued to provide technical support to the Government in developing a legal and regulatory framework for open-ended fund companies (OFC) in Hong Kong and to assist the Government in the upcoming public consultation on the proposal.

## Streamlining measures for ILAS

The streamlined measures for investment-linked assurance schemes (ILAS) took effect on 25 November. These measures enhance the processing of applications for the approval of scheme changes and authorization of revised offering documents. Before the effective date, we issued a circular to ILAS issuers explaining the streamlined measures and revised application procedures. We also hosted a workshop for over 60 industry participants to provide practical guidance on the new approach.

<sup>1</sup> Educational information on the topic has been made available to the public via the website of the Investor Education Centre, a wholly-owned SFC subsidiary dedicated to providing financial education to the public.

## Authorized collective investment schemes

	As at 31.12.2013	As at 31.3.2013	Change (%)	As at 31.12.2012	YoY change (%)
Unit trusts and mutual funds	1,792	1,847	-3.0	1,842	-2.7
Investment-linked assurance schemes	264	258	2.3	258	2.3
Pooled retirement funds	35	35	-	35	-
MPF master trust schemes	40	40	-	40	-
MPF pooled investment funds <sup>1</sup>	301	299	0.7	300	0.3
Others <sup>2</sup>	27	26	3.8	26	3.8
<b>Total</b>	<b>2,459</b>	<b>2,505</b>	<b>-1.8</b>	<b>2,501</b>	<b>-1.7</b>

<sup>1</sup> In this category, 116 of the funds were offered both as retail unit trusts and pooled investment funds for mandatory provident fund (MPF) purposes.

<sup>2</sup> Other schemes comprise 16 paper gold schemes and 11 real estate investment trusts.

## Unlisted structured products offered to the public

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Structured products authorized	21	92	101	-8.9

# Listings and takeovers

## Strengthening corporate regulation

We set up a dedicated Corporate Regulation team in December to take on broader, more proactive oversight of listed companies as a statutory regulator under the Securities and Futures Ordinance. The team reviews company announcements, circulars and reports; conducts periodic in-depth reviews of each company and adopts risk-based criteria to focus on particular companies, including those with histories of losses or frequent restructuring.

## Promoting disclosure of inside information

Following implementation of the statutory regime on inside information disclosure on 1 January 2013, we continued to work with listed companies to enhance disclosure standards. Corporate announcements about inside information had increased by 52%, and profit alerts and warnings had risen 16% from 2012.

## Reviewing IPO applications

In the quarter, 25 listing applications were filed under the dual filing regime. Under the new initial public offering (IPO) sponsor regime, which became effective on 1 October, two listing applications were returned because the application proof was not substantially complete, and an eight-week moratorium<sup>1</sup> was imposed.

## Publishing review of SEHK's listing regulation work

In December, we issued our ninth annual review report on The Stock Exchange of Hong Kong Limited's (SEHK) performance in its regulation of listing matters during 2012. We are of the view that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligations to maintain an orderly, informed

and fair market. We also identified certain areas where SEHK can continue its efforts to enhance its performance, primarily in relation to its handling of reverse takeover transactions and complaints.

## Enforcing Takeovers Code

In November, the Takeovers Executive<sup>2</sup> commenced disciplinary proceedings before the Takeovers and Mergers Panel (Panel) against the chairman of Chevalier Group, Chow Yei Ching, his son, Oscar Chow Vee Tsung, and Joseph Leung Wing Kong on an alleged breach of the Takeovers Code<sup>3</sup>. The Executive alleges that between 2000 and 2002, the three actively co-operated to assist the late Nina Kung to obtain or consolidate control of ENM Holdings Limited through the secret warehousing of shares and avoided the triggering of a mandatory general offer. These are the second disciplinary proceedings the Executive has brought before the Panel since September 2013.

In November, the Executive publicly censured Daqing Dairy Holdings Limited (Daqing Dairy) and its directors, Wang De Lin and Stephen Chiang Chi Kin, for failing to issue an offeree board circular to shareholders in response to a general offer as required under the Takeovers Code. The failure to provide its shareholders with its latest corporate and financial information, the board's recommendation and the advice of an independent financial adviser with respect to the general offer prejudiced the interests of Daqing Dairy's shareholders as well as the investing public. The Executive imposed a cold shoulder order denying Wang De Lin direct or indirect access to the Hong Kong securities markets for 24 months until 27 November 2015. The parties accepted that they had breached the Takeovers Code and agreed to the sanctions imposed.

## Listing applications and takeovers activities

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Listing applications filed under the dual filing regime	25	130	95	36.8
Takeovers and share repurchases transactions handled	86	216	204	5.9

<sup>1</sup> The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

<sup>2</sup> The Executive refers to the Executive Director of Corporate Finance Division of the SFC or his delegate.

<sup>3</sup> The Code on Takeovers and Mergers

# Market infrastructure and trading

## Regulating OTC derivatives clearing

This quarter, we completed assessing the application of OTC Clearing Hong Kong Limited (OTC Clear), established by Hong Kong Exchanges and Clearing Limited (HKEx), as a recognised over-the-counter (OTC) derivatives clearing house. Following our assessment and after consultation with the Financial Secretary of the Hong Kong Special Administrative Region Government, OTC Clear's application was approved under section 37(1)<sup>1</sup> of the Securities and Futures Ordinance (SFO) at the end of October. OTC Clear commenced operations on 25 November, joined by three local banks as members at inception. Initially, the clearing house clears standardised interest rate swaps and non-deliverable forwards.

## Approving block trading facility

In December, we approved HKEx's proposed rule amendments relating to the introduction of a block trading facility in the after-hours futures trading session. The block trading facility was launched on 6 January 2014.

