



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



# Quarterly Report

## April–June 2015

This first Quarterly Report of the Securities and Futures Commission for financial year 2015-16 covers the period from 1 April to 30 June 2015.

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Additional information can be found in the relevant sections of the Quarterly Report.

### Regulatory enhancements

- **Alternative liquidity pools:** We concluded a consultation on proposals to enhance and standardize the regulatory obligations imposed on operators of alternative liquidity pools.
- **OTC derivatives:** The revised Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules were gazetted in May 2015 for the implementation of the new over-the-counter (OTC) derivatives regime.
- **Uncertificated securities market:** The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015, which provides for a legal framework enabling the introduction of a paperless securities market regime, was gazetted.

### Intermediaries

- **New licence applications:** We received 1,805 licence applications this quarter, up 15.1% year-on-year.
- **Supervisory cooperation:** We concluded a consultation on proposed Securities and Futures Ordinance amendments for the SFC to provide supervisory assistance to regulators outside Hong Kong in certain situations.

### Product development

- **Mutual Recognition of Funds:** We entered into a memorandum of regulatory cooperation with the China Securities Regulatory Commission on the Mutual Recognition of Funds scheme which allows qualified funds in the Mainland and Hong Kong to be sold directly into the other market.
- **Renminbi product offerings:** We authorized four unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and one RQFII exchange-traded fund this quarter.

### Listing matters

- **IPO applications:** Under the dual filing regime, we received 62 listing applications via The Stock Exchange of Hong Kong Limited (SEHK) during the quarter, up 27% year-on-year.
- **Weighted voting rights:** We issued a statement that the SFC Board did not support SEHK's draft proposal on weighted voting rights as set out in its consultation conclusions published in June.

### Market infrastructure and trading

- **Stock Connect:** We approved Hong Kong Exchanges and Clearing Limited's proposal to launch Special Segregated Accounts in April 2015 enabling institutional investors to fulfil Stock Connect's pre-trade checking requirement for Northbound trading.

### Enforcement

- We prosecuted two corporations and seven individuals for market misconduct and disciplined eight licensees. Our disciplinary actions during the quarter resulted in total fines of \$14.5 million.
- We resolved proceedings against the Descartes Athena Fund SPC to recover \$191 million in assets for about 340 overseas investors.

## Licensing applications

We received 1,805 licence applications<sup>1</sup> this quarter, up 15.1% year-on-year. The total number of licensees and registrants increased 2.6% year-on-year to 40,321 as at 30 June 2015.

## Regulation of alternative liquidity pools

On 15 May, we released consultation conclusions on proposals to enhance and standardize the regulatory obligations imposed on alternative liquidity pool (ALP) operators. The respondents generally welcomed the proposals contained in a public consultation launched in February 2014, which were developed in light of practices in major international markets and principles published by the International Organization of Securities Commissions.

Under the new ALP regime, ALP operators and licensed or registered persons who route orders to ALPs will be obliged to comply with the new requirements set out in the Code of Conduct<sup>2</sup>. Individual investors, including individual professional investors and their wholly owned investment holding corporations<sup>3</sup>, will not be allowed to use ALPs. The new Code of Conduct requirements were gazetted on 29 May and will come into effect on 1 December 2015.

## Supervisory assistance to regulators outside Hong Kong

On 5 June, we concluded a consultation which ended in mid-January 2015 on proposed amendments to the Securities and Futures Ordinance (SFO) for providing assistance to regulators outside Hong Kong in certain situations.

Subject to a number of conditions and safeguards, the proposed legislative changes will enable us to provide specified supervisory assistance to regulators outside Hong Kong upon request by making enquiries and obtaining certain records and documents from licensed corporations or their related corporations.

Among other things, the proposals will enable the SFC to enter into international supervisory cooperation arrangements with regulators outside Hong Kong to allow for more effective supervision of licensed corporations which operate in multiple jurisdictions and to adhere more closely to international regulatory standards.

The draft bill incorporating these proposed amendments to the SFO was introduced to the Legislative Council on 24 June.

## Promoting compliance

During the quarter, we continued to conduct on-site inspections and off-site monitoring to ensure the financial soundness of licensed corporations and that they comply with relevant laws and regulatory requirements. We also issued circulars to licensees and registrants on a variety of topics.

- We issued eight advisory circulars to enhance industry participants' awareness about the latest developments in anti-money laundering and counterterrorist financing.
- In view of an increase in market turnover and volatility since April, we issued a circular to remind all securities and futures brokers to closely monitor their financial and operational capabilities, prudently manage market risks and their own credit and operational risks, and maintain sufficient resources to cope with any increase in business activity.
- After identifying certain deficiencies and unsatisfactory practices of licensed corporations during our reviews of their account opening procedures, we issued a circular in May to remind intermediaries about the importance of full compliance with the requirements concerning Know Your Client and account opening procedures under the Code of Conduct. We urged intermediaries to take proper measures to effectively authenticate the client's identity and the client's execution of account opening documents.

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 964 provisional licence applications compared to 902 in the same quarter last year.

<sup>2</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>3</sup> Unless such corporations are themselves professional investors meeting relevant portfolio or asset threshold tests.

- Following a recent review of the internet trading systems of selected licensed corporations, we launched in June an internet trading self-assessment checklist on the SFC website and issued a circular. The checklist provides guidance for licensed corporations to conduct regular self-assessments of their internet trading systems, network infrastructure and related policies, procedures and practices to ensure compliance with the relevant electronic trading requirements under the Code of Conduct.
- In May, we issued a circular to remind intermediaries and their substantial shareholders about notification requirements under the SFO, the Securities and

Futures (Licensing and Registration) (Information) Rules and the Code of Conduct. As many firms now operate on a group or cross-border basis, an intermediary may be affected by events concerning their group entities. The notification requirements aim to ensure that the SFC and the Hong Kong Monetary Authority stay informed and satisfied that intermediaries and their representatives remain fit and proper.

