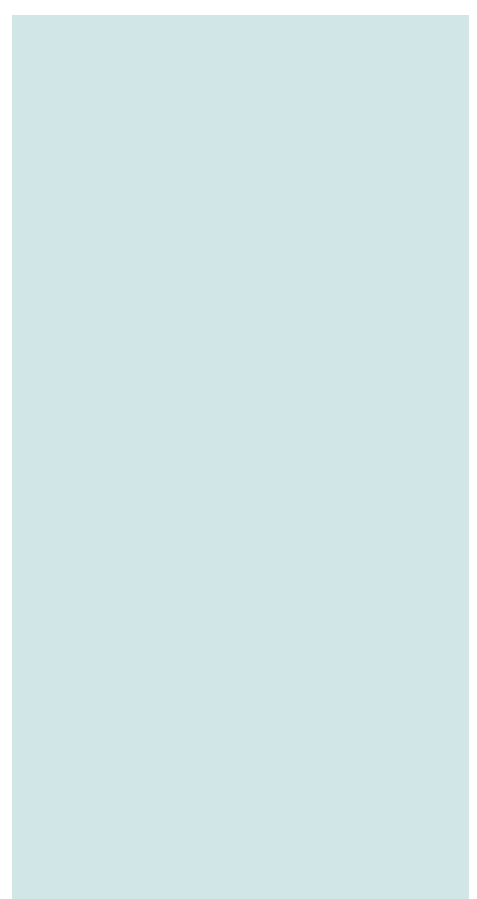
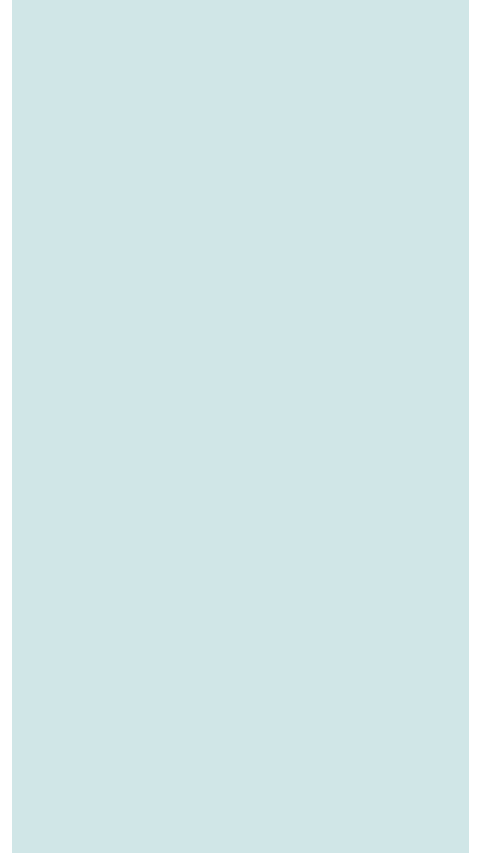




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Quarterly Report

April - June 2014



This first Quarterly Report of the Securities and Futures Commission for financial year 2014-15 covers the period from 1 April to 30 June 2014.

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

Regulatory enhancements

- **OTC derivatives:** The Securities and Futures (Amendment) Ordinance 2014, gazetted in April, established a framework to regulate the over-the-counter (OTC) derivatives market.
- **Alternative liquidity pools:** A two-month consultation ended in April on proposals to enhance and standardise the regulatory obligations imposed on Hong Kong-licensed corporations that operate alternative liquidity pools.
- **Uncertificated securities market:** The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 was gazetted and introduced to the Legislative Council in June.

Product development

- **Renminbi product offerings:** We authorized 11 unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and two RQFII exchange-traded funds this quarter.
- **Product approval and design:** We issued a circular setting out guidance which explains the requirements for a robust internal product approval and design process for SFC-authorized investment products.

Listing matters

- **Inside information disclosure:** To encourage more meaningful disclosure, we requested that listed companies provide specific numbers in their profit alerts and warnings wherever possible.
- **Review of listing applications:** Under the new initial public offering sponsor regime, three listing applications were returned because their application proofs were not substantially complete.

Market infrastructure and trading

- **Shanghai-Hong Kong Stock Connect:** In April we announced, together with the China Securities Regulatory Commission, the Shanghai-Hong Kong Stock Connect pilot scheme which will allow Hong Kong and Mainland investors to directly participate in each other's securities markets.

Enforcement

- In the quarter, we successfully prosecuted 10 individuals or corporations for market misconduct and disciplined 17 licensees. Our prosecutions and disciplinary action resulted in total fines of over \$39 million.
- We reprimanded ICBC International Capital Limited and ICBC International Securities Limited and fined them a total of \$25 million in relation to their role in the initial public offering of Powerlong Real Estate Holdings Limited in 2009.
- We commenced legal proceedings to seek disqualification orders against four senior executives of Minth Group Limited over their alleged breach of duties of directors regarding the acquisitions of two companies.
- The court ordered Ernst & Young Hong Kong to produce to the SFC specified accounting records relating to its work as the reporting accountant and auditor for Standard Water Limited.

Global engagement

- In June, the SFC and Securities Commission Malaysia jointly organised a seminar in Hong Kong to explore the potential of Hong Kong as an Islamic fund platform.

Licensing applications

We received 1,568 licence applications¹ this quarter. This represents a 1.2% increase from last quarter and a 5.2% increase from the same quarter last year. As of 30 June, the total number of licensees and registrants remained stable at around 39,000.

Alternative liquidity pools

A two-month consultation on alternative liquidity pools (ALPs) ended in April. The consultation paper proposed to enhance and standardise the regulatory obligations imposed on Hong Kong-licensed corporations that operate ALPs by including comprehensive requirements governing ALPs in the Code of Conduct². We would then cease our current practice of imposing conditions on the licences of ALP operators on a case-by-case basis. The proposals draw on developments in other major markets and reflect regulatory responses that we consider desirable for the Hong Kong market. We met with major industry associations to hear their views and received a total of 59 responses from a range of stakeholders including individuals, licensed corporations, professional bodies and academia.

Licensees and registrants

	As at 30.6.2014	As at 31.3.2014	Change (%)	As at 30.6.2013	YoY change (%)
Licensed corporations	1,991	1,970	1.1	1,909	4.3
Registered institutions	120	120	0	118	1.7
Licensed individuals	37,172	36,970	0.5	36,721	1.2
Total	39,283	39,060	0.6	38,748	1.4

Interaction with the industry

We conducted a briefing session on anti-money laundering and counter-terrorist financing in April to raise the industry's awareness and understanding of obligations to screen customers, monitor transactions and report suspicious activities. More than 180 participants attended.