## Authorizing ATS

In the quarter, we granted one Part III automated trading services<sup>2</sup> (ATS) authorization. As of the end of December, there were 29 Part III ATS authorizations in operation in Hong Kong.

As at 31 December, 25 corporations were licensed under Part V of the SFO to provide ATS, 16 of which were dark pool operators.

<sup>1</sup> Section 37 gives the SFC the power to recognise a company as a clearing house in the interest of the investing public or in the public interest; or for the proper regulation of markets in securities or futures contracts.

<sup>2</sup> As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed under Part V of the SFO, while those providing ATS solely are expected to be authorized under Part III of the SFO.



## Restoration orders against Tiger Asia and Du Jun

During the quarter, the court made restoration orders, the first of their kind in insider dealing cases, against the following parties to restore investors who transacted with them to their pre-transaction positions<sup>1</sup>:

- Tiger Asia Management LLC (Tiger Asia) and two of its senior officers, Bill Sung Kook Hwang and Raymond Park (collectively the Tiger Asia parties) were ordered to pay \$45.3 million to about 1,800 investors who traded with Tiger Asia in transactions involving shares of Bank of China Limited and China Construction Bank Corporation. The court order followed admissions by the Tiger Asia parties in our proceedings under section 213<sup>2</sup> of the Securities and Futures Ordinance (SFO) that they had contravened Hong Kong's laws prohibiting insider dealing and false trading.

We have commenced separate proceedings in the Market Misconduct Tribunal (MMT) and will seek a cease and desist order<sup>3</sup> as well as an order prohibiting the Tiger Asia parties from dealing in Hong Kong without permission of the court for up to five years. The MMT will hear submissions as to what orders, if any, ought to be made against the Tiger Asia parties in May 2014; and

- Du Jun, a former Managing Director of Morgan Stanley Asia Limited, was ordered to pay \$23.9 million to 297 investors as a result of his insider dealing in shares of CITIC Resources Holdings Limited.

## Interim injunction to freeze Qunxing's assets

The Court of First Instance (CFI) continued an interim order to freeze assets of up to \$1,968 million of Qunxing Paper Holdings Company Limited (Qunxing) and its subsidiary, Best Known Group Limited. We made an application to the court alleging that Qunxing's initial public offering (IPO) prospectus in 2007 and its 2007-2011 annual results announcements

contained materially false or misleading information as the Qunxing group's turnover figures in 2006-2011 were exaggerated.

The interim order has frozen assets equivalent to the total amount of funds raised by Qunxing from the investing public since its IPO in 2007. The SFC is seeking orders to restore public shareholders and warrant holders who bought and still hold Qunxing shares and warrants to their pre-transaction positions. Trading in Qunxing shares has been suspended since 30 March 2011.

## Dismissal of application to strike out SFC proceedings

The CFI dismissed an application which sought to strike out the SFC's proceedings under section 213 of the SFO. The SFC alleged that two solicitors, Young Bik Fung and Lee Kwok Wa (together with Lee's sisters), made a total profit of about \$2.7 million from two transactions in relation to the purchases of shares of companies listed in Taiwan and Hong Kong, and that they contravened sections 300<sup>4</sup> and 291<sup>5</sup> of the SFO.

The defendants argued that the CFI had no jurisdiction to make court orders against them under section 213 of the SFO, and that section 300 does not apply. The CFI rejected their arguments and dismissed their application. The case will proceed.

## Criminal proceedings

During this quarter, we successfully prosecuted three individuals for false trading, illegal short-selling and unregistered dealing. The Eastern Magistrates' Court:

- sentenced Gordon Mui Kwong Yin to three months' imprisonment, suspended for 12 months, for providing online advice on trading in futures contracts without a licence;
- sentenced Pak Wing Yiu, a retail investor, to 60 hours' community services and fined him \$180,000 for false trading in shares of a listed company; and

<sup>1</sup> The restoration amount represents the difference between the actual price of the stocks sold by the parties and the stock value, taking into account the inside information known to the parties.

<sup>2</sup> Generally, section 213 of the SFO gives the SFC the power to apply to the court for an injunction and/or other orders where a person has contravened the relevant provisions of the SFO or the Companies Ordinance, etc.

<sup>3</sup> This is an order not to breach any of the market misconduct provisions of the SFO again.

<sup>4</sup> Section 300 of the SFO prohibits the use of fraudulent or deceptive schemes in securities transactions.

<sup>5</sup> Section 291 of the SFO prohibits insider dealing.

- fined Chan Chi Yuen, a former licensee, for illegal short-selling in shares of three listed companies through both his personal and his wife's margin trading accounts.

## Disciplinary resolutions with HSBC Securities and RBS

During the quarter, we reached disciplinary resolutions with HSBC Securities Brokers (Asia) Limited (HSBC Securities) and The Royal Bank of Scotland N.V.<sup>6</sup> (RBS) under section 201<sup>7</sup> of the SFO:

- HSBC Securities was reprimanded and fined \$5 million for providing inaccurate information to the SFC during a licence application process.

In May 2010, HSBC Securities submitted a licence application to carry on business in Type 7<sup>8</sup> regulated activity for its provision of matching and crossing services in Hong Kong. HSBC Securities stated that existing clients would be given the option of "opting in", by signing "opt in letters", if they wished to participate in the crossing service. In fact, an "opt out" approach<sup>9</sup> was adopted; and

- RBS made repurchase offers to 12 eligible professional investors at full principal value of their investment in Lehman Brothers-related equity-linked notes.

## Disciplining licensees

We disciplined eight licensees, including one corporation<sup>10</sup> and seven licensed representatives in the quarter.