### Licenses and registrants

	As at 30.6.2015	As at 31.3.2015	Change (%)	As at 30.6.2014	YoY change (%)
Licensed corporations	<b>2,093</b>	2,068	1.2	1,991	5.1
Registered institutions	<b>116</b>	118	-1.7	120	-3.3
Licensed individuals	<b>38,112</b>	37,783	0.9	37,172	2.5
<b>Total</b>	<b>40,321</b>	39,969	0.9	39,283	2.6

### Licensing applications

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Applications to conduct new regulated activity received	<b>5,050</b>	4,985	1.3	4,531	11.5
Applications for SFC licences received <sup>1</sup>	<b>1,805</b>	1,788	1	1,568	15.1

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 964 provisional licence applications compared with 902 in the same quarter last year.

### Intermediary inspection

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Risk-based, on-site inspections conducted	<b>69</b>	68	-1.4	78	-12.8

## Authorized collective investment schemes

As at 30 June 2015, there were 2,626 SFC-authorized collective investment schemes on offer to the public, mainly comprising 2,063 unit trusts and mutual funds, 294 investment-linked assurance schemes (ILAS) and 208 Mandatory Provident Fund (MPF) products.

Of authorized unit trusts and mutual funds, the number domiciled in Hong Kong reached 607 in the quarter, accounting for 29.4% of the total.

## More renminbi products

The number of Renminbi Qualified Foreign Institutional Investor (RQFII)/Stock Connect products continued to grow. We authorized four unlisted RQFII/Stock Connect funds and one RQFII/Stock Connect exchange-traded fund (ETF)<sup>1</sup> this quarter. This brought the total number of SFC-authorized RQFII/Stock Connect unlisted funds and ETFs to 72 and 21, respectively, as of 30 June.



## Mainland-Hong Kong Mutual Recognition of Funds

On 22 May, the SFC and the China Securities Regulatory Commission (CSRC) entered into a memorandum of regulatory cooperation on Mainland-Hong Kong Mutual Recognition of Funds (MRF). On the same day, we issued a circular setting out the general requirements for Mainland funds applying for SFC authorization under MRF. After the announcement of the MRF scheme, we worked with the CSRC and various Hong Kong and Mainland authorities to prepare for its implementation on 1 July.

<sup>1</sup> The RQFII/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.



On 5 June, the SFC and CSRC gave a technical briefing in Shenzhen to provide the industry with guidance on MRF requirements and application procedures. We also organised a half-day symposium in Hong Kong on 3 July to provide further details to the industry and discuss opportunities presented by the scheme. About 1,000 participants attended these two events. Details of the Hong Kong symposium are available on the SFC website, where we also published frequently asked questions (FAQs) and document templates to help the industry prepare for MRF.



## Fund authorization process

We continued our effort to raise the overall efficiency of the fund authorization process. We held soft consultation meetings in May and June to collect views from stakeholders on our proposed revamp of the process for new fund applications. A technical working group has also been formed with the industry to develop streamlined documentary requirements for

new fund applications and new guidance materials to be published by the SFC. We will work with the industry to facilitate the implementation of this initiative.

## Compliance requirements

During the quarter, we published a new FAQ on the enhanced compliance requirements in respect of internal funds under ILAS.

## Authorized collective investment schemes<sup>1</sup>

	As at 30.6.2015	As at 31.3.2015	Change (%)	As at 30.6.2014	YoY change (%)
Unit trusts and mutual funds	2,063	2,045	0.9	1,961	5.2
Investment-linked assurance schemes	294	294	0	265	10.9
Pooled retirement funds	35	35	0	35	0
MPF schemes	37	37	0	40	-7.5
MPF pooled investment funds	171	185	-7.6	186	-8.1
Others <sup>2</sup>	26	26	0	27	-3.7
<b>Total</b>	<b>2,626</b>	<b>2,622</b>	<b>0.2</b>	<b>2,514</b>	<b>4.5</b>

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

<sup>2</sup> Other schemes comprised 15 paper gold schemes and 11 real estate investment trusts as of 30 June 2015.

## Unlisted structured investment products

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Unlisted structured investment products <sup>1</sup> authorized	7	28	-75	8	-12.5
Authorizations granted under section 105 of the SFO <sup>2</sup>	15	25	-40	19	-21.1

<sup>1</sup> Comprising mostly equity-linked investments and equity-linked deposits. The number is on a "one product per key facts statement" basis.

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

## Review of IPO applications

Under the dual filing regime, we received 62 listing applications via The Stock Exchange of Hong Kong Limited (SEHK) during the quarter.

## Takeovers matters

In light of a number of recent breaches of the Takeovers Code involving the issue of Code announcements without our prior clearance as required under Rule 12.1 of the Takeovers Code, we stepped up our efforts to raise awareness about this rule.

Specifically, we wrote to all authorized representatives of listed companies and approved persons of real estate investment trusts to remind them of the requirements, in particular the submission of the initial Code announcement. We also presented at the Annual Regulatory and Corporate Update conference

organised by the Hong Kong Institute of Chartered Secretaries on 3 June 2015. In addition, a related article was published in the June 2015 *Takeovers Bulletin*.

Since the introduction of Practice Note 20, which is a guidance note on announcements and documents under the Codes on Takeovers and Mergers and Share Buy-backs, we have received positive comments and noted a high level of compliance. In light of feedback and to address a number of issues that have arisen, Practice Note 20 was revised in June.

## Weighted voting rights

On 25 June, we issued a statement that the SFC Board unanimously concluded that it did not support SEHK's draft proposal on weighted voting rights as set out in its consultation conclusions published on 19 June.

## Listing applications and takeovers activities

	Quarter ended <b>30.6.2015</b>	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Listing applications filed under the dual filing regime	<b>62</b>	38	63.2	49	26.5
Takeovers and share buy-backs transactions handled	<b>113</b>	104	8.7	115	-1.7



## CFTC grants exemption for SFC-licensed corporations

In March 2015, the US Commodity Futures Trading Commission (CFTC) issued an order permitting SFC-licensed corporations to deal directly with US customers in futures and options trading on exchanges under the SFC's oversight without having to register as futures brokers in the US. Eligible exchanges include Hong Kong Futures Exchange Limited and non-US exchanges authorized by the SFC under the Securities and Futures Ordinance (SFO). Detailed application procedures will be announced by the SFC in due course.

