



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



Quarterly Report

October–December 2015

This third Quarterly Report of the Securities and Futures Commission for financial year 2015-16 covers the period from 1 October to 31 December 2015.

Contents

2	Highlights	13	Corporate Developments
3	Operational Review	14	Activity Data
3	Intermediaries	17	Financial Statements
5	Investment products	17	Securities and Futures Commission
6	Listings and takeovers	25	Investor Compensation Fund
7	Market infrastructure and trading	32	Unified Exchange Compensation Fund
8	Enforcement		
10	Global regulatory engagement		
12	Stakeholder communication		

Regulatory enhancements

- **Client agreement requirements:** We issued consultation conclusions on client agreement requirements, proposing changes which aim at fairer terms of business for investors and preventing intermediaries from misdescribing their services.
- **Automated trading services:** We proposed updating the Guidelines for the Regulation of Automated Trading Services to include more specific requirements for central counterparties providing clearing services for over-the-counter derivative transactions.
- **Short position reporting:** We invited comments on our proposal to extend the short position reporting requirements to all securities that can be short sold under the rules of The Stock Exchange of Hong Kong Limited (SEHK).
- **Paperless individual licences:** We ceased issuing printed licences to licensed individuals as of 13 November following amendments to the Securities and Futures Ordinance.

Intermediaries

- **New licence applications:** We received 1,916 licence applications this quarter, up 12.3% year-on-year.

Product development

- **Mutual Recognition of Funds:** As of the end of December, we authorized a total of 13 Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds scheme.
- **Fund authorization:** We revamped the authorization process for new public investment fund applications with a view to reducing overall processing time.

Listing matters

- **Listing applications:** Under the dual filing regime, we vetted 48 listing applications alongside SEHK during the quarter, up 50% year-on-year.

Enforcement

- We disciplined four licensed corporations during this quarter, resulting in total fines of \$34 million, and sanctioned eight licensed representatives.
- We obtained interim orders from the Court of First Instance (CFI) against Maxim Capital Limited freezing \$23.5 million in assets and restraining it from advertising an unauthorized collective investment scheme.
- The CFI disqualified three former directors of First China Financial Network Holdings Limited for the breach of their duties when they paid RMB18.7 million to a party connected to the company's Chairman on the pretext of a non-existent agreement.

Global regulatory engagement

- **IOSCO Vice-Chairmanship:** In December, Mr Ashley Alder, our Chief Executive Officer, was elected Vice-Chairman of the Board of the International Organization of Securities Commissions.
- **Memoranda of understanding:** We entered into a memorandum of understanding (MoU) with the European Securities and Markets Authority on derivatives contracts held in trade repositories and an MoU with the US Commodity Futures Trading Commission on regulated entities that operate on a cross-border basis.

Licensing applications

We received 1,916 licence applications¹ this quarter. This is a 20.7% decrease from the previous quarter and a 12.3% increase from the same quarter last year. In the three months to 31 December, the total number of licensees and registrants was slightly up at 41,466. This represents a 4.3% increase from 39,739 as of the end of December 2014.

Paperless individual licences

We ceased issuing printed licences to licensed individuals as of 13 November in accordance with the Securities and Futures (Amendment) Ordinance 2015.² A circular on paperless individual licences was distributed to all intermediaries and licensed individuals on the same day. This change reduces the industry's compliance burden and is environmentally friendly.

The public can refer to our online Public Register of Licensed Persons and Registered Institutions for licensing information about individuals as well as corporations and registered institutions.

Client agreement requirements

On 8 December, we issued consultation conclusions on the Further Consultation on the Client Agreement Requirements. All intermediaries must comply with the new requirements on or before 9 June 2017, including the incorporation of a new clause into client agreements which enables an investor to claim for damages in the event of mis-selling by an intermediary. These changes will result in fairer terms of business for investors and prevent intermediaries from misdescribing the actual services provided to them.

Financial resolution regime

On 9 October, the SFC together with the Government of the Hong Kong Special Administrative Region and other regulators³ released the consultation response to the second stage of public consultation on proposals to establish a cross-sector resolution

regime for financial institutions, including financial market infrastructure, in Hong Kong. Introduced into the Legislative Council in December, the Financial Institutions (Resolution) Bill has as its main objective the establishment of a regime for the orderly resolution of financial institutions with a view to avoiding or mitigating risks.