- Three persons were banned from re-entering the industry for life following their criminal convictions:
  - Chan Ka Chun, a former Associate Director of Falcon Private Bank Ltd., was convicted of conspiracy to make false instruments and sentenced to imprisonment of 23 months;
  - Ivy Kiu Koon Yee, a former Relationship Manager at DBS Bank (Hong Kong) Limited, was convicted of theft and sentenced to imprisonment of 79 months;
  - Kwan Hung Kei, a former employee of Nanyang Commercial Bank, Limited, was convicted of theft.
- Stephen Cho Yu Kwan was suspended for three years, and his wife Ju You Li was reprimanded and fined \$100,000. They had failed to perform proper know-your-client procedures, and allowed their personal bank accounts to be used as conduits for transferring funds of unverified sources.
- Chen Chi Hing was suspended for eight months for executing a client's order without asking questions to determine whether he had a genuine purpose for the purchase. The order had caused the share price to increase by more than two-fold.
- Sui Yu was banned from re-entering the industry for three months for dealing in shares of a listed company whilst in possession of inside information.
- Tang Wai Chun was reprimanded and fined for accepting order instructions from a client via her mobile phone and failing to record the timing and details of the orders.

<sup>6</sup> Formerly known as ABN AMRO Bank N.V.

<sup>7</sup> Section 201 of the SFO allows the SFC to resolve disciplinary cases without completing the formal hearing process set out in the SFO if the other party agrees.

<sup>8</sup> For providing automated trading services

<sup>9</sup> Under the "opt out" approach, clients would effectively be assumed to consent to their trades being matched and crossed on the crossing service unless they took the initiative to notify HSBC Securities otherwise.

<sup>10</sup> HSBC Securities

## Enforcement activities

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY Change (%)
Number of trading inquiries issued under S181 <sup>1</sup>	1,774	3,768	4,029	-6.5
Number of investigations started	89	254	222	14.4
Number of investigations completed	80	238	229	3.9
Number of investigations completed within seven months (%)	56 (70%)	142 (60%)	124 (54%)	14.5
Number of persons charged in criminal proceedings	14	33	29	13.8
Number of criminal charges laid	90	214	91	135.2
Number of Notices of Proposed Disciplinary Action <sup>2</sup>	16	32	20	60
Number of Decision Notices <sup>3</sup>	6	37	18	105.6
Number of persons subject to ongoing civil proceedings	69	69	37	86.5
Compliance advice letters issued	45	266	279	-4.7

<sup>1</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

<sup>2</sup> A Notice of Proposed Disciplinary Action is a notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

<sup>3</sup> A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

# Regulatory collaboration

## Participating in international standard-setting IOSCO

Mr Ashley Alder, Chief Executive Officer (CEO), chairs the Asia-Pacific Regional Committee (APRC) of the International Organization of Securities Commissions (IOSCO). Subsequent to the APRC meeting in September, the APRC identified a list of key action points to take forward, one of which was a follow-up letter sent to the European Commission in November. The letter reinforced members' concerns about Asia-Pacific central counterparties obtaining recognition under the European market infrastructure regulation. The European Commission replied to the letter in December, providing APRC members with further information on its approach to recognising Asia-Pacific central counterparties. The APRC followed up on other key action points in its meeting in Hong Kong in January 2014, including developing practical capacity building initiatives and identifying key regulatory issues and challenges for discussion and experience-sharing among members.

Mr Alder also chairs the IOSCO Task Force on Cross Border Regulation. From October to December, the Task Force surveyed IOSCO members on their approaches to regulating cross-border securities market activities and views on how IOSCO could play a role in this area. The Task Force aims to publish a consultation paper and will hold industry roundtables in the first half of 2014.

In relation to the Working Group on Retail Structured Products under the IOSCO Task Force on Unregulated Markets and Products, of which the SFC is a member, the *Final Report on Regulation of Retail Structured Products* was approved by the IOSCO Board and published in December. The report provides a toolkit outlining regulatory options for securities regulators in regulating retail structured products. Covering product design, disclosure, suitability, mis-selling and post-sale product controls, the toolkit has been developed to enhance investor protection.

Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, co-chairs the Working Group on Margining Requirements<sup>1</sup> (WGMR). Following the publication of the final report regarding non-centrally-cleared derivatives by WGMR in September, Mrs Lam met with the co-chair from the US Federal Reserve Board to discuss the work plan of the new group – WGMR Monitoring Group. In December, the co-chairs sent a final proposed work plan of the new working group to the secretariats of the Basel Committee on Banking Supervision and IOSCO for distribution to their respective board members for comments.

Mr Stephen Po, Senior Director of Intermediaries Supervision, in the capacity of the chairperson of the IOSCO Committee on Regulation of Market Intermediaries, chaired a meeting in December in Rome. Members discussed the survey preparation for business continuity and recovery plans mandate, and agreed to undertake a mandate on crowd-funding. The consultation paper on capital standards and the final report on client asset protection were finalised and forwarded to the IOSCO Secretariat for the Board's approval.

In November, we hosted the IOSCO Committee on Investment Management meeting to discuss ongoing priorities, new mandates and topical issues. Key areas covered included assessment methodologies for identifying non-bank non-insurance global systemically important financial institutions, best practices for reducing reliance on credit rating agencies within asset management and custody of collective investment scheme assets.

In her capacity as a member of the IOSCO Committee on Emerging Risks and as the co-lead of the IOSCO Workstream on Emerging Risks, Ms Bénédicte Nolens, Head of Risk and Strategy, participated in the publication of IOSCO's *Securities Markets Risk Outlook 2013-2014*. Published in October, the report is the first publication of an annual series of outlooks to be issued by IOSCO.

<sup>1</sup> The Working Group on Margining Requirements is set up under the Basel Committee on Banking Supervision and IOSCO.

## FSB

Mr Alder co-chairs the Working Group on Shadow Banking, an initiative of the FSB Regional Consultative Group for Asia (RCGA). During the quarter, we played an instrumental role in leading the working group in finalising a *Report on Shadow Banking in Asia*, which was compiled based on responses from 15 RCGA member jurisdictions. The report was approved at the RCGA meeting in Tokyo in October and submitted to the FSB Plenary in November.