## OTC derivatives

As part of the implementation of the new over-the-counter (OTC) derivatives regime, which will begin with mandatory reporting and related record-keeping obligations, the revised Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules were gazetted and introduced into the Legislative Council for negative vetting, which was completed on 8 July. These Rules were implemented on 10 July. We also posted a set of frequently asked questions (FAQs) on the SFC website to help market participants better understand the new regulations.

## Stock Connect

In response to industry comments, further enhancements were made to the Shanghai-Hong Kong Stock Connect pilot programme. We approved Hong Kong Exchanges and Clearing Limited's (HKEx) proposal to launch Special Segregated Accounts in April

enabling institutional investors to fulfil Stock Connect's pre-trade checking requirement for Northbound trading. These investors are no longer required to transfer their A shares holdings to their brokers' accounts prior to trade execution.

We also worked on the proposed Shenzhen-Hong Kong Stock Connect programme with the China Securities Regulatory Commission, HKEx, the Shenzhen Stock Exchange and the China Securities Depository and Clearing Corporation.

## Uncertificated securities market

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015 was gazetted on 27 March to provide for a legal framework that will enable the introduction of a paperless securities market regime. We are currently working on the subsidiary legislation which will cover the technical and operational details and we aim to consult the public on this legislation at the end of the year. We are also working with HKEx and the Federation of Share Registrars Limited on some of the more technical details of the regime's operational model.

## Automated trading services

As of 30 June, the number of automated trading services<sup>1</sup> (ATS) authorizations under Part III of the SFO was 34, while 28 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

<sup>1</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 solely providing ATS are expected to be authorized under Part III of the SFO.

## Redress for investors

We continued to take action to remediate investors during the quarter.

In May, we resolved proceedings against the Descartes Athena Fund SPC to recover \$191 million in assets for about 340 overseas investors. We commenced proceedings in April 2009 to freeze the collapsed private hedge fund's assets in order to protect the interests of its investors, alleging that the Fund and its managers defrauded investors by sending them false statements of account and subscription contracts, and that the Fund's assets had been dissipated.

## Market Misconduct Tribunal proceedings

We commenced proceedings in the Market Misconduct Tribunal (MMT) against Lo Hang Fong, a former Company Secretary of Warderly International Holdings Limited, and Luu Hung Viet Derrick, a lender and potential investor of Warderly, for alleged insider dealing in Warderly shares.

Lo and Luu were allegedly aware that:

- Warderly was in a perilous financial position, with banks withdrawing credit facilities, when they sold the company's shares in 2007 and avoided a total loss of \$12.6 million; and
- the financial crisis facing Warderly was material, highly price-sensitive and not generally known to the market.

## Criminal proceedings

During the quarter, we successfully prosecuted two corporations and seven individuals in the Magistrates' Courts, including:

- One corporation and two individuals who were convicted of advising on futures contracts without a licence:
  - Hong Kong Game Theory Association Limited and its sole director and shareholder, Sze Ching Lok, ran courses on trading in Hang Seng Index futures contracts and provided real-time investment advice. Sze was sentenced to one month's imprisonment suspended for two years;

- Lo Chun Lam gave advice to subscribers who paid to join private discussion groups on social media and communication applications.
- Wong Chun, a former licensee, was convicted of false trading in the shares of Sino-Tech International Holdings Limited between December 2010 and January 2011. He used matched trades and wash trades to grossly inflate the shares' trading volume by more than 400% and the securities accounts he controlled made a gross profit of more than \$2 million. The court sentenced Wong to 240 hours of community service, ie, the statutory maximum hours, and imposed a cold shoulder order<sup>1</sup> against him for two years.

## Disciplinary actions

We disciplined four corporations and four licensed representatives during the quarter:

- BNP Paribas Securities (Asia) Limited was reprimanded and fined \$11 million for failing to report its direct business transactions (cross trades) to The Stock Exchange of Hong Kong Limited over a decade. The reporting failures concerned 4,443 pairs of cross trades involving over \$6 billion worth of shares from December 2002 to January 2013.
- Merrill Lynch Far East Limited was reprimanded and fined \$2 million for regulatory breaches and internal control failings relating to position limit failures. As a result of such failings, the company was unable to detect the expiry of a large short position in Hang Seng China Enterprises Index futures contracts on 30 May 2013 and the corresponding increase in Merrill Lynch International's long position, which contributed directly to the position limit breach.
- Phillip Securities (Hong Kong) Limited was reprimanded and fined \$1 million for failings over its sale of a fund to four clients. The company agreed to repurchase the fund from the clients.
- Kingston Securities Limited was reprimanded and fined \$500,000 for breaching the Financial System Act of Macao. On 19 January 2009, an employee of Kingston, while in Macao, opened accounts for 22 Macao residents and took orders and payments from them. The Monetary Authority of Macao (AMCM) sanctioned Kingston since neither the firm nor the

<sup>1</sup> A cold shoulder order is a sanction which prevents a person from trading in Hong Kong for a stated period.

employee involved was authorized by the AMCM to conduct regulated activities in Macao.

- Yu Chun Chieh, a former licensed representative, was banned from re-entering the industry for life for misappropriating around \$3.9 million of an investor's money and misleading him with false account statements.
- Zhu Zhiwei Benjamin was banned from re-entering the industry for 18 months for concealing his securities account and his beneficial interest in his friend's securities account from his employer as well as conducting personal trading in these accounts without seeking prior approval as required under the firm's internal policy.
- Sun Xiao was banned from re-entering the industry for 13 months after the Securities and Futures Appeals Tribunal affirmed the SFC's decision. She had traded in a personal securities account without disclosing it to her former employer and failed to avoid potential conflicts of interest.
- Wong Wai Hong, former Chairman and CEO of Lyncean Securities Limited, was banned from re-entering the industry for six months for effecting

transactions in a client's account on a discretionary basis without obtaining the client's written authorization.