Over the quarter, our senior executives were involved in more than 20 speaking engagements to share with industry participants our views and approaches on various regulatory issues.

Recognition of CRA regime

On 28 April, the European Commission announced that it recognised the credit rating agency (CRA) regimes in Hong Kong and four other jurisdictions³ as equivalent to the regime in the European Union (EU). The decision was based on positive technical assessments of the regulatory environments in Hong Kong by the European Securities and Markets Authority. The decision allows smaller CRAs in Hong Kong to apply for EU certification, enabling their ratings to be used by EU financial institutions for regulatory purposes.

¹ This figure does not include provisional licence applications. During the quarter, we received 902 provisional licence applications compared with 846 in the same quarter last year.

² Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

³ The other jurisdictions were Argentina, Brazil, Mexico and Singapore.

Intermediaries

Licensing applications

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Applications to conduct new regulated activity received	4,531	4,254	6.5	4,369	3.7
Applications for SFC licences received ¹	1,568	1,550	1.2	1,491	5.2

¹ This figure does not include provisional licence applications. During the quarter, we received 902 provisional licence applications compared with 846 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Risk-based, on-site inspections conducted	78	64	21.9	72	8.3

More renminbi products

The number of Renminbi Qualified Foreign Institutional Investor (RQFII) products continued to grow. We authorized 11 unlisted RQFII funds and two RQFII exchange-traded funds (ETFs) this quarter. This brought the total number of SFC-authorized RQFII unlisted funds and ETFs to 42 and 16, respectively, as of 30 June.

Guidance on internal product approval process

We issued a circular in April setting out guidance which explains the requirements for a robust internal product approval and design process for investment products authorized under the SFC Products Handbook¹. The guidance covers the entire product lifecycle from inception to post-sale and reminds product providers of their duty to consider the interests of investors as part of the product design process. The guidance took effect on 1 May.

Regulation and on-going monitoring

As part of our regular dialogue with the industry and with the aim to achieve a more efficient authorization process, we held a briefing session in May to provide practical guidance on preparing new fund applications, including specific “dos and don’ts”. The briefing was attended by over 100 industry participants.

Continuing our efforts to provide guidance to the industry, we published various circulars and Frequently Asked Questions concerning:

- the application of the revised Trustee Ordinance to SFC-authorized Hong Kong domiciled funds;
- disclosure of information regarding ETF stock lending transactions;
- disclosure requirements following changes to the RQFII quota administration policy by the State Administration of Foreign Exchange;

- disclosure requirements regarding the US Foreign Account Tax Compliance Act (FATCA);
- the requirement to have in place an up-to-date and effective business continuity plan; and
- streamlined measures applicable to processing applications for scheme changes and revisions of offering documents in respect of SFC-authorized Mandatory Provident Fund products and investment-linked assurance schemes.

On 24 June we published a public consultation paper on proposals to amend the requirements for the dissemination of pricing information and dealing suspension notices by SFC-authorized funds under the Code on Unit Trusts and Mutual Funds.

Open-ended fund companies

During the period, we continued to provide technical support to the Government of the Hong Kong Special Administrative Region (HKSAR) in developing a legal and regulatory framework for open-ended fund companies (OFC) in Hong Kong. The three-month consultation period ended on 19 June and we continue to work closely with the HKSAR Government on the consultation conclusions and concomitant legislative process.

Crowd-funding

In view of the increase in crowd-funding activities both internationally and in Hong Kong, we issued a “Notice on Potential Regulations Applicable to, and Risks of, Crowd-funding Activities” and related investor education materials in May. The notice highlights the risks associated with crowd-funding activities and outlines the potential regulatory issues for parties engaging in such activities.

¹ SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.

Investment products

Authorized collective investment scheme investment products¹

	As at 30.6.2014	As at 31.3.2014	Change (%)	As at 30.6.2013	YoY change (%)
Unit trusts and mutual funds ²	1,961	1,935	1.3	1,962	-0.1
Investment-linked assurance schemes	265	264	0.4	258	2.7
Pooled retirement funds	35	35	0	35	0
MPF master trust schemes	40	40	0	40	0
MPF pooled investment funds ²	186	186	0	185	0.5
Others ³	27	27	0	27	0
Total	2,514	2,487	1.1	2,507	0.3

¹ Excluding unlisted structured investment products. This table represents a snapshot view as of the end of each reporting period.

² Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong. For comparison purposes, adjustments have been made to these categories to reflect that 117 retail APIFs as at 30 June 2013 have been reclassified accordingly.

³ Other schemes comprise 16 paper gold schemes and 11 real estate investment trusts as of 30 June 2014.

Authorized unlisted structured investment products

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Unlisted structured investment products	8	27	-70.4	17	-52.9

Corporate regulation

During the quarter we continued to build up our Corporate Regulation team. Set up in late 2013, the team combines two functions: corporate disclosure, which deals with the daily review of announcements under the statutory inside information disclosure regime; and dual filing, which reviews listing documents and considers public interest issues. To perform these functions effectively, we will use the information-gathering powers conferred to the SFC under section 179(1)(e) of the Securities and Futures Ordinance (SFO).

Encouraging more meaningful disclosures

Following a notable increase in the number of listed companies' announcements after the introduction of the statutory disclosure regime in January 2013, we are now focused on encouraging more meaningful disclosures. In particular, we have requested that listed companies provide specific numbers in their profit alerts and warnings wherever possible. Although so far there have been relatively few unprompted disclosures that provide the quantitative information we have been encouraging, we have started to see more of them. For example, some announcements disclosed a range for the expected profit or a percentage increase or decrease in the expected profit from the prior year. Certain listed companies have begun to quantify specific factors contributing to their profit or loss as well.

Review of IPO applications

Under the dual filing regime, we received 49 listing applications via The Stock Exchange of Hong Kong Limited during the quarter. Between 1 October 2013, when the new initial public offering (IPO) sponsor regime took effect, and 30 June 2014, a total of 10 listing applications were returned because their application proofs were not substantially complete and an eight-week moratorium¹ was imposed. Three² of these were returned during the quarter.

Takeovers codes applicable to SouthGobi

In a decision published on 30 June, the Takeovers and Mergers Panel ruled that SouthGobi Resources Limited (SouthGobi) should be considered a "public company in Hong Kong" under the Codes on Takeovers and Mergers and Share Buy-backs (Codes) and therefore the Codes should apply to it. The decision was based primarily upon material changes in the number of the company's Hong Kong shareholders and the extent of share trading in Hong Kong since a previous ruling in 2009³.

Dealing disclosure online submission

A new online submission system for filing disclosures of dealings under Rule 22 of the Code on Takeovers and Mergers was launched on 30 May with the aim of streamlining the submission and posting process and improving efficiency. Starting 1 July, all Rule 22 dealing disclosures must be submitted using the online system⁴.