We attended the FSB Standing Committee on Standards Implementation (SCSI) meeting in Singapore in December. We also participated in a number of implementation monitoring exercises conducted by SCSI and other FSB working groups.

## Other international co-operation

In October, we signed a memorandum of understanding (MoU) for closer co-operation with the Financial Regulatory Commission of Mongolia (FRC).



The SFC's Chairman, Mr Carlson Tong (left) and the FRC's Chairman, Mr Dashdondov Bayarsaikhan (right) sign the MoU in Ulaanbaatar, Mongolia.

We participated in the Market

Conduct Roundtable, jointly organised by the US Financial Industry Regulatory Authority (FINRA) and the Netherlands Authority for the Financial Markets, in New York in October and shared our experiences regarding alternative liquidity pools (commonly referred to as “dark pools”) and high frequency trading. In November, we attended the second FINRA Business Conduct Roundtable in Paris to discuss various issues of common interest, such as selling of complex products, conflicts of interest and automated advice.

We also met with a number of overseas authorities, including the Australian Securities and Investments Commission, Financial Conduct Authority, Swiss Financial Market Supervisory Authority and Financial Services Commission of Korea; and the Asian Securities and Investments Federation to discuss various regulatory issues.

## Strengthening cross-border collaboration

We met with senior officials from the China Securities Regulatory Commission (CSRC), People's Bank of China and State Administration of Foreign Exchange to discuss issues concerning financial services co-operation between Hong Kong and the Mainland.

We attended the 45th Memorandum of Regulatory Co-operation Meeting in Shanghai to discuss with CSRC, the stock exchanges in mainland China and Hong Kong, and the China Securities Depository and Clearing Corporation on enhancing cross-border regulatory co-operation.

We attended the fifth Memorandum of Understanding meeting with the Taiwan Financial Supervisory Commission in Taipei to exchange views on the latest market and regulatory developments in Hong Kong and Taiwan.

We provided support and strategic input to the Government to enhance Hong Kong's regional co-operative relationship with Guangdong, Qianhai, Shanghai and other provinces and cities on the Mainland.

## Working with local counterparts on a proposed resolution regime

We worked with the Government, the Hong Kong Monetary Authority and the Insurance Authority on the proposed resolution regime for financial institutions, including financial market infrastructures, in Hong Kong. The first stage of the three-month joint public consultation was launched on 7 January 2014.

## Communication with stakeholders

To enhance stakeholders' understanding of the SFC's regulatory work, we received more than 100 visitors from the People's Bank of China, the Securities Association of China, as well as local and overseas universities during the quarter.

We added a new Gazette Notices section to the Rule book section of the SFC website in November for users to access notices and other materials published by the SFC in the Government Gazette since 2011. Notices posted before 2011 will be added in phases.

We also launched a Quick Guide, a new set of frequently asked questions on the SFC website. The Quick Guide covers popular topics raised in public enquiries, such as verification of licensing status of intermediaries, checking of investment product authorization, etc.

Industry-related publications released in the quarter included:

- Risk-focused Industry Meeting Series: G-SIFI<sup>1</sup> Trends in Risk and Risk Mitigation – published in December, the report highlights aspects of G-SIFI best practices in risk identification and mitigation. It also contains forward-looking themes to achieve continuous improvement in risk governance and culture.
- Takeovers Bulletin – a newsletter to help industry participants better understand the Codes on Takeovers and Mergers and Share Repurchases. The December issue highlighted disciplinary proceedings against the chairman of Chevalier Group and related parties, as well as Daqing Dairy and its directors for alleged breaches of the Takeovers Code.

### Publications and other communications

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY Change (%)
Press releases issued	30	94	102	-7.8
Industry-related publications	3	10	17	-41.1
Corporate website average daily page views	40,956	42,115	N/A <sup>1</sup>	N/A <sup>1</sup>
Public enquiries	1,889	3,734	3,852	-3.1

<sup>1</sup> The revamped corporate website was launched in August 2012.

<sup>1</sup> G-SIFI stands for global systemically important financial institution.

# Corporate Developments

In November, the Government appointed Ms Mary Ma Xuezheng and re-appointed Mr Lawrence Lee Kam Hung as Non-Executive Directors (NEDs) for a two-year term, effective 15 November, while the Hon Chan Kam Lam stepped down as NED after six years of service.

As at 31 December, we had 743 staff, up from 653 a year ago.

In the quarter, we shared with our staff the results of our second Employee Engagement Survey, which was conducted across the organisation in April. We also devised a two-year plan which incorporates various initiatives with an aim to maintain an efficient, happy and productive workplace for our staff.

This quarter, we completed a major upgrade of the licensing back-end system, which aims at streamlining and improving processing efficiency of all intermediary licensing-related applications and returns.

To align with market data growth, we worked jointly with Hong Kong Exchanges and Clearing Limited (HKEx) in October to upgrade our market surveillance system upon the launch of the new HKEx Orion Market Data Platform<sup>1</sup>.

Our revenue for the quarter was \$300 million, 8% higher than \$277 million in the previous quarter and 7% higher than the \$280 million reported a year ago. In the quarter, average daily turnover in Hong Kong's securities market was \$64 billion, 10% higher than the \$58 billion last quarter. As a result, our levy income increased to \$252 million from last quarter's \$234 million. Our expenditure was \$338 million, 6% higher than last quarter's but 10% below our approved budget. We recorded a deficit of \$38 million this quarter, compared with a \$42 million deficit last quarter and a \$33 million deficit a year ago. Market turnover volumes and any budgeted expense savings will affect the SFC's overall financial results for the year ending 31 March 2014. As at 31 December, our reserves stood at \$7.4 billion.