## New register of cold shoulder orders

In May, we launched a new public register of cold shoulder orders to facilitate compliance by intermediaries when dealing with clients who are subject to these sanctions. The new register contains the names of subjects of current cold shoulder orders made by the courts, the MMT or the Takeovers Panel. We also issued a circular regarding the new register to licensed corporations and representatives as well as registered institutions.

## Surveillance work

We made 2,025 requests for trading and account records from intermediaries in the quarter. In addition, we posted on our website eight high shareholding concentration announcements 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 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Trading inquiries issued under S181 <sup>1</sup>	<b>2,130<sup>2</sup></b>	2,142	-0.6	2,905	-26.7
Investigations started	<b>131</b>	122	7.4	138	-5.1
Investigations completed	<b>99</b>	123	-19.5	59	67.8
Investigations completed within seven months (%)	<b>55 (56%)</b>	78 (63%)	-29.5	44 (75%)	25
Persons charged in criminal proceedings	<b>4</b>	1	300	7	-42.9
Criminal charges laid	<b>19</b>	2	850	15	26.7
Notices of Proposed Disciplinary Action <sup>3</sup>	<b>7</b>	6	16.7	8	-12.5
Decision Notices <sup>4</sup>	<b>9</b>	8	12.5	15	-40
Persons subject to ongoing civil proceedings	<b>93</b>	93	0	77	20.8
Compliance advice letters issued	<b>34</b>	94	-63.8	51	-33.3

<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> Includes all trading inquiries made by the Enforcement Division.

<sup>3</sup> 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>4</sup> A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

## IOSCO

We remain actively involved in the work of the International Organization of Securities Commissions (IOSCO), serving as a member of the IOSCO Board and participating in all eight of its policy committees.

Mr Ashley Alder, our Chief Executive officer, chairs the IOSCO Asia-Pacific Regional Committee (APRC) and leads initiatives to strengthen regional regulatory cooperation.

In April, the SFC issued a letter to the European Commission (EC) to express APRC members' concerns over the effect on Asia Pacific markets of the EC's equivalence decision under its Capital Requirements Regulation.

At the IOSCO Board meeting held in June, Senior Director of Intermediaries Supervision Mr Stephen Po, who chairs IOSCO's Committee on Regulation of Market Intermediaries, discussed a final report entitled *Crowdfunding 2015 Survey Response Report*. The IOSCO Board requested that the committee prepare a new mandate to further develop guidance on crowdfunding, and approved another mandate on retail over-the-counter leveraged products with a plan to conduct a fact-finding survey.

Under the APRC Roadmap initiated by the SFC, working groups led by APRC members have been set up to look into extraterritorial rulemaking; regional enforcement and supervisory cooperation; and regional regulatory frameworks for collective investment schemes.

Mr Alder also chairs the IOSCO Task Force on Cross Border Regulation, which conducted a public consultation in November 2014 to identify cross-border regulatory tools and challenges. The Task Force met in May and June with a view to issuing its final report later this year.

## Financial Stability Board

In May, Mr Alder attended a meeting of the Standing Committee on Standards Implementation under the Financial Stability Board (FSB) to discuss the implementation of various global financial reforms.

During the quarter, the SFC participated in the FSB's Implementation Monitoring Network (IMN) conference call which discussed proposed changes to the IMN survey for different areas of FSB financial reforms. We

coordinated with the Government of the Hong Kong Special Administrative Region (HKSAR), the Hong Kong Monetary Authority (HKMA) and the Office of the Commissioner of Insurance (OCI) to finalise Hong Kong's response to this year's IMN survey. Each jurisdiction's survey response will be published on the FSB's website prior to the November 2015 G20 summit.

We coordinated with the HKSAR Government, HKMA, and OCI to respond to the FSB's thematic peer review which evaluates the progress made by various jurisdictions in implementing the FSB's policy framework for other shadow banking entities.

We worked with the HKMA to contribute to the FSB annual shadow banking monitoring exercise and the FSB annual survey on compensation practices.

## Mainland China

On 22 May, the SFC and the China Securities Regulatory Commission (CSRC) signed a memorandum of regulatory cooperation on Mainland-Hong Kong Mutual Recognition of Funds (MRF). We worked closely with our Mainland counterparts to facilitate the smooth implementation of this programme.

To strengthen Hong Kong's position as an international financial centre and a leading offshore renminbi hub, we maintain close communication with Mainland authorities to seek policy agreement and opportunities for broader financial cooperation. During the quarter, we met with senior officials from the CSRC, People's Bank of China, State Administration of Foreign Exchange and other Mainland authorities to discuss ways to deepen financial cooperation through various initiatives, including the Stock Connect programme and the MRF, RQFII (Renminbi Qualified Foreign Institutional Investor) and QDII2 (Qualified Domestic Individual Investor) schemes.

We continued to strengthen our cooperation with Guangdong, Shenzhen, Shanghai and other regions on the Mainland. In April, we attended the fifth Working Meeting of Hong Kong-Shanghai Financial Co-operation to discuss cooperative initiatives between the two markets. In May, we attended a Guangdong Free Trade Zone seminar to explore potential business opportunities for Hong Kong's financial industry. We also provided strategic input to the HKSAR Government on Mainland policy issues to enhance Hong Kong's role in the national development strategy.

We maintain close, proactive and timely communication with our stakeholders through multiple platforms.

Our senior executives attended the April meeting of the Panel on Financial Affairs of the Legislative Council to discuss our public consultation on providing assistance to regulators outside Hong Kong to facilitate the supervision of group companies operating in multiple jurisdictions. We issued the consultation conclusions in June.