Listings applications and takeovers activities

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Listing applications filed under the dual filing regime	49	58	-15.5	45	8.9
Takeovers and share repurchases transactions handled	115	74	55.4	74	55.4

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

² Including one listing application that was submitted in the last quarter and returned this quarter.

³ In 2009, the Takeovers Executive ruled that SouthGobi should not be considered a "public company in Hong Kong" for the purposes of the Codes, and the Codes should not apply to it upon its secondary listing. The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director.

⁴ The new Rule 22 Dealing Disclosure Online Submission system can be accessed via this link: <https://www.sfc.hk/dealdisclosure/gateway/landing?locale=en>.

Shanghai-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect, a pilot scheme enabling mutual stock market access between the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited (SEHK), was announced on 10 April. The programme will allow Hong Kong and international investors to access the Shanghai stock market (northbound trading), while qualified Mainland investors will be able to tap the Hong Kong stock market (southbound trading).

Various regulatory and operational issues need to be finalised before the programme commences. For example, we are working with Hong Kong Exchanges and Clearing Limited, Shanghai Stock Exchange, China Securities Depository and Clearing Corporation Limited and their relevant subsidiaries regarding applications for automated trading services (ATS) authorization under the proposed arrangement. In addition, we are reviewing the draft amendments to relevant SEHK Rules as well as the Central Clearing and Settlement System Rules and Operational Procedures. Testing of various systems is also required to ensure the operational robustness of the relevant systems and market readiness of intermediaries participating in the scheme.

Meanwhile, to provide a level playing field for Stock Connect market participants, we published a consultation paper in June on proposals to amend the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests). Stock Connect market participants play similar roles to participants who are currently eligible for an exemption from disclosure obligations under Part XV of the Securities and Futures Ordinance (SFO), and the amendments will provide two additional categories for exemption to cover transient interests of participants of SEHK and clearing participants of a recognized clearing house that are themselves clearing houses, if certain conditions are met. The consultation period ended in mid-July.

OTC derivatives market

The Securities and Futures (Amendment) Ordinance 2014, gazetted on 4 April¹, established a framework to regulate the over-the-counter (OTC) derivatives market in line with Group of 20 Leaders' commitments. The framework introduces mandatory reporting, clearing and trading obligations for OTC derivatives transactions to be specified in subsidiary legislation. It also provides for the regulation of key players and market infrastructure, including authorized financial institutions, approved money brokers, licensed corporations and others.

Together with the Hong Kong Monetary Authority, we are working on the subsidiary legislation and plan to conduct joint public consultation in phases. The first phase will cover reporting obligations and related record-keeping requirements. We expect the first batch of subsidiary legislation to be introduced to the Legislative Council in 2014.

Uncertificated securities market

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014, an enabling bill to introduce an uncertificated, or scripless, securities market in Hong Kong, was gazetted on 13 June and introduced to the Legislative Council on 25 June. The Bill sets out a legal framework enabling the launch of the proposed paperless system in parallel with the current paper-based system. We will oversee regulatory and operational matters under the proposed framework. Work has begun on subsidiary legislation that will set out technical and operational details, such as registering and transferring securities electronically and regulating key service providers. Consultation on the subsidiary legislation will begin in 2015.

Automated trading services

By the end of June, 28 providers of ATS² were authorized under Part III of the SFO to operate in Hong Kong. A total of 26 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS as of the end of June.

¹ The related Bill was passed by the Legislative Council on 26 March.

² 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 solely providing ATS are expected to be authorized under Part III of the SFO.

Redress for investors

During the quarter, we commenced proceedings to freeze assets to remediate investors and to disqualify senior executives of a listed corporation.

- We alleged that Gu Chujun and eight other former senior executives of Greencool Technology Holdings Limited were involved in gross overstatements of the company's sales, profit, trade receivables and bank deposits, thereby inflating the company's net asset value and severely understating its bank loans in annual reports and results announcements released between 2001 and 2005.

Proceedings against Gu were commenced before the Court of First Instance (CFI) under section 213¹ of the Securities and Futures Ordinance (SFO), seeking an injunction to freeze assets beneficially owned by Gu up to about \$1.59 billion as well as an order for damages to compensate more than 1,300 minority shareholders. We believe that as the mastermind Gu should be ordered to compensate the minority shareholders who were induced to acquire the company's shares on the strength of the inflated financial results. We also instituted proceedings in the Market Misconduct Tribunal.

- We commenced proceedings in the CFI to seek disqualification orders against four senior executives of Minth Group Limited as well as orders that its Chairman pay \$99 million compensation and interest to Minth's subsidiary for loss or damage caused by his alleged misconduct. The four senior executives, including Chairman and Executive Director Chin Jong Hwa, were alleged to have breached their directors' duties regarding Minth's acquisitions of two companies in 2008 resulting in a loss to its subsidiary.

Ernst & Young ordered to produce accounting records

The CFI ordered Ernst & Young Hong Kong (EYHK) to produce to the SFC specified accounting records relating to its work as the reporting accountant and auditor for Standard Water Limited. In 2012, we brought proceedings to compel the production of these documents after EYHK failed to provide them as part of our investigation into the

proposed listing of Standard Water. EYHK claimed that it was not in possession of the papers and that they could not be produced due to restrictions under PRC law.

The CFI rejected these arguments, finding that EYHK had "deliberately withheld from SFC information in its knowledge" and EYHK's objection to produce the audit working papers based on state secrets is "a complete red herring". EYHK subsequently filed an appeal against the court order in relation to those documents kept in mainland China.

Seeking orders to compel disclosure

Following an urgent application to appoint interim receivers and managers over Qunxing Paper Holdings Company Limited, we made an application to the CFI to seek orders against its former Chairman and Vice-Chairman to compel them to provide information to Qunxing about its main operating company's bankruptcy proceedings in China.

The court also dismissed the application of Qunxing and its subsidiary to discharge the injunction obtained by the SFC in December 2013 freezing up to approximately \$2 billion of Qunxing's assets.

Criminal proceedings

During the quarter, we successfully prosecuted five individuals and two corporations.

- The court fined C.L. Management Services Limited and its sole owner and director Au Suet Ming Clarea \$1.5 million for unlicensed activities. Au was also sentenced to six months' imprisonment suspended for 18 months.
- Fan Kwong Hung Ernest was sentenced to 200 hours of community service and fined \$59,430 for manipulating the final calculated opening prices of Mini-Hang Seng Index futures contracts. He was also prohibited from dealing in Hang Seng Index or Mini-Hang Seng Index futures contracts in the pre-market opening period for six months without permission of the court.
- Ng Kai Shing was fined for providing false or misleading information to the SFC in two licensing applications.