## Finances

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Income (\$ million)	300	868	842	3
Expenses including depreciation (\$ million)	338	967	826	17

<sup>1</sup> This is an integrated platform to deliver market data for all asset classes traded on HKEx markets in a common message format.

# Activity Data

Table 1 Breaches noted during on-site inspections

No. of breaches	Quarter ended 31.12.2013	Nine months <sup>3</sup> ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Failure to comply with Financial Resources Rules	6	15	14	7.1
Failure to safekeep client securities	11	25	11	127.3
Failure to maintain proper books and records	4	6	18	-66.7
Failure to safekeep client money	7	18	10	80
Unlicensed dealing and other registration issues	2	5	6	-16.7
Breach of licensing condition	0	0	2	N/A
Breach of requirements of contract notes/statements of account/receipts	17	31	14	121.4
Failure to make filing/notification	0	2	0	N/A
Breach of margin requirements	1	4	3	33.3
Marketing malpractices	0	1	0	N/A
Illegal short selling of securities	1	6	2	200
Dealing malpractices	0	0	0	N/A
Breach of Code of Conduct <sup>1</sup>	62	161	96	67.7
Breach of Corporate Finance Adviser Code of Conduct	12	25	12	108.3
Breach of Fund Manager Code of Conduct	8	17	15	13.3
Breach of regulation of on-line trading	43	43	0	N/A
Non-compliance with anti-money laundering guidelines	22	47	6	683.3
Breach of other rules and regulations of the Exchanges <sup>2</sup>	2	9	11	-18.2
Internal control weaknesses	61	260	121	114.9
Others	17	104	49	112.2
<b>Total</b>	<b>276</b>	<b>779</b>	<b>390</b>	<b>99.7</b>

<sup>1</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

<sup>2</sup> Comprise The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited

<sup>3</sup> Adjustments have been made to take into account of revised figures for the previous two quarters.



Table 2 Authorized unit trusts and mutual funds – by type

	As at 31.12.2013	As at 31.3.2013	Change (%)
Bond	324	338	-4.1
Equity	910	970	-6.2
Diversified	80	82	-2.4
Money market	38	39	-2.6
Fund of funds	79	72	9.7
Index	138	124	11.3
Guaranteed	12	14	-14.3
Hedge	3	5	-40
Other specialised <sup>1</sup>	16	16	-
<b>Subtotal</b>	<b>1,600</b>	<b>1,660</b>	<b>-3.6</b>
Umbrella structures	192	187	2.7
<b>Total</b>	<b>1,792</b>	<b>1,847</b>	<b>-3</b>

<sup>1</sup> Comprise futures and options funds, structured funds and funds that invest in financial derivative instruments

Table 3 Authorized unit trusts and mutual funds – by origin

	As at 31.12.2013	As at 31.3.2013	Change (%)
Hong Kong	343	305	12.5
Luxembourg	961	1,045	-8
Ireland	271	277	-2.2
Guernsey	1	1	-
United Kingdom	52	53	-1.9
Other Europe	0	0	N/A
Bermuda	6	7	-14.3
British Virgin Islands	0	0	N/A
Cayman Islands	150	151	-0.7
Others	8	8	-
<b>Total</b>	<b>1,792</b>	<b>1,847</b>	<b>-3</b>

Table 4 Unlisted structured products<sup>1</sup> offered to the public

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Structured products authorized	21	92	101	-8.9
Offering documents authorized	14	73	96	-24
Advertisements authorized	4	9	1	800

<sup>1</sup> Comprise common structured products such as equity linked investments and equity linked deposits

Table 5 Takeovers activities<sup>1</sup>

	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
General and partial offers	12	27	19	42
Privatisations	2	2	4	-50
Whitewash waiver applications	17	28	21	33.3
Off-market and general offer repurchases	0	2	6	-67
Other applications	55	157	154	1.9
<b>Total</b>	<b>86</b>	<b>216</b>	<b>204</b>	<b>5.9</b>

<sup>1</sup> All these transactions are under or regulated by the Codes on Takeovers and Mergers and Share Repurchases.

Table 6 Stock market – Main Board

	As at 31.12.2013	As at 31.3.2013	Change (%)
No. of listed companies on The Stock Exchange of Hong Kong Limited	1,451	1,378	5.3
Market capitalisation (\$ billion)	23,909	21,866	9.3

Table 7 Complaints<sup>1</sup>

Nature of complaints	Quarter ended 31.12.2013	Nine months ended 31.12.2013	Nine months ended 31.12.2012	YoY change (%)
Conduct of licensees and registered institutions	80	251	195	28.7
Listing-related matters and disclosure of interests	96	324	352	-8
Market misconduct	58	216	208	3.8
Products	6	11	5	120
Other financial activities	168	437	296	48
Miscellaneous	1	2	0	N/A
<b>Total</b>	<b>409</b>	<b>1,241</b>	<b>1,056</b>	<b>17.5</b>

<sup>1</sup> The complaint figures reflect the number of complainants.