Supervisory assistance to regulators outside Hong Kong

To better supervise globally-active firms, we enlarge the scope of formal cooperation with overseas regulators. The Securities and Futures (Amendment) Ordinance 2015 enables the SFC, subject to a number of conditions and safeguards, to provide a particular form of supervisory assistance to regulators outside Hong Kong upon request.

Promoting compliance

During the quarter, we conducted onsite inspections and off-site monitoring to ensure the financial soundness of licensed corporations and that they comply with relevant laws and regulatory requirements.

We hosted a workshop for about 120 in-house compliance professionals of licensed firms on 10 November where we covered the SFC Online Portal⁴, licensing applications and requirements when firms notify the SFC about changes in daily operations.

On 22 October, we issued a circular to update the market on the implementation of the over-the-counter (OTC) derivatives regulatory regime and to explain the transitional arrangements for market participants who intend to continue with their existing OTC derivatives activities when the new licensing regime commences.

We issued eleven advisory circulars to enhance industry participants' awareness about the latest developments in anti-money laundering and counter-terrorist financing.

¹ This figure does not include provisional licence applications. See licensing applications table on page 4 for details.

² We will continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and intermediaries are still required to exhibit their printed licences or certificates of registration prominently at their places of business.

³ Hong Kong Monetary Authority and Insurance Authority.

⁴ Through the SFC Online Portal industry participants can file licensing documents (eg applications and annual returns) and pay related fees electronically.

Licensees and registrants

	As at 31.12.2015	As at 31.3.2015	Change (%)	As at 31.12.2014	YoY change (%)
Licensed corporations	2,172	2,068	5	2,034	6.8
Registered institutions	119	118	0.8	118	0.8
Licensed individuals	39,175	37,783	3.7	37,587	4.2
Total	41,466	39,969	3.7	39,739	4.3

Licensing applications

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Applications to conduct new regulated activity	5,490	17,701	14,864	19.1
Applications for SFC licences ¹	1,916	6,137	5,273	16.4

¹ The figure does not include provisional licence applications received. During the quarter, we received 1,051 provisional licence applications compared with 916 in the same quarter last year.

Intermediary inspection

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Risk-based, on-site inspections	70	226	234	-3.4

Mainland-Hong Kong Mutual Recognition of Funds

On 18 December, we authorized the first batch of four Mainland funds and the China Securities Regulatory Commission approved the first batch of three Hong Kong funds under the Mainland-Hong Kong Mutual Recognition of Funds scheme. As of the end of December we authorized a total of 13 Mainland funds.

Revamp of fund authorization process

On 9 November, we launched a new initiative to revamp the authorization process for new public investment fund applications with a view to reducing

overall processing time without compromising investor protection. We will closely monitor the operations of the revamped process during a six-month pilot period and refinements may be made before formal adoption.

Separately, a six-month application lapse policy was extended to applications for new mandatory provident fund and pooled retirement fund products seeking SFC authorization with effect from 9 November. This new initiative is also subject to a six-month pilot period.

Renminbi products

We authorized two RQFII¹/Stock Connect exchange-traded funds (ETFs) during the quarter. As of the end of December, 71 RQFII/Stock Connect unlisted funds and 24 ETFs were authorized.²

Authorized collective investment schemes¹

	As at 31.12.2015	As at 31.3.2015	Change (%)	As at 31.12.2014	YoY change (%)
Unit trusts and mutual funds	2,110	2,045	3.2	2,009	5
Investment-linked assurance schemes	297	294	1	282	5.3
Pooled retirement funds	34	35	-2.9	35	-2.9
MPF schemes	37	37	0	37	0
MPF pooled investment funds	173	185	-6.5	186	-7
Others ²	24	26	-7.7	26	-7.7
Total	2,675	2,622	2	2,575	3.9

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

² Other schemes comprised 13 paper gold schemes and 11 real estate investment trusts as of 31 December 2015.

Unlisted structured investment products

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Unlisted structured investment products ¹ authorized	24	83	80	3.8
Authorizations granted under section 105 of the Securities and Futures Ordinance ²	16	65	69	-5.8

¹ Comprising mostly equity-linked investments and equity-linked deposits. 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.

¹ Renminbi Qualified Foreign Institutional Investor.

² 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.

Review of listing applications

Under the dual filing regime, we received 48 listing applications via The Stock Exchange of Hong Kong Limited during the quarter, up 50% from 32 in the same period last year. One listing application was returned and an eight-week moratorium¹ was imposed because the application proof was not substantially complete.