¹ Section 213 of the SFO gives the SFC the power to apply to the CFI for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance, etc.

- Pacific Sun Advisors Limited was fined and its director Andrew Pieter Mantel was sentenced to four weeks' imprisonment suspended for 12 months for issuing advertisements to promote a collective investment scheme without the SFC's authorization.
- Chan Wing Fai was sentenced to one month's imprisonment for false trading. He bought single board lots of shares of two companies to cause their prices to increase and profited by selling them at higher prices.

Disciplinary actions and resolutions

We disciplined eight licensed corporations through resolutions under section 201² of the SFO:

- ICBC International Capital Limited and ICBC International Securities Limited were reprimanded and fined a total of \$25 million in relation to their role in the initial public offering of Powerlong Real Estate Holdings Limited in 2009, when they failed to conduct customer due diligence or perform ongoing scrutiny of accounts of certain placees, ignoring their lack of independence. They agreed to implement the recommendations of an independent review of their systems and controls.
- The Royal Bank of Scotland PLC was reprimanded and fined \$6 million for internal control failures relating to the detection and prevention of unauthorised trading activities.
- Delta Asia Securities Limited was reprimanded and fined \$4 million for failing to ensure that client securities were properly safeguarded and allowing shares belonging to clients and held in segregated client accounts at the Central Clearing and Settlement System to settle transactions for other clients.
- Kaiser Securities Limited and Kaiser Futures Limited were reprimanded and fined a total of \$1.7 million for conducting unauthorised financial activities in breach of the laws of Macau.

- Deutsche Bank Aktiengesellschaft was reprimanded and fined \$1.6 million for failing to disclose to The Stock Exchange of Hong Kong Limited the changes to its percentage holdings in the issued share capital of a stock and to implement adequate internal controls.
- Citigroup Global Markets Asia Limited was reprimanded for failing to ensure that securities orders executed through its algorithmic trading system would not unduly affect market prices. It agreed to engage an independent reviewer to conduct a forward-looking assessment of its algorithmic trading system to ensure compliance with the new regulation on electronic trading.

We also disciplined seven licensed representatives:

- Two persons were banned from re-entering the industry for life following criminal convictions:
 - Chow Hoi Ching Helen, a former employee of The Royal Bank of Scotland N.V. (formerly known as ABN AMRO Bank N.V.), was convicted of fraud and sentenced to imprisonment of four years; and
 - Choy Cheuk Tung, a former employee of Standard Chartered Bank (Hong Kong) Limited, was convicted of theft and was sentenced to imprisonment of 18 months.
- Ma Chun Leung Christopher and Wong Man Chung were banned from re-entering the industry for 10 years and two years, respectively, for acting against the interests of clients and taking advantage of executions of institutional clients' orders. Ma also provided false or misleading information to his employer and caused his employer to provide the same to the SFC.
- Three other individuals were banned from re-entering the industry or suspended for various periods for conducting transactions on a discretionary basis without proper authorisation in client's accounts and other misconduct.

² Section 201 of the SFO provides that the SFC may resolve its disciplinary proceedings against regulated persons by reaching an agreement with them if it is in the interest of the investing public or in the public interest to do so.

SFC decisions upheld

The Securities and Futures Appeals Tribunal (SFAT) upheld our decisions in two cases.

- Chan Pik Ha Jenny, a former account executive of ICBC International Securities Limited, failed to record and maintain a proper audit trail of orders placed by her clients and accepted trade instructions from a third party without written authorisation.

The SFAT highlighted that internal controls prescribed by licensed corporations are not purely private guidelines between employers and employees, but an integral part of the regulatory system that governs the securities industry. A breach of such internal controls may be the subject of disciplinary action.

- Peter Leung, a former representative and responsible officer of China Securities Holdings Limited, was found to be responsible for his employer's order record failure and unlicensed activities by certain staff.

Surveillance work

We monitor trading activities in the securities and futures markets to detect market misconduct. During the quarter, we made 1,531 requests for trading and account records from intermediaries. On many occasions, our early inquiries stopped seemingly improper trading activities from continuing. In addition, we posted five high shareholding concentration announcements on the SFC website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement activities

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Trading inquiries issued under S181 ¹	2,905	1,943	49.5	1,048	177.2
Investigations started	138	98	40.8	61	126.2
Investigations completed	59	81	-27.2	85	-30.6
Investigations completed within seven months (%)	44 (75%)	58 (72%)	-24.1	42 (49%)	4.8
Persons charged in criminal proceedings	7	2	250	7	0
Criminal charges laid	15	12	25	29	-48.3
Notices of Proposed Disciplinary Action ²	8	23	-65.2	7	14.3
Decision Notices ³	15	14	7.1	15	0
Persons subject to ongoing civil proceedings	77	69	11.6	63	22.2
Compliance advice letters issued	51	70	-27.1	53	-3.8

¹ 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.

² 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.

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

IOSCO

The SFC is actively involved in the work of the International Organization of Securities Commissions (IOSCO). As a member of the Board of IOSCO, we participate in all eight of its policy committees. We also serve on major IOSCO task forces and committees such as the Task Force on Cross Border Regulation, 2020 Working Group, the Capacity Building Resource Committee and the Assessment Committee. In May, we attended the Assessment Committee's meeting in Madrid to discuss various thematic reviews including the implementation of the IOSCO International Standards for Derivatives Market Intermediaries Regulation.

Mr Ashley Alder, our Chief Executive Officer (CEO), chairs IOSCO's Asia-Pacific Regional Committee as well as its Task Force on Cross Border Regulation. In April, the Task Force hosted three industry roundtables in Hong Kong, London and Washington D.C., attended by senior representatives of financial institutions, industry associations, market participants, regulatory bodies and academia. Based on comments from IOSCO members and industry participants, the Task Force is developing a consultation paper on approaches to the regulation of cross-border securities market activities to be published later in 2014.

Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, co-chairs the Working Group on Margining Requirements for Non-centrally Cleared Derivatives - Monitoring Group. Three work streams have been created, focusing on:

- Assessing progress on the national implementation of margin requirements;
- Reviewing industry implementation of margin requirements; and
- Reviewing the relation and consistency of margin requirements with other regulatory initiatives.

At the end of 2014, the Monitoring Group will prepare a progress report based on the findings of each work stream, subject to final approval of both the Basel Committee on Banking Supervision and IOSCO.

Mr Stephen Po, Senior Director of Intermediaries Supervision, serves as chairperson of IOSCO's committee on the regulation of market intermediaries. In this capacity he chaired a committee meeting in April in Morocco, on which members agreed on the final report on the IOSCO Social Media and Automation of Advice Tools Surveys.