We published two other consultation conclusions in May. One was on proposals to enhance and standardize the regulatory obligations imposed on operators of alternative liquidity pools (also known as “dark pools”), and the other concluded a joint consultation with the Hong Kong Monetary Authority on mandatory reporting and related record-keeping obligations under the new over-the-counter derivatives regime.



In April, we published the second issue of the *Corporate Regulation Newsletter* highlighting the importance of the proper disclosure of inside information by listing applicants and listed companies. The June issue of the *Takeovers Bulletin* included

reminders to submit announcements and documents for pre-vetting as required by the Takeovers Code. We released our *Annual Report 2014-15* on 17 June.

Our senior management spoke at over 30 local and international conferences and seminars to share our regulatory approaches on various topics.

In June, we held a briefing session on dark pools for about 50 officers at the Commercial Crime Bureau of the Hong Kong Police Force. We also introduced our regulatory work to a delegation of 26 local university students arranged by the Hong Kong Federation of Youth Groups.



We enhanced our corporate website in April by launching a social media sharing button which allows users to share our online content including corporate news, publications and consultations papers. From April onwards, members of the public can subscribe to an e-alert service to be notified when new executive speeches are available on our website. In May, we enhanced the homepage to facilitate access to our public register of cold shoulder and disqualification orders.

## Publications and other communications

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Quarter ended 30.6.2014
Press releases	31	32	38
Consultation papers	0	2	2
Consultation conclusions	3	0	0
Industry-related publications	2	4	2
Circulars	20	14	14
Corporate website average daily page views <sup>1</sup>	50,018	46,182	43,486
General enquiries	1,739	1,456	1,601

<sup>1</sup> The average number of web pages browsed per day during the reporting period.

The Government of the Hong Kong Special Administrative Region (HKSAR) appointed Mr Albert Au Siu-cheung as a Non-Executive Director (NED) for a two-year term effective from 26 May. Mr Wong Kai-man stepped down as NED.

The HKSAR Government's appointments and re-appointments of members to the SFC Advisory Committee<sup>1</sup> for two-year terms took effect on 1 June 2015.

New appointments and re-appointments to the following regulatory committees<sup>2</sup> took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Committee on Real Estate Investment Trusts
- Investor Compensation Fund Committee
- Public Shareholders Group
- Securities Compensation Fund Committee
- SFC (HKEC Listing) Committee

## Finances

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Quarter ended 30.6.2014	YoY change (%)
Income (\$ million)	619	406	287	115.7
Expenses including depreciation (\$ million)	370	405	339	9.1

- Share Registrars' Disciplinary 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.

Our income for the quarter was \$619 million. Average daily turnover in Hong Kong's securities market during the quarter was \$167 billion, 94% higher than the \$86 billion last quarter. As a result, our levy income increased 86% to \$561 million from \$301 million last quarter. The improved securities market performance was partially offset by the lower fees and investment income received for the quarter. Expenditures for the quarter were \$370 million. We recorded a surplus of \$249 million this quarter. As at 30 June, our reserves stood at \$7.5 billion.

We had 801 staff members as at 30 June, up from 747 a year ago.

<sup>1</sup> Established under the Securities and Futures Ordinance (SFO), the Advisory Committee offers insight, advice and recommendations on a range of policy issues.

<sup>2</sup> Each of these committees is set up under the SFO and specialises in particular regulatory areas.

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014 <sup>1</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	5	3	66.7	3	66.7
Failure to safekeep client securities	10	12	-16.7	13	-23.1
Failure to maintain proper books and records	7	7	0	3	133.3
Failure to safekeep client money	9	10	-10	5	80
Unlicensed dealing and other registration issues	8	5	60	2	300
Breach of licensing conditions	1	2	-50	0	N/A
Breach of requirements of contract notes/statements of account/receipts	16	23	-30.4	18	-11.1
Failure to make filing/notification	2	2	0	1	100
Breach of margin requirements	1	3	-66.7	2	-50
Marketing malpractices	0	1	-100	1	-100
Illegal short selling of securities	0	0	0	0	0
Dealing malpractices	0	0	0	1	-100
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	41	77	-46.8	26	57.7
Breach of Corporate Finance Adviser Code of Conduct	2	2	0	4	-50
Breach of Fund Manager Code of Conduct	16	4	300	16	0
Breach of regulation of on-line trading	2	0	N/A	81	-97.5
Non-compliance with anti-money laundering guidelines	56	39	43.6	27	107.4
Breach of other rules and regulations of the Exchanges <sup>2</sup>	2	2	0	0	N/A
Internal control weaknesses	96	96	0	77	24.7
Others	15	23	-34.8	18	-16.7
<b>Total</b>	<b>289</b>	<b>311</b>	<b>-7.1</b>	<b>298</b>	<b>-3</b>

<sup>1</sup> Adjustments have been made for the period.

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



Table 2 Authorized unit trusts and mutual funds – by type

	As at 30.6.2015	As at 31.3.2015	Change (%)	As at 30.6.2014	YoY change (%)
Bond	404	394	2.5	372	8.6
Equity	1,015	1,011	0.4	975	4.1
Diversified	108	107	0.9	98	10.2
Money market	48	47	2.1	45	6.7
Fund of funds	94	92	2.2	86	9.3
Index	154	153	0.7	146	5.5
Guaranteed	3	3	0	10	-70
Hedge	3	3	0	3	0
Other specialised <sup>1</sup>	14	15	-6.7	15	-6.7
Sub-total	1,843	1,825	1	1,750	5.3
Umbrella structures	220	220	0	211	4.3
<b>Number of authorized funds</b>	<b>2,063</b>	<b>2,045</b>	<b>0.9</b>	<b>1,961</b>	<b>5.2</b>

<sup>1</sup> Includes 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 30.6.2015	As at 31.3.2015	Change (%)	As at 30.6.2014	YoY change (%)
Hong Kong	607	594	2.2	494	22.9
Luxembourg	1,007	1,000	0.7	980	2.8
Ireland	276	278	-0.7	276	0
Guernsey	0	0	0	0	0
United Kingdom	65	64	1.6	52	25
Other Europe	0	0	0	0	0
Bermuda	5	5	0	6	-16.7
British Virgin Islands	0	0	0	0	0
Cayman Islands	94	95	-1.1	144	-34.7
Others	9	9	0	9	0
<b>Number of authorized funds</b>	<b>2,063</b>	<b>2,045</b>	<b>0.9</b>	<b>1,961</b>	<b>5.2</b>