Takeovers matters

In October, the Takeovers and Mergers Panel (Takeovers Panel) upheld the ruling by the Takeovers Executive² to grant ArcelorMittal, a substantial shareholder of China Oriental Group Company Limited, a waiver from the mandatory general offer obligation under the Takeovers Code that arose upon the unwinding of certain put option arrangements. The Takeovers Panel made the decision following requests by two minority shareholders for a review of the ruling granted earlier this year.

Listing applications and takeovers activities

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Listing applications reviewed under the dual filing regime	48	171	126	35.7
Takeovers and share buy-backs transactions	105	333	280	18.9

In December, the Takeovers Panel ruled that a general offer obligation under the Takeovers Code will arise if Mr Cheung Chung Kiu proceeds with the possible acquisition of a controlling shareholder interest in The Cross-Harbour (Holdings) Limited, and that a waiver of the general offer obligation should not be granted. We referred the matter to the Takeovers Panel as there were particularly novel, important or difficult points at issue.

Corporate regulation

Throughout the quarter, we conducted a daily review of corporate announcements under the statutory inside information disclosure regime and as a result issued a number of section 179³ directions to gather additional information. We raised enquiries with a number of companies, following which trading in their H shares resumed whereas trading in their A shares remained suspended under Mainland stock exchange rules.

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

² This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

³ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Proposed amendments to ATS guidelines

On 20 November, we published a consultation paper on proposed changes to update the Guidelines for the Regulation of Automated Trading Services and to align them with international standards and practices. The changes include more specific requirements for central counterparties which provide clearing services for over-the-counter (OTC) derivative transactions. The consultation ended on 31 December and we are reviewing the comments received.

Short position reporting rules

In a consultation launched on 27 November, we invited comments on our proposal to extend the short position reporting requirements to all securities that can be short sold under the rules of The Stock Exchange of Hong Kong Limited. Under the proposed regime, which will improve our ability to monitor short selling, aggregated short positions of all relevant securities will be published to enhance market transparency. The consultation ended on 31 December and we will publish the consultation conclusions in due course.

OTC derivatives

As part of the implementation of the new OTC derivatives regime, the Hong Kong Monetary Authority (HKMA) and the SFC on 30 September began a joint consultation on the introduction of the first phase of mandatory clearing and the second phase of mandatory reporting¹. We issued the consultation conclusions in February 2016. We also posted a set of frequently asked questions (FAQs) on the SFC website to help market participants better understand the regulatory regime for OTC derivatives.

Stock Connect

We continued to work closely with the China Securities Regulatory Commission, Hong Kong Exchanges and Clearing Limited and other relevant parties to monitor the operation of Shanghai-Hong Kong Stock Connect.

Automated trading services

As of 31 December, the number of ATS² authorizations under Part III of the Securities and Futures Ordinance (SFO) was 38, while 27 corporations, including 16 dark pool operators, were licensed or registered under Part V of the SFO to provide ATS.

¹ The Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules were implemented on 10 July, beginning the first phase of mandatory reporting and related record-keeping obligations.

² As a general principle under the SFC's ATS guidelines, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed or registered 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 obtained interim orders from the Court of First Instance (CFI) to freeze \$23.5 million belonging to Maxim Capital Limited and to restrain it from advertising an unauthorized collective investment scheme, among other interim orders. The company, under the name "Maxim Trader", solicited over 130 investors to invest more than \$111 million since 2013.

Market Misconduct Tribunal proceedings

- The Market Misconduct Tribunal (MMT) dismissed an application by Andrew Left of Citron Research for an order either for the production of the Evergrande Real Estate Group Limited's financial records or alternatively a stay¹ of the MMT proceedings. Left argued that the MMT should inquire into Evergrande's financial records before it determines whether his report on the company contained false or misleading information as the SFC alleged, and that he is entitled to those records for his defence. The MMT rejected Left's arguments, finding that only public information was available to him when he compiled the report, and therefore both he and the SFC are obliged to present their cases on the basis of that information.
- The MMT ruled that three former executives of Asia TeleMedia Limited, Yiu Hoi Ying, Marian Wong Nam and Cecilia Ho King Lin, had not engaged in insider dealing in the company's shares in 2007. The MMT also decided that it was not possible to determine whether the company's former chairman, Lu Ruifeng, had engaged in insider dealing as, owing to evidence of acute illness, he was not given an opportunity to be heard.