# Securities and Futures Commission

## Condensed consolidated statement of profit or loss and comprehensive income

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000	Unaudited three months ended 31 December 2013 \$'000	Unaudited three months ended 31 December 2012 \$'000
<b>Income</b>					
Levies		738,095	644,863	251,461	230,010
Fees and charges		68,267	123,823	26,770	28,765
Investment income		56,901	69,825	20,366	20,239
Less: custody and advisory expenses		(1,586)	(2,029)	(441)	(670)
Investment income net of third party expenses		55,315	67,796	19,925	19,569
Recoveries from Investor Compensation Fund		3,775	3,697	1,245	1,223
Other income		2,376	1,949	517	757
		867,828	842,128	299,918	280,324
<b>Expenses</b>					
Staff costs and directors' emoluments	7b	665,196	564,623	226,982	194,217
Premises					
rent		133,881	113,389	44,770	61,353
other		26,863	31,450	8,629	14,633
Other expenses		104,388	85,554	43,504	27,998
Depreciation		36,394	31,252	14,253	14,890
		966,722	826,268	338,138	313,091
(Deficit)/surplus and total comprehensive (loss)/income for the period		(98,894)	15,860	(38,220)	(32,767)

The notes on pages 23 to 25 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2013 \$'000	Audited At 31 March 2013 \$'000
<b>Non-current assets</b>			
Fixed assets		<b>104,564</b>	112,725
Held-to-maturity debt securities	2	<b>1,559,073</b>	2,935,841
		<b>1,663,637</b>	3,048,566
<b>Current assets</b>			
Held-to-maturity debt securities	2	<b>1,982,861</b>	2,808,214
Debtors, deposits and prepayments		<b>121,655</b>	139,759
Fixed and call deposits with banks		<b>3,792,937</b>	1,602,208
Cash at bank and in hand		<b>8,771</b>	2,909
		<b>5,906,224</b>	4,553,090
<b>Current liabilities</b>			
Fees received in advance		<b>6,744</b>	8,262
Creditors and accrued charges		<b>184,237</b>	114,854
		<b>190,981</b>	123,116
<b>Net current assets</b>		<b>5,715,243</b>	4,429,974
<b>Total assets less current liabilities</b>		<b>7,378,880</b>	7,478,540
<b>Non-current liabilities</b>	3	<b>22,145</b>	22,911
<b>Net assets</b>		<b>7,356,735</b>	7,455,629
<b>Funding and reserves</b>			
Initial funding by Government		<b>42,840</b>	42,840
Accumulated surplus		<b>7,313,895</b>	7,412,789
		<b>7,356,735</b>	7,455,629

The notes on pages 23 to 25 form part of the condensed consolidated financial statements.

## Condensed Statement of Financial Position

At 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2013 \$'000	Audited At 31 March 2013 \$'000
<b>Non-current assets</b>			
Fixed assets		<b>104,337</b>	112,625
Held-to-maturity debt securities	2	<b>1,559,073</b>	2,935,841
		<b>1,663,410</b>	3,048,466
<b>Current assets</b>			
Held-to-maturity debt securities	2	<b>1,982,861</b>	2,808,214
Debtors, deposits and prepayments		<b>122,738</b>	139,502
Fixed and call deposits with banks		<b>3,792,937</b>	1,602,208
Cash at bank and in hand		<b>3,146</b>	1,857
		<b>5,901,682</b>	4,551,781
<b>Current liabilities</b>			
Fees received in advance		<b>6,744</b>	8,262
Creditors and accrued charges		<b>179,468</b>	113,445
		<b>186,212</b>	121,707
<b>Net current assets</b>		<b>5,715,470</b>	4,430,074
<b>Total assets less current liabilities</b>		<b>7,378,880</b>	7,478,540
<b>Non-current liabilities</b>	3	<b>22,145</b>	22,911
<b>Net assets</b>		<b>7,356,735</b>	7,455,629
<b>Funding and reserves</b>			
Initial funding by Government		<b>42,840</b>	42,840
Accumulated surplus		<b>7,313,895</b>	7,412,789
		<b>7,356,735</b>	7,455,629

The notes on pages 23 to 25 form part of the condensed consolidated financial statements.

## Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2012	42,840	7,426,881	7,469,721
Total comprehensive income for the period	–	15,860	15,860
Balance at 31 December 2012	42,840	7,442,741	7,485,581
Balance at 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive loss for the period	–	(98,894)	(98,894)
Balance at 31 December 2013	42,840	7,313,895	7,356,735

The notes on pages 23 to 25 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000
<b>Cash flows from operating activities</b>		
(Deficit)/surplus for the period	(98,894)	15,860
Adjustments for:		
Depreciation	36,394	31,252
Investment income	(56,901)	(69,825)
Exchange loss on revaluation of debt securities	5,081	-
Loss/(gain) on disposal of fixed assets	6	(34)
	(114,314)	(22,747)
Decrease in debtors, deposits and prepayments	9,164	19,259
Increase in creditors and accrued charges	68,612	90,145
Decrease in fees received in advance	(1,518)	(64,674)
Decrease in non-current liabilities	(766)	(248)
Increase in fixed deposits other than cash and cash equivalents	(49,832)	-
Net cash (used in)/generated from operating activities	(88,654)	21,735
<b>Cash flows from investing activities</b>		
Interest received	90,736	124,116
Held-to-maturity debt securities bought	-	(1,043,311)
Held-to-maturity debt securities redeemed	2,172,916	1,463,640
Fixed assets bought	(28,236)	(52,960)
Fixed assets disposed	(3)	-
Net cash generated from investing activities	2,235,413	491,485
<b>Net increase in cash and cash equivalents</b>	<b>2,146,759</b>	<b>513,220</b>
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>1,605,117</b>	<b>1,039,241</b>
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>3,751,876</b>	<b>1,552,461</b>

### Analysis of the balance of cash and cash equivalents:

	Unaudited At 31 December 2013 \$'000	Unaudited At 31 December 2012 \$'000
Fixed and call deposits with banks	3,743,105	1,548,497
Cash at bank and in hand	8,771	3,964
	<b>3,751,876</b>	<b>1,552,461</b>

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

### 1. Basis of preparation

We have prepared the interim financial report in accordance with International Accounting Standard 34 *Interim financial reporting* adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2013 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 31 December 2013. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2013 to the interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2013.

### 2. Held-to-maturity debt securities

As of 31 December 2013, the total market value of held-to-maturity debt securities amounted to \$3,568,869,000 (31 March 2013: \$5,798,306,000), which was above the total carrying cost of \$3,541,934,000 (31 March 2013: \$5,744,055,000).