Table 4 Takeovers activities

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>					
General and partial offers under Code on Takeovers and Mergers	11	16	-31.3	16	-31.3
Privatisations	2	3	-33.3	3	-33.3
Whitewash waiver applications	18	8	125	7	157.1
Other applications under Code on Takeovers and Mergers	82	74	10.8	88	-6.8
Off-market and general offer share buy-backs	0	0	0	0	0
Other applications under Code on Share Buy-backs	0	3	-100	1	-100
<b>Total</b>	<b>113</b>	<b>104</b>	<b>8.7</b>	<b>115</b>	<b>-1.7</b>
<b>Executive Statements</b>					
Sanctions imposed with parties' agreement <sup>1</sup>	0	0	0	0	0
<b>Takeovers and Mergers Panel</b>					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	1	-100	1	-100
Statements issued by the Panel <sup>2</sup>	1	0	N/A	1	0

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

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

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.6.2015	Quarter ended 31.3.2015	Change (%)	Quarter ended 30.6.2014	YoY change (%)
Conduct of licensees	84	487	-82.8	63	33.3
Conduct of registered institutions	11	6	83.3	9	22.2
Listing-related matters and disclosure of interests	200	114	75.4	170	17.6
Market misconduct <sup>1</sup>	51	47	8.5	78	-34.6
Product disclosure	0	0	0	0	0
Unlicensed activities	35	25	40	19	84.2
Breach of offers of investments	0	12	-100	4	-100
Other financial activities	181	164	10.4	105	72.4
<b>Total</b>	<b>562</b>	<b>855</b>	<b>-34.3</b>	<b>448</b>	<b>25.4</b>

<sup>1</sup> Includes market manipulation and insider dealing.

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

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Income</b>		
Levies	561,126	231,367
Fees and charges	29,252	31,061
Investment income	26,878	23,547
Less: custody and advisory expenses	(930)	(327)
Investment income net of third party expenses	25,948	23,220
Recoveries from the Investor Compensation Fund	1,346	1,308
Other income	624	291
	<b>618,296</b>	<b>287,247</b>
<b>Expenses</b>		
Staff costs and directors' emoluments	270,239	249,410
Premises		
Rent	50,513	44,839
Rates, management fees and others	11,385	8,934
Other expenses	26,636	24,999
Depreciation	10,813	11,367
	<b>369,586</b>	<b>339,549</b>
<b>Surplus/(loss) and total comprehensive income for the quarter</b>	<b>248,710</b>	<b>(52,302)</b>

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

## Condensed consolidated statement of financial position

At 30 June 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Non-current assets</b>			
Fixed assets		85,146	89,139
Held-to-maturity debt securities	2	493,326	493,936
		<b>578,472</b>	583,075
<b>Current assets</b>			
Held-to-maturity debt securities	2	469,616	618,436
Financial assets designated at fair value through profit or loss		721,444	715,140
Debtors, deposits and prepayments		235,655	143,574
Fixed deposits with banks	3	5,666,086	5,322,706
Cash at bank and in hand	3	7,351	10,465
		<b>7,100,152</b>	6,810,321
<b>Current liabilities</b>			
Fees received in advance		7,778	8,777
Creditors and accrued charges		158,588	122,057
		<b>166,366</b>	130,834
<b>Net current assets</b>			
		<b>6,933,786</b>	6,679,487
<b>Total assets less current liabilities</b>			
		<b>7,512,258</b>	7,262,562
<b>Non-current liabilities</b>			
	4	22,355	21,369
<b>Net assets</b>			
		<b>7,489,903</b>	7,241,193
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		<b>7,447,063</b>	7,198,353
		<b>7,489,903</b>	7,241,193

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

## Condensed statement of financial position

At 30 June 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Non-current assets</b>			
Fixed assets		84,441	89,020
Held-to-maturity debt securities	2	493,326	493,936
		<b>577,767</b>	582,956
<b>Current assets</b>			
Held-to-maturity debt securities	2	469,616	618,436
Financial assets designated at fair value through profit or loss		721,444	715,140
Debtors, deposits and prepayments		237,591	147,677
Fixed deposits with banks		5,666,086	5,322,706
Cash and cash equivalents		2,861	2,718
		<b>7,097,598</b>	6,806,677
<b>Current liabilities</b>			
Fees received in advance		7,778	8,777
Creditors and accrued charges		155,329	118,294
		<b>163,107</b>	127,071
<b>Net current assets</b>			
		<b>6,934,491</b>	6,679,606
<b>Total assets less current liabilities</b>			
		<b>7,512,258</b>	7,262,562
<b>Non-current liabilities</b>			
	4	22,355	21,369
<b>Net assets</b>			
		<b>7,489,903</b>	7,241,193
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,447,063	7,198,353
		<b>7,489,903</b>	7,241,193

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

## Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive income for the quarter	–	(52,302)	(52,302)
Balance at 30 June 2014	42,840	7,221,834	7,264,674
Balance at 1 April 2015	42,840	7,198,353	7,241,193
Total comprehensive income for the quarter	–	248,710	248,710
Balance at 30 June 2015	42,840	7,447,063	7,489,903