FSB

We contributed to Financial Stability Board (FSB) initiatives through our participation in the Standing Committee on Standards Implementation (SCSI) and the Regional Consultative Group for Asia (RCGA). In March, we attended the SCSI meeting in Dubai to discuss issues including the implementation of OTC derivatives monitoring, trade reporting, and ways to reduce reliance on credit rating agencies. We also attended the RCGA meeting in April to discuss financial market infrastructure reforms, resolution regimes and other issues. The RCGA working group on shadow banking, which our CEO co-chairs, produced a report on shadow banking in Asia that will be published after approval by the FSB Secretariat and Plenary.

IMF

On 9 May, the Executive Board of the International Monetary Fund (IMF) endorsed the findings of the Financial Sector Assessment Programme (FSAP) update on Hong Kong. The IMF further published the detailed assessment reports and technical notes for Hong Kong on 16 July. The SFC worked closely with the Government of the Hong Kong Special Administrative Region and fellow financial regulators on the update, which involved detailed assessments of the implementation of international standards in Hong Kong's banking, insurance and securities sectors. FSAP delegations visited Hong Kong in August, September and November 2013 and held a series of meetings with our staff. There were also technical assessments for three targeted areas: financial market infrastructures; the crisis management and bank resolution framework; and stress testing banking sector resilience.

Other international cooperation

In June, the SFC and Securities Commission Malaysia (SC) jointly organised a seminar to explore the potential of Hong Kong as an Islamic fund platform. The seminar, held in Hong Kong, brought together over 100 policy makers, regulators and industry participants from the region to exchange views and explore market opportunities in Islamic finance.



Speakers share insights during a panel discussion at the SFC-SC Joint Seminar on Islamic Funds

Shanghai-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect pilot programme, announced in April, will allow Hong Kong and Mainland investors to directly participate in each other's securities markets. This programme is an important step in the opening up of the China capital market and will enhance capital market connectivity between mainland China and Hong Kong. We are working closely with Mainland counterparts to facilitate the launch of the programme. For more details, please refer to the Market infrastructure and trading section.

Visits and exchanges

To maintain Hong Kong's position as a leading offshore renminbi (RMB) centre, we regularly engage with Mainland authorities to discuss the role of Hong Kong in RMB internationalisation and capital account liberalisation. During the quarter we arranged training sessions and staff exchange programmes both for our staff and for Mainland officials to better understand the regulatory development of each other's market.

In April, we visited the Shanghai Free Trade Zone and met with local authorities and industry participants to explore opportunities for cooperation between Shanghai and Hong Kong's financial markets. We also attended the fourth Shanghai-Hong Kong Financial Cooperation Meeting in Shanghai where we discussed initiatives between the two markets. Mrs Alexa Lam was invited to sit on the Financial Advisory Committee of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, which will discuss and advise on potential financial collaboration initiatives that aim to benefit both Hong Kong and Qianhai.

In April, we visited the Financial Supervisory Commission in Taipei to discuss further cooperation between our respective financial markets.

In May, Mr Stephen Po discussed the latest trends and practices in global securities market regulation in his keynote speech at the 2014 Securities Firms Annual Conference held in Beijing by the Securities Association of China. The conference was attended by more than 600 participants including senior China Securities Regulatory Commission officials and key executives of all Mainland brokers.

Stakeholder communication

We maintain close communications with our stakeholders while carrying out our statutory duties. We attend the meetings of the Panel on Financial Affairs of the Legislative Council on a regular basis. In April, we discussed with the Panel our proposals on open-ended fund companies which we hope will help develop the asset management industry in Hong Kong. We also attended the June meeting to explain details about the establishment of the Shanghai-Hong Kong Stock Connect programme.

We issued two consultation papers in June. Both were open to comments for a one-month period. The first consultation proposed adding two exemptions from prescribed disclosure of interests to cover participants in Shanghai-Hong Kong Stock Connect, while the second consultation proposed amendments to the Code on Unit Trusts and Mutual Funds (for details, please refer to the Market infrastructure and trading and Investment products

sections respectively). The June issue of the *Takeovers Bulletin*, a quarterly newsletter to help industry participants understand the Codes on Takeovers and Mergers and Share Buy-backs, highlighted changes to the commenting process for disclosure requirements and the new Dealing Disclosure Online Submission system. We released our *Annual Report 2013-14* in June.

During the quarter, our senior management took part in more than 20 industry conferences to share insights about our regulatory philosophy and approach. We received various visitors, including delegations from the People's Bank of China and university students from Singapore and Shanghai, and briefed them on the SFC's regulatory functions.

Publications and other communications

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Quarter ended 30.6.2013
Press releases	38	36	31
Consultation papers	2	3	1
Consultation conclusions	0	0	0
Industry-related publications	2	4	1
Codes and guidelines	0	2	0
Corporate website average daily page views ¹	43,486	45,175	43,491
General enquiries	1,601	1,683	2,013

¹ The average number of web pages browsed per day during the reporting period.

Corporate Developments

New appointments and re-appointments to the following regulatory committees¹ took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Disciplinary Chair Committee
- Investor Compensation Fund Committee
- Nominations Committee²
- Products Advisory Committee
- Securities Compensation Fund Committee
- SFC Dual Filing Advisory Group
- SFC (HKEC Listing) Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

Full membership lists and details of the responsibilities of each committee are available on the SFC website (www.sfc.hk).

As of 30 June, we had 747 staff members, up from 674 a year ago.

As part of our employee engagement initiative to foster a better workplace, we formed a Cross-Divisional Engagement Team to share best engagement practices across the organisation. We also provided junior professional staff with cross-departmental development opportunities in the quarter.

Our income for the quarter was \$287 million, 14% lower than the previous quarter and 1% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market during the quarter was \$60 billion, 17% lower than the previous period. As a result, our levy income decreased to \$231 million from \$280 million last quarter. We kept our expenditure for the quarter 17% below our approved budget. At \$339 million, this quarter's expenditure was 9% lower than last quarter and 9% higher than the same quarter a year ago. The deficit for the quarter was \$52 million, compared to \$40 million last quarter and \$19 million a year ago. As at 30 June, our reserves stood at \$7.3 billion.

Finances

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Income (\$ million)	287	332	-14	291	-1
Expenses including depreciation (\$ million)	339	372	-9	310	9

¹ Established under the Securities and Futures Ordinance, each of these committees specialises in particular regulatory areas.