### 3. Non-current liabilities

#### The Group and the SFC

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our consolidated statement of comprehensive income on a straight line basis over lease periods as an integral part of rental expense.

### 4. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 31 December 2013. Therefore we do not provide an ageing analysis of debtors and creditors.

### 5. Exchange fluctuation

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, United States dollars and Renminbi. Exposure in Renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either United States dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.



## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

### 6. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and ICC on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.20. On 20 November 2012, the SFC launched the Investor Education Centre (IEC) as a company limited by guarantee and not having a share capital. All of the three companies are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong.

The objective of ICC is to facilitate the administration and management of the Investor Compensation Fund established under the Securities and Futures Ordinance.

The objective of IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

All of the three companies are wholly owned subsidiaries of the SFC. As at 31 December 2013, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$2.20. The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 December 2013 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

The financial statements of ICC and IEC are included in the condensed consolidated financial statements.

### 7. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund, the Investor Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions :

- a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$3,775,000 (2012: \$3,697,000), which is in accordance with section 242(1) of the Securities and Futures Ordinance.
- b) Remuneration for key management personnel (including all non-executive directors) comprised :

	Unaudited nine months ended	
	31 December 2013 \$'000	31 December 2012 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,260	22,026
Retirement scheme contributions	2,102	1,814
	<b>25,362</b>	23,840

The total remuneration is included in "staff costs and directors' emoluments" on page 18. Discretionary pay is not included above as the decision to pay is not determinable at this point in time.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

### 7. Related party transactions (cont'd)

- c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$461,000 (31 March 2013: \$291,000).
- d) Legal services provided by a non-executive director

During the period, a non-executive director continued to provide legal services in respect of matters commenced prior to his appointment. Fees payable to him for such services during the period amounted to \$445,000 under normal commercial terms and conditions.

### 8. Commitment to pay rents for offices

We have entered into an operating lease for the SFC's office premises. The lease is subject to a rent review on 1 September 2017. The rent we will have to pay after 1 September 2017 will be fixed on or before 1 July 2017 based on the then prevailing market rent but subject to a cap set out in the lease agreement.

At 31 December 2013 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows :

	Unaudited At 31 December 2013 \$'000	Audited At 31 March 2013 \$'000
Payable next year	<b>185,453</b>	183,148
Payable in one to five years	<b>493,697</b>	617,143
Payable in more than five years	-	-
	<b>679,150</b>	800,291

During the period, \$133,881,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2012 : \$113,389,000).

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2013.

### 1. Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### 2. Financial results

The deficit of the Fund for the reporting period ended 31 December 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 27 to 31.

### 3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2013 and up to the date of this report were : -

Mr Keith Lui (Chairman)  
Mrs Alexa Lam  
Mr Chow Ka Ming, Anderson, SC  
Mr Tai Chi Kin

### 4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

**Keith Lui**  
Chairman

26 February 2014

## Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000	Unaudited three months ended 31 December 2013 \$'000	Unaudited three months ended 31 December 2012 \$'000
<b>Income</b>					
Net investment (loss)/income		(9,071)	86,120	8,939	22,907
Exchange difference		(1,563)	(1,914)	(236)	(357)
		<b>(10,634)</b>	84,206	8,703	22,550
<b>Expenses</b>					
Investor Compensation Company Limited expenses	2	3,775	3,697	1,245	1,223
Auditor's remuneration		85	82	29	27
Bank charges		636	610	226	211
Professional fees		2,769	2,679	903	904
		<b>7,265</b>	7,068	2,403	2,365
(Deficit)/surplus and total comprehensive (loss)/income for the period		<b>(17,899)</b>	77,138	6,300	20,185

The notes on page 31 form part of the condensed financial statements

## Investor Compensation Fund

### Condensed statement of financial position

At 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2013 \$'000	Audited At 31 March 2013 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
– Debt securities		1,841,180	1,707,975
– Pooled fund		269,361	286,653
Interest receivable		15,147	14,350
Due from Investor Compensation Company Limited		461	292
Fixed and call deposits with banks		7,275	169,130
Cash at bank		43,307	16,525
		<b>2,176,731</b>	<b>2,194,925</b>
<b>Current liabilities</b>			
Provision for compensation	3	150	150
Creditors and accrued charges		1,370	1,665
		<b>1,520</b>	<b>1,815</b>
<b>Net current assets</b>		<b>2,175,211</b>	<b>2,193,110</b>
<b>Net assets</b>		<b>2,175,211</b>	<b>2,193,110</b>
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,071,570	1,089,469
		<b>2,175,211</b>	<b>2,193,110</b>

The notes on page 31 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2012	994,718	108,923	991,544	2,095,185
Total comprehensive income for the period	–	–	77,138	77,138
Balance at 31 December 2012	994,718	108,923	1,068,682	2,172,323
Balance at 1 April 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive loss for the period	–	–	(17,899)	(17,899)
Balance at 31 December 2013	994,718	108,923	1,071,570	2,175,211

The notes on page 31 form part of the condensed financial statements

## Investor Compensation Fund

### Condensed statement of cash flows

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000
<b>Cash flows from operating activities</b>		
(Deficit)/surplus for the period	(17,899)	77,138
Net investment loss/(income)	9,071	(86,120)
Exchange loss	1,563	1,914
Increase in amount due from Investor Compensation Company Limited	(169)	(346)
(Decrease)/increase in creditors and accrued charges	(295)	342
Net cash used in operating activities	(7,729)	(7,072)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(582,781)	(538,497)
Sale or maturity of debt securities	419,018	592,721
Sale of equity securities	1,340	897
Interest received	35,079	40,472
Net cash (used in)/generated from investing activities	(127,344)	95,593
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(135,073)</b>	88,521
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>185,655</b>	180,491
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>50,582</b>	269,012

#### Analysis of the balance of cash and cash equivalents :

	Unaudited At 31 December 2013 \$'000	Unaudited At 31 December 2012 \$'000
Fixed deposits with banks	7,275	266,701
Cash at bank	43,307	2,311
	<b>50,582</b>	269,012

## Notes to the condensed financial statements

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with International Accounting Standard 34 *Interim financial reporting* adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2013 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2013 to the interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2013.