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

## Condensed consolidated statement of cash flows

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

Note	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Cash flows from operating activities</b>		
Surplus/(loss) for the quarter	248,710	(52,302)
Adjustments for:		
Depreciation	10,813	11,367
Investment income	(26,878)	(23,547)
Exchange difference	119	1,846
Loss on disposal of fixed assets	3	-
	232,767	(62,636)
(Increase)/decrease in debtors, deposits and prepayments	(85,188)	12,238
Increase in creditors and accrued charges	36,531	27,298
Decrease in fees received in advance	(999)	(693)
Increase/(decrease) in non-current liabilities	986	(448)
<i>Net cash generated from/(used in) operating activities</i>	184,097	(24,241)
<b>Cash flows from investing activities</b>		
Increase in fixed deposits other than cash and cash equivalents	(1,379,484)	-
Interest received	14,604	25,096
Sale of financial assets held at fair value through profit or loss	627	-
Held-to-maturity debt securities redeemed at maturity	147,761	687,184
Fixed assets purchased	(6,823)	(8,270)
<i>Net cash (used in)/generated from investing activities</i>	(1,223,315)	704,010
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,039,218)</b>	679,769
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>2,104,324</b>	4,270,947
<b>Cash and cash equivalents at end of the quarter</b>	<b>1,065,106</b>	4,950,716

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

	Unaudited At 30 June 2015 \$'000	Unaudited At 30 June 2014 \$'000
Fixed deposits with banks	1,057,755	4,708,947
Cash at bank and in hand	7,351	241,769
	1,065,106	4,950,716

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

We have prepared the interim financial report in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2015 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 the Investor Education Centre (IEC) in the SFC's condensed consolidated financial statements made up to 30 June 2015. 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 2015 to the interim financial report.

There were no significant changes in the operation of the SFC for the quarter ended 30 June 2015.

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

#### The Group and the SFC

As of 30 June 2015, the total market value of held-to-maturity debt securities amounted to \$967,985,000 (31 March 2015: \$1,120,208,000), which was above the total carrying cost of \$962,942,000 (31 March 2015: \$1,112,372,000).

### 3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 June 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank and in hand	7,351	10,465
Fixed deposits with banks	5,666,086	5,322,706
Amounts shown in the condensed consolidated statement of financial position	5,673,437	5,333,171
Less: Amounts with an original maturity of beyond three months	(4,608,331)	(3,228,847)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,065,106	2,104,324



## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2015 (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 2015. 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, US 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 US dollars or Hong Kong dollars which are closely pegged, we were not exposed to significant foreign exchange risk at the end of the reporting period.

### 7. Investments in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

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.

As at 30 June 2015, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2015: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

### 8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange 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:

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

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

- (a) During the period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$1,346,000 (2014: \$1,308,000), in accordance with section 242(1) of the SFO. As at 30 June 2015, the amount due to the ICF from the ICC was \$630,000 (as at 31 March 2015: \$157,000).
- (b) Remuneration of key management personnel comprised:

	Unaudited Quarter ended 30 Jun 2015 \$'000	Unaudited Quarter ended 30 Jun 2014 \$'000
Salaries, allowances and benefits in kind	8,066	8,110
Retirement scheme contributions	737	741
	<b>8,803</b>	8,851

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 subject to the approval process towards the end of the financial year and therefore is not determined until then.

- (c) Legal services provided by a former Non-Executive Director

During the period, fees paid to a former Non-Executive Director for legal services provided in respect of matters commenced prior to his appointment was nil (2014: \$16,000).

### 9. Commitment to pay rents for offices

At 30 June 2015 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, is as follows:

	Unaudited At 30 Jun 2015 \$'000	Audited At 31 Mar 2015 \$'000
Payable next year	207,878	208,002
Payable in one to five years	242,261	294,173
Payable in more than five years	-	-
	<b>450,139</b>	502,175

During the period, \$50,513,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2014: \$44,839,000).

## 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 2015.

### 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 statements

The deficit of the Fund for the reporting period ended 30 June 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 27 to 32.

### Members of the Committee

The members of the Committee during the quarter ended 30 June 2015 and up to the date of this report were:

Mr Keith Lui (Chairman)  
Ms Teresa Ko Yuk-yin, JP  
Mr Lee Kwok Keung  
Mr Mark Steward

### 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 2015

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

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Income</b>			
Net investment income		1,327	30,166
Exchange difference		(88)	(1,198)
		<b>1,239</b>	28,968
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	1,346	1,308
Compensation expenses	3	2,698	-
Auditor's remuneration		31	30
Bank charges		240	209
Professional fees		1,000	979
		<b>5,315</b>	2,526
<b>(Deficit)/surplus and total comprehensive income for the quarter</b>		<b>(4,076)</b>	26,442

The notes on pages 31 and 32 form part of the condensed financial statements.

## Condensed statement of financial position

At 30 June 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
Debt securities		1,908,594	1,887,972
Pooled fund		300,247	304,967
Interest receivable		12,574	12,900
Due from Investor Compensation Company Limited		630	157
Fixed and call deposits with banks		4,743	46,258
Cash at bank		11,764	7,787
		<b>2,238,552</b>	2,260,041
<b>Current liabilities</b>			
Provision for compensation	3	26,302	43,808
Creditors and accrued charges		1,505	1,412
		<b>27,807</b>	45,220
<b>Net current assets</b>			
		<b>2,210,745</b>	2,214,821
<b>Net assets</b>			
		<b>2,210,745</b>	2,214,821
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		1,107,104	1,111,180
		<b>2,210,745</b>	2,214,821

The notes on pages 31 and 32 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	<b>Contributions from Unified Exchange Compensation Fund \$'000</b>	<b>Contributions from Commodity Exchange Compensation Fund \$'000</b>	<b>Accumulated surplus \$'000</b>	<b>Total \$'000</b>
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
Balance at 1 April 2015	994,718	108,923	1,111,180	2,214,821
Total comprehensive income for the quarter	–	–	(4,076)	(4,076)
Balance at 30 June 2015	994,718	108,923	1,107,104	2,210,745

The notes on pages 31 and 32 form part of the condensed financial statements.