² This committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended ¹ 30.6.2013	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	3	0	N/A	5	-40
Failure to safekeep client securities	13	6	116.7	7	85.7
Failure to maintain proper books and records	3	4	-25	1	200
Failure to safekeep client money	5	8	-37.5	7	-28.6
Unlicensed dealing and other registration issues	2	3	-33.3	2	0
Breach of licensing condition	0	1	-100	0	0
Breach of requirements of contract notes/statements of account/receipts	18	15	20	9	100
Failure to make filing/notification	1	1	0	1	0
Breach of margin requirements	2	1	100	2	0
Marketing malpractices	1	0	N/A	1	0
Illegal short selling of securities	0	0	0	1	-100
Dealing malpractices	1	0	N/A	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	26	64	-59.4	57	-54.4
Breach of Corporate Finance Adviser Code of Conduct	4	3	33.3	9	-55.6
Breach of Fund Manager Code of Conduct	16	5	220	7	128.6
Breach of regulation of on-line trading	81	45	80	0	N/A
Non-compliance with anti-money laundering guidelines	27	40	-32.5	16	68.8
Breach of other rules and regulations of the Exchanges ²	0	2	-100	2	-100
Breach of other rules and regulations of the MPFA ³	0	2	-100	0	0
Internal control weaknesses	77	77	0	95	-18.9
Others	18	11	63.6	18	0
Total	298	288	3.5	240	24.2

¹ Adjustments have been made for this quarter.

² Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ Mandatory Provident Fund Schemes Authority.

Table 2 Authorized unit trusts and mutual funds¹ - by type

	As at 30.6.2014	As at 31.3.2014	Change (%)	As at 30.6.2013	YoY change (%)
Bond	372	355	4.8	359	3.6
Equity	975	976	-0.1	1,014	-3.8
Diversified	98	91	7.7	85	15.3
Money market	45	46	-2.2	47	-4.3
Fund of funds	86	91	-5.5	94	-8.5
Index	146	140	4.3	130	12.3
Guaranteed	10	12	-16.7	13	-23.1
Hedge	3	3	0	4	-25
Other specialised ²	15	15	0	16	-6.3
Subtotal	1,750	1,729	1.2	1,762	-0.7
Umbrella structures	211	206	2.4	200	5.5
Total	1,961	1,935	1.3	1,962	-0.1

¹ Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

² Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds¹ - by origin

	As at 30.6.2014	As at 31.3.2014	Change (%)	As at 30.6.2013	YoY change (%)
Hong Kong	494	469	5.3	435	13.6
Luxembourg	980	969	1.1	1,035	-5.3
Ireland	276	284	-2.8	275	0.4
Guernsey	0	1	-100	1	-100
United Kingdom	52	52	0	53	-1.9
Other Europe	0	0	0	0	0
Bermuda	6	6	0	6	0
British Virgin Islands	0	0	0	0	0
Cayman Islands	144	146	-1.4	149	-3.4
Others	9	8	12.5	8	12.5
Total	1,961	1,935	1.3	1,962	-0.1

¹ Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

Table 4 Unlisted structured investment products: Authorization of offer and marketing documents

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Unlisted structured investment products ¹ authorized	8	27	-70.4	17	-52.9
Authorizations granted under section 105 of the SFO ²	19	23	-17.4	29	-34.5

¹ Comprising mostly equity-linked investments and equity-linked deposits. The power for the SFC to authorize unlisted structured investment products under the SFO came into effect on 13 May 2011. The number is on a "one product per key facts statement" basis.

² Comprising offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Table 5 Takeovers activities

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under the Code on Takeovers and Mergers	16	6	166.7	8	100
Privatisations	3	2	50	0	N/A
Whitewash waiver applications	7	11	-36.4	7	0
Other applications under the Code on Takeovers and Mergers	88	49	79.6	55	60
Off-market and general offer share buy-backs	0	3	-100	2	-100
Other applications under the Code on Share Buy-backs	1	3	-66.7	2	-50
Total	115	74	55.4	74	55.4
Executives Statements					
Sanctions imposed with parties' agreement ¹	0	0	0	0	0
Takeovers and Mergers Panel					
Meetings for review of the Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	1	0	N/A	0	N/A
Statements issued by the Panel ²	1	0	N/A	0	N/A

¹ Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

² Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 6 Stock market

	As at 30.6.2014	As at 31.3.2014	Change (%)	As at 30.6.2013	YoY change (%)
Number of listed companies on the Stock Exchange	1,689	1,666	1.4	1,567	7.8
Main Board	1,495	1,471	1.6	1,384	8
Growth Enterprise Market	194	195	-0.5	183	6
Market capitalisation (\$ billion)	23,944	23,065	3.8	20,707	15.6
Main Board	23,780	22,892	3.9	20,608	15.4
Growth Enterprise Market	164	173	-5.2	99	65.7
Average daily market turnover (\$ million)	57,457	68,319	-15.9	62,305	-7.8
Main Board	56,986	67,272	-15.3	62,049	-8.2
Growth Enterprise Market	471	1,047	-55	256	84

Table 7 Public complaints¹

	Quarter ended 30.6.2014	Quarter ended 31.3.2014	Change (%)	Quarter ended 30.6.2013	YoY change (%)
Conduct of licensees and registered institutions	72	91	-20.9	100	-28
Listing-related matters and disclosure of interests	170	79	115.2	128	32.8
Market misconduct	78	95	-17.9	83	-6
Products	0	0	0	4	-100
Other financial activities	128	142	-9.9	118	8.5
Miscellaneous	0	0	0	1	-100
Total	448	407	10.1	434	3.2

¹ This table shows the number of complainants by subject.

Securities and Futures Commission

Consolidated statement of comprehensive income

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2014 \$'000	Unaudited Quarter ended 30 June 2013 \$'000
Income		
Levies	231,367	252,196
Fees and charges	31,061	19,051
Investment income	23,547	17,920
Less: custody and advisory expenses	(327)	(616)
Investment income net of third party expenses	23,220	17,304
Recoveries from Investor Compensation Fund	1,308	1,270
Other income	291	1,301
	287,247	291,122
Expenses		
Staff costs and directors' emoluments	249,410	214,297
Premises		
Rent	44,839	45,345
Rates, management fees and others	8,934	9,498
Other expenses	24,999	30,496
Depreciation	11,367	10,079
	339,549	309,715
Loss and total comprehensive loss for the quarter	(52,302)	(18,593)