### 2. Investor Compensation Company Limited expenses

The Securities and Futures Commission formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the nine months ended 31 December 2013, ICC incurred \$3,775,000 for its operation (For the nine months ended 31 December 2012 : \$3,697,000).

### 3. Provision for compensation

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at the lower of \$150,000 per claimant or the amount claimed. The provision for compensation at 31 December 2013 was \$150,000 (31 March 2013: \$150,000). As at 31 December 2013 all provisions were expected to be paid within one year.

### 4. Material related party transactions

The Fund has related party relationships with the Securities and Futures Commission, the ICC and the Unified Exchange Compensation Fund. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2013.

### 5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$2,184,000 (31 March 2013: \$957,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.



# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2013.

### 1. Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 December 2013, the Fund has transferred \$994,718,000 to the ICF. After reserving sufficient money in the Fund to meet claims against it and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

### 2. Financial results

The surplus of the Fund for the reporting period ended 31 December 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 33 to 37.

### 3. Members of the Committee

The members of the Committee during the nine months ended 31 December 2013 and up to the date of this report were : -

Mr Keith Lui (Chairman)  
Mrs Alexa Lam  
Mr Chow Ka Ming, Anderson, SC  
Mr Lo Wai Keung, David  
Mr Tai Chi Kin

### 4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

**Keith Lui**  
Chairman

27 January 2014

## Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000	Unaudited three months ended 31 December 2013 \$'000	Unaudited three months ended 31 December 2012 \$'000
<b>Income</b>				
Interest income	330	471	121	139
<b>Expenses</b>				
Auditors' remuneration	36	34	12	11
Professional fee	16	16	-	-
	52	50	12	11
<b>Surplus and total comprehensive income for the period</b>	<b>278</b>	<b>421</b>	<b>109</b>	<b>128</b>

The notes on page 37 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

At 31 December 2013 (expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2013 \$'000	Audited At 31 March 2013 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	1
Interest receivable		51	46
Fixed and call deposits with banks		74,993	73,939
Cash at bank		131	456
		<b>75,176</b>	<b>74,442</b>
<b>Current liabilities</b>			
Relinquished trading rights payable to SEHK	3	1,950	-
Creditors and accrued charges		10,305	10,299
		<b>12,255</b>	<b>10,299</b>
<b>Net current assets</b>		<b>62,921</b>	<b>64,143</b>
<b>Net assets</b>		<b>62,921</b>	<b>64,143</b>
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK		48,900	50,400
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		18,450	18,172
		<b>1,057,639</b>	<b>1,058,861</b>
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		<b>62,921</b>	<b>64,143</b>

The notes on page 37 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Unaudited 2013 \$'000	Unaudited 2012 \$'000
Compensation fund balance as at 1 April	<b>64,143</b>	62,727
Net contributions (to)/from SEHK	<b>(1,500)</b>	900
Total comprehensive income for the period	<b>278</b>	421
Compensation fund balance as at 31 December	<b>62,921</b>	64,048

The notes on page 37 form part of the condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

	Unaudited nine months ended 31 December 2013 \$'000	Unaudited nine months ended 31 December 2012 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the period	278	421
Interest income	(330)	(471)
Increase in relinquished trading rights payable to SEHK	1,950	-
Increase in creditors and accrued charges	6	6
Net cash generated from/(used in) operating activities	1,904	(44)
<b>Cash flows from investing activities</b>		
Interest received	325	516
Net cash generated from investing activities	325	516
<b>Cash flows from financing activities</b>		
Net contributions (to)/from SEHK	(1,500)	900
Net cash (used in)/generated from financing activities	(1,500)	900
<b>Net increase in cash and cash equivalents</b>	<b>729</b>	<b>1,372</b>
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>74,395</b>	<b>72,920</b>
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>75,124</b>	<b>74,292</b>

#### Analysis of the balance of cash and cash equivalents:

	Unaudited At 31 December 2013 \$'000	Unaudited At 31 December 2012 \$'000
Fixed and call deposits with banks	74,993	74,013
Cash at bank	131	279
	<b>75,124</b>	<b>74,292</b>

## Notes to the condensed financial statements

For the nine months ended 31 December 2013 (expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with International Accounting Standard (IAS) 34 *Interim financial reporting* adopted by the International Accounting Standards Board. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect from 1 April 2003, the Fund has prepared the interim financial report on a break-up basis with assets stated at recoverable amounts.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2013 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2013 to the interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2013.

### 2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds and the remaining shares at market value as of 31 December 2013 after deducting relevant processing fees and charges for collecting and selling the securities received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39, *Financial Instruments: Recognition and Measurement*. According to International Financial Reporting Standards (IFRSs) 7, *Financial Instruments: Disclosures*, one of these subrogated shares shall be classified as level 3 financial instruments as its fair value was determined using a valuation technique in which any significant input is not based on observable market data. The remaining subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

### 3. Contributions from SEHK

During the nine months, deposits of \$600,000 in respect of 12 new trading rights were received from SEHK and deposits of \$150,000 in respect of 3 relinquished trading rights were refunded to SEHK. As at 31 December 2013, there were 39 trading rights in total that have been relinquished but not yet refunded.

### 4. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2013.

### 5. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 2) will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

## Securities and Futures Commission

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