## Condensed statement of cash flows

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Cash flows from operating activities</b>		
(Deficit)/surplus for the quarter	(4,076)	26,442
Net investment income	(1,327)	(30,166)
Exchange difference	88	1,198
Increase in amount due from Investor Compensation Company Limited	(473)	(365)
Decrease in provision for compensation	(17,506)	-
Increase/(decrease) in creditors and accrued charges	93	(7)
<i>Net cash used in operating activities</i>	<b>(23,201)</b>	(2,898)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(213,776)	(144,788)
Sale or maturity of debt securities	187,076	120,796
Sale of equity securities	377	342
Interest received	11,986	12,091
<i>Net cash used in investing activities</i>	<b>(14,337)</b>	(11,559)
<b>Net decrease in cash and cash equivalents</b>	<b>(37,538)</b>	(14,457)
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>54,045</b>	223,659
<b>Cash and cash equivalents at end of the quarter</b>	<b>16,507</b>	209,202

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

	Unaudited At 30 June 2015 \$'000	Unaudited At 30 June 2014 \$'000
Fixed and call deposits with banks	4,743	185,506
Cash at bank	11,764	23,696
	<b>16,507</b>	209,202

## Notes to the condensed financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2015 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2015 to this interim financial report.

There were no significant changes in the operations of the Fund for the three months ended 30 June 2015.

### 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 2015, ICC incurred \$1,346,000 for its operation (for the quarter ended 30 June 2014: \$1,308,000).

### 3. Provision for compensation

	\$'000
Balance as at 1 April 2014	150
Add: compensation expenses during the year ended 31 March 2015	44,006
Less: compensation write-backs during the year ended 31 March 2015	(150)
Less: compensation paid during the year ended 31 March 2015	(198)
Balance as at 31 March 2015 and 1 April 2015	43,808
Add: compensation expenses during the three months ended 30 June 2015	2,698
Less: compensation paid during the three months ended 30 June 2015	(20,204)
Balance as at 30 June 2015	26,302

We maintained provision for liabilities arising from claims received resulting from two default cases. ICC has published a notice calling for claims for one of these default cases pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 30 June 2015 was \$26,302,000 (31 March 2015: \$43,808,000). As at 30 June 2015 all provisions were expected to be paid within one year.



## Notes to the consolidated financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

### 4. Material related party transactions

The Fund has related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the quarters ended 30 June 2014 and 2015.

### 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 \$1,951,000 (31 March 2015: \$1,951,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

## 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 2015.

### 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 2015, 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 statements

The surplus of the Fund for the reporting period ended 30 June 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 34 to 39.

### Members of the Committee

The members of the Committee during the quarter ended 30 June 2015 and up to the date of this report were:

Mr Keith Lui (Chairman)  
Ms Mak Po Shuen  
Ms Teresa Ko Yuk-yin, JP  
Mr Lee Kwok Keung  
Mr Mark Steward

### 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  
6 August 2015

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

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Income</b>		
Interest income	150	144
<b>Expenses</b>		
Auditor's remuneration	13	12
Professional fees	9	9
Sundry expenses	-	1
	<b>22</b>	<b>22</b>
<b>Surplus and total comprehensive income for the quarter</b>	<b>128</b>	<b>122</b>

The notes on pages 38 and 39 form part of the condensed financial statements.

## Condensed statement of financial position

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Current assets</b>			
Equity securities received under subrogation		1	1
Interest receivable		60	59
Fixed and call deposits with banks		81,129	82,182
Cash at bank		77	175
		<b>81,267</b>	82,417
<b>Current liabilities</b>			
Creditors and accrued charges		10,326	10,304
Relinquished trading rights payable to SEHK		850	2,100
		<b>11,176</b>	12,404
<b>Net current assets</b>			
		<b>70,091</b>	70,013
<b>Net assets</b>			
		<b>70,091</b>	70,013
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK	3	48,050	48,100
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		26,470	26,342
		<b>1,064,809</b>	1,064,731
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		<b>70,091</b>	70,013

The notes on pages 38 and 39 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	<b>Unaudited Quarter ended 30 June 2015 \$'000</b>	Unaudited Quarter ended 30 June 2014 \$'000
Compensation fund balance as at 1 April	<b>70,013</b>	62,894
Net contributions to SEHK	<b>(50)</b>	(250)
Total comprehensive income for the quarter	<b>128</b>	122
Compensation fund balance as at 30 June	<b>70,091</b>	62,766

The notes on pages 38 and 39 form part of the condensed financial statements.

## Consolidated statement of cash flows

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2015 \$'000	Unaudited Quarter ended 30 June 2014 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the quarter	128	122
Interest income	(150)	(144)
Increase/(decrease) in creditors and accrued charges	22	(26)
(Decrease)/increase in relinquished trading rights payable to SEHK	(1,250)	250
<i>Net cash (used in)/generated from operating activities</i>	<b>(1,250)</b>	202
<b>Cash flows from investing activities</b>		
Interest received	149	146
<i>Net cash generated from investing activities</i>	<b>149</b>	146
<b>Cash flows from financing activities</b>		
Net contributions to SEHK	(50)	(250)
<i>Net cash used in financing activities</i>	<b>(50)</b>	(250)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,151)</b>	98
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>82,357</b>	74,586
<b>Cash and cash equivalents at end of the quarter</b>	<b>81,206</b>	74,684

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

	Unaudited At 30 June 2015 \$'000	Unaudited At 30 June 2014 \$'000
Fixed and call deposits with banks	81,129	74,558
Cash at bank	77	126
	<b>81,206</b>	74,684

## Notes to the condensed financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the 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 2015 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2015 to this 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 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 payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 June 2015 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 HKAS 39, *Financial Instruments: Recognition and Measurement*. According to Hong Kong Financial Reporting Standard 13, *Fair value measurement*, 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, no new trading rights were received from SEHK and deposits of \$1,300,000 in respect of 26 relinquished trading rights were refunded to SEHK. At 30 June 2015, there are 17 trading rights in total that have been relinquished but not yet refunded (at 31 March 2015: 42).

## Notes to the condensed financial statements

For the quarter ended 30 June 2015 (Expressed in Hong Kong dollars)

### 4. Material related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the quarters ended 30 June 2014 and 2015.

### 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.



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