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

Consolidated statement of financial position

At 30 June 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2014 \$'000
Non-current assets			
Fixed assets		97,413	100,510
Held-to-maturity debt securities	2	967,723	1,119,967
		1,065,136	1,220,477
Current assets			
Held-to-maturity debt securities	2	1,250,727	1,792,313
Debtors, deposits and prepayments		120,512	129,499
Fixed and call deposits with banks	3	4,758,779	4,313,927
Cash at bank and in hand	3	241,769	6,852
		6,371,787	6,242,591
Current liabilities			
Fees received in advance		7,850	8,543
Creditors and accrued charges		143,152	115,854
		151,002	124,397
Net current assets			
		6,220,785	6,118,194
Total assets less current liabilities			
		7,285,921	7,338,671
Non-current liabilities			
	4	21,247	21,695
Net assets			
		7,264,674	7,316,976
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
		7,221,834	7,274,136
		7,264,674	7,316,976

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

Statement of financial position

At 30 June 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2013 \$'000
Non-current assets			
Fixed assets		97,246	100,313
Held-to-maturity debt securities	2	967,723	1,119,967
		1,064,969	1,220,280
Current assets			
Held-to-maturity debt securities	2	1,250,727	1,792,313
Debtors, deposits and prepayments		122,648	129,112
Fixed and call deposits with banks		4,758,779	4,313,927
Cash at bank and in hand		235,718	2,695
		6,367,872	6,238,047
Current liabilities			
Fees received in advance		7,850	8,543
Creditors and accrued charges		139,070	111,113
		146,920	119,656
Net current assets			
		6,220,952	6,118,391
Total assets less current liabilities			
		7,285,921	7,338,671
Non-current liabilities			
	4	21,247	21,695
Net assets			
		7,264,674	7,316,976
Funding and reserves			
Initial funding by Government			
		42,840	42,840
Accumulated surplus			
		7,221,834	7,274,136
		7,264,674	7,316,976

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

Consolidated statement of changes in equity

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive loss for the quarter	-	(18,593)	(18,593)
Balance at 30 June 2013	42,840	7,394,196	7,437,036
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive loss for the quarter	-	(52,302)	(52,302)
Balance at 30 June 2014	42,840	7,221,834	7,264,674

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

Consolidated statement of cash flows

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2014 \$'000	Unaudited Quarter ended 30 June 2013 \$'000
Cash flows from operating activities		
Loss for the quarter	(52,302)	(18,593)
Adjustments for:		
Depreciation	11,367	10,079
Investment income	(23,547)	(17,920)
Exchange loss on revaluation of debt securities	1,846	4,244
	(62,636)	(22,190)
Decrease/(increase) in debtors, deposits and prepayments	12,238	(8,902)
Increase in creditors and accrued charges	27,298	3,701
Decrease in fees received in advance	(693)	(797)
(Decrease)/increase in non-current liabilities	(448)	3,495
<i>Net cash used in operating activities</i>	(24,241)	(24,693)
Cash flows from investing activities		
Interest received	25,096	31,425
Held-to-maturity debt securities redeemed at maturity	687,184	519,119
Fixed assets bought	(8,270)	(3,245)
<i>Net cash generated from investing activities</i>	704,010	547,299
Net increase in cash and cash equivalents	679,769	522,606
Cash and cash equivalents at beginning of the quarter	4,270,947	1,605,117
Cash and cash equivalents at end of the quarter	4,950,716	2,127,723

Analysis of the balance of cash and cash equivalents:

	Unaudited At 30 June 2014 \$'000	Unaudited At 30 June 2013 \$'000
Fixed and call deposits with banks	4,708,947	2,120,214
Cash at bank and in hand	241,769	7,509
	4,950,716	2,127,723

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2014
(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 2014 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 Investor Compensation Company Limited and Investor Education Centre in the SFC's condensed financial statements made up to 30 June 2014. We eliminate 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 2014 to the interim financial report.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2014.

2. Held-to-maturity debt securities

The Group and the SFC

As of 30 June 2014, the total market value of held-to-maturity debt securities amounted to \$2,236,703,000 (31 March 2014: \$2,934,007,000), which was above the total carrying cost of \$2,218,450,000 (31 March 2014: \$2,912,280,000).

Exchange losses arising from the translation of held-to-maturity debt securities at 30 June 2014 amounted to \$1.8 million (2013: \$4.2 million) are recognised in the consolidated statement of comprehensive income.

3. Cash and cash equivalents

Reconciliation with the consolidated statement of financial position

	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2014 \$'000
Cash at bank and in hand	241,769	6,852
Fixed and call deposits with banks	4,758,779	4,313,927
Amounts shown in the consolidated statement of financial position	5,000,548	4,320,779
Less : Amounts with an original maturity of beyond three months	(49,832)	(49,832)
Cash and cash equivalents in the consolidated statement of cash flows	4,950,716	4,270,947

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

4. 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 statement of comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of the lease expense.

5. 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 30 June 2014. Therefore we do not provide an ageing analysis of debtors and creditors.

6. 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 RMB. Exposure in RMB 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.

7. 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 Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.2. 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 companies are wholly owned subsidiaries of the SFC. As at 30 June 2014, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2. 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 30 June 2014 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.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

8. 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:

- During the period, we received reimbursement from the Investor Compensation Fund for all the ICC's expenses amounting to \$1,308,000 (2013 : \$1,270,000), in accordance with section 242(1) of the Securities and Futures Ordinance.
- Remuneration for key management personnel (including all directors) comprised:

	Unaudited quarter ended	
	30 June 2014 \$'000	30 June 2013 \$'000
Salaries, allowances & benefits in kind	8,110	7,104
Retirement scheme contributions	741	626
	8,851	7,730

The total remuneration is included in "staff costs and directors' emoluments" on page 20. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

- Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$669,000 (At 31 March 2014 : \$304,000).
- 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 \$16,000 (2013 : \$222,000) under normal commercial terms and conditions.

9. Commitment to pay rents for offices

At 30 June 2014 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017, being the rent review date as set out in the lease agreement, are as follows :

	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2014 \$'000
Payable next year	204,364	185,453
Payable in one to five years	450,139	447,334
Payable in more than five years	-	-
	654,503	632,787

During the period, \$44,839,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2013 : \$45,345,000).

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2014.

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.

Financial results

The surplus of the Fund for the reporting period ended 30 June 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 29 to 33.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2014 and up to the date of this report were : -

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	(retired on 31 July 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014)

Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

14 August 2014

Statement of comprehensive income

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Note	Unaudited Quarter Ended 30 June 2014 \$'000	Unaudited Quarter Ended 30 June 2013 \$'000
Income			
Net investment income/(loss)		30,166	(36,429)
Exchange difference		(1,198)	(1,120)
		28,968	(37,549)
Expenses			
Investor Compensation Company Limited expenses	2	1,308	1,270
Auditor's remuneration		30	28
Bank charges		209	203
Professional fees		979	955
		2,526	2,456
Surplus/(deficit) and total comprehensive income/(loss) for the quarter		26,442	(40,005)

The notes on page 33 form part of the condensed financial statements.

Statement of financial position

At 30 June 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2014 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,707,439	1,680,755
- Pooled fund		298,907	284,131
Interest receivable		12,772	13,705
Due from Investor Compensation Company Limited		669	304
Fixed and call deposits with banks		185,506	180,533
Cash at bank		23,696	43,126
		2,228,989	2,202,554
Current liabilities			
Provision for compensation	3	150	150
Creditors and accrued charges		1,351	1,358
		1,501	1,508
Net current assets		2,227,488	2,201,046
Net assets		2,227,488	2,201,046
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,123,847	1,097,405
		2,227,488	2,201,046

The notes on page 33 form part of the condensed financial statements.

Statement of changes in equity

For the quarter ended 30 June 2014
(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 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive loss for the quarter	-	-	(40,005)	(40,005)
Balance at 30 June 2013	994,718	108,923	1,049,464	2,153,105
Balance at 1 April 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive income for the quarter	-	-	26,442	26,442
Balance at 30 June 2014	994,718	108,923	1,123,847	2,227,488

The notes on page 33 form part of the condensed financial statements.

Statement of cash flows

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Unaudited Quarter Ended 30 June 2014 \$'000	Unaudited Quarter Ended 30 June 2013 \$'000
Cash flows from operating activities		
Surplus/(deficit) for the quarter	26,442	(40,005)
Net investment (income)/loss	(30,166)	36,429
Exchange difference	1,198	1,120
Increase in amount due from Investor Compensation Company Limited	(365)	(324)
(Decrease)/increase in creditors and accrued charges	(7)	77
Net cash used in operating activities	(2,898)	(2,703)
Cash flows from investing activities		
Purchase of debt securities	(144,788)	(140,823)
Sale or maturity of debt securities	120,796	254,518
Sale of equity securities	342	341
Interest received	12,091	12,527
Net cash (used in)/generated from investing activities	(11,559)	126,563
Net (decrease)/increase in cash and cash equivalents	(14,457)	123,860
Cash and cash equivalents at beginning of the quarter	223,659	185,655
Cash and cash equivalents at end of the quarter	209,202	309,515

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 June 2014 \$'000	Unaudited At 30 June 2013 \$'000
Fixed and call deposits with banks	185,506	268,781
Cash at bank	23,696	40,734
	209,202	309,515

Notes to the condensed financial statements

For the quarter ended 30 June 2014
(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 2014 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 2014 to the interim financial report.

2. Investor Compensation Company Limited expenses

The SFC 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 quarter ended 30 June 2014, ICC incurred \$1,308,000 for its operation (For the quarter ended 30 June 2013 : \$1,270,000).

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 30 June 2014 was \$150,000 (31 March 2014: \$150,000). As at 30 June 2014 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 quarter, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2014.

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 \$2,189,000 (31 March 2014: \$2,208,000). 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 quarter ended 30 June 2014.

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 30 June 2014, the Fund has transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund 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.

Financial results

The surplus of the Fund for the reporting period ended 30 June 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 35 to 39.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	
Mr Chan Ping Keung	(appointed on 1 April 2014)
Ms Mak Po Shuen	(appointed on 1 April 2014)

Interests in contracts

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

On behalf of the Committee

Keith Lui

Chairman

31 July 2014

Statement of comprehensive income

For the quarter ended 30 June 2014

(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2014 \$'000	Unaudited Quarter ended 30 June 2013 \$'000
Income		
Interest income	144	101
Expenses		
Auditor's remuneration	12	12
Professional fee	9	8
Sundry expenses	1	-
	22	20
Surplus and total comprehensive income for the quarter	122	81

The notes on page 39 form part of the condensed financial statements.

Statement of financial position

At 30 June 2014

(Expressed in Hong Kong dollars)

Note	Unaudited At 30 June 2014 \$'000	Audited At 31 March 2014 \$'000
Current assets		
Equity securities received under subrogation	1	1
Interest receivable	56	58
Fixed and call deposits with banks	74,558	74,562
Cash at bank	126	24
	74,741	74,645
Current liabilities		
Creditors and accrued charges	10,275	10,301
Relinquished trading rights payable to SEHK	1,700	1,450
	11,975	11,751
	Net current assets	62,894
	Net assets	62,894
Representing:		
Compensation fund		
Contributions from SEHK	3	48,500
Excess transaction levy from SEHK		353,787
Special contribution		3,500
Additional contribution from SEHK		300,000
Additional contribution from the SFC		330,000
Special levy surplus		3,002
Accumulated surplus		18,695
		1,057,484
Contributions to Investor Compensation Fund		(994,718)
		62,766

The notes on page 39 form part of the condensed financial statements.

Statement of changes in equity

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2014 \$'000	Unaudited Quarter ended 30 June 2013 \$'000
Compensation fund balance as at 1 April	62,894	64,143
Net contributions (to)/from SEHK	(250)	150
Total comprehensive income for the quarter	122	81
Compensation fund balance as at 30 June	62,766	64,374

The notes on page 39 form part of the condensed financial statements.

Statement of cash flows

For the quarter ended 30 June 2014
(Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2014 \$'000	Unaudited Quarter ended 30 June 2013 \$'000
Cash flows from operating activities		
Surplus for the quarter	122	81
Interest income	(144)	(101)
(Decrease)/increase in creditors and accrued charges	(26)	20
Increase in relinquished trading rights payable to SEHK	250	-
Net cash generated from operating activities	202	-
Cash flows from investing activities		
Interest received	146	100
Net cash generated from investing activities	146	100
Cash flows from financing activities		
Net contributions (to)/from SEHK	(250)	150
Net cash (used in)/generated from financing activities	(250)	150
Net increase in cash and cash equivalents	98	250
Cash and cash equivalents at beginning of the quarter	74,586	74,395
Cash and cash equivalents at end of the quarter	74,684	74,645

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 June 2014 \$'000	Unaudited At 30 June 2013 \$'000
Fixed and call deposits with banks	74,558	74,519
Cash at bank	126	126
	74,684	74,645

Notes to the condensed financial statements

For the quarter ended 30 June 2014
(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 on 1 April 2003, the Fund has prepared the interim financial report on a break-up basis with assets stated at recoverable amounts. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2014 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 2014 to the interim financial report.

2. Recoveries

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 30 June 2014 after deducting relevant processing fees and charges for collecting and selling the shares 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

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the quarter, deposits of \$150,000 in respect of 3 new trading rights were received from SEHK and deposits of \$150,000 in respect of 3 relinquished trading rights were refunded to SEHK. As 30 June 2014, there were 34 trading rights in total that have been relinquished but not yet refunded (At 31 March 2014: 29 trading rights 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 quarter, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2014.

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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