Court proceedings

- The CFI disqualified Wang Wenming, Lee Yiu Sun and Richard Yin Yingneng, former directors of First China Financial Network Holdings Limited, from being a director or being involved in the management of any corporation in Hong Kong for seven, five, and four years respectively. They breached their duties when they required First China to distribute a dividend of RMB18.7 million to a party connected to the First China Chairman on the pretext of a non-existent agreement.

¹ Not to take any further steps in court proceedings.

- The CFI dismissed an appeal by Lam Fai Man, a substantial shareholder of Victory Group Limited, against his conviction for failing to inform the company of changes in his interest in its shares as required by the Securities and Futures Ordinance (SFO).

Disciplinary actions

We disciplined four corporations and eight licensed representatives. Key disciplinary actions include:

- J.P. Morgan Broking (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited and J.P. Morgan Securities (Far East) Limited were reprimanded and fined \$15 million, \$12 million and \$3 million respectively for failing to implement adequate systems and controls to comply with the rules and regulations applicable to short selling activities, client facilitation and principal trading business, and dark liquidity pool trading services.
- Okasan International (Asia) Limited was reprimanded and fined \$4 million for failures in selling unlisted investment products and failing to properly disclose profits.
- Ko Shu Chuan was banned from re-entering the industry for six years for making false representations about her academic qualifications.
- Masashi Yonezawa, a former trader at Nomura International (Hong Kong) Limited, was prohibited from re-entering the industry for 30 months for making false entries in Nomura's risk management system and misrepresentations to his supervisors.

Surveillance work

We made 1,801 requests for trading and account records from intermediaries in the quarter. In addition, we posted three high shareholding concentration announcements on our 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 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Trading inquiries issued under S181 ¹	1,819 ²	5,750	7,610	-24.4
Investigations started	135	390	431	-9.5
Investigations completed	89	327	239	36.8
Investigations completed within seven months (%)	44 (49%)	171 (52%)	174 (73%)	-1.7
Individuals/corporations charged in criminal proceedings	8	12	15	-20
Criminal charges laid	39	58	70	-17.1
Notices of Proposed Disciplinary Action ³	15	30	30	0
Decision Notices ⁴	10	27	38	-28.9
Individuals/corporations subject to ongoing civil proceedings	99	99	91	8.8
Compliance advice letters issued	60	290	208	39.4

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 Includes all trading inquiries made by the Enforcement Division.

³ 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.

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

IOSCO

We are actively involved in the work of the International Organization of Securities Commissions (IOSCO) and participate in all eight of its policy committees. In December, Mr Ashley Alder, our Chief Executive Officer, was elected Vice-Chairman of the IOSCO Board.

Mr Alder attended the IOSCO Board meeting in October to discuss IOSCO's work on a range of issues as well as how IOSCO could contribute to the international policy work of the Financial Stability Board (FSB) related to asset management.

Mr Alder chairs the IOSCO Asia-Pacific Regional Committee (APRC) and leads initiatives to strengthen regional regulatory cooperation. During the quarter, the APRC established a forum with the European Commission and the European Securities and Markets Authority (ESMA) to facilitate discussions about the cross-border effect of EU regulations on financial markets in Asia.

Mr Alder also chairs the IOSCO Task Force on Market Conduct which is mapping IOSCO's work to date on standards of conduct and organising a survey of IOSCO members to identify regulatory tools and approaches to promote proper conduct by market participants.

Ms Benedicte Nolens, our Senior Director of Risk and Strategy, was elected Vice-Chair of the IOSCO Committee on Emerging Risks in December.

Mr. Stephen Po, Senior Director of Intermediaries Supervision, chaired the IOSCO Committee on Regulation of Market Intermediaries meeting in December when members discussed survey responses for the committee's mandates on order routing incentives and execution behaviour and on retail over-the-counter (OTC) leveraged products. The committee agreed to conduct another round of surveys on regulatory developments related to the use of social media and automated advice to determine relevant trends of potential interest to the wider financial community.¹

Financial Stability Board

In October, Mr Alder attended the meeting of the FSB Regional Consultative Group for Asia to discuss, among other things, financial stability risks arising from market-based finance and asset management activities as well as the work being done to ensure fair and effective wholesale fixed income, currencies and commodities markets.

In December, Mr Keith Lui, our Executive Director of Supervision of Markets, attended the FSB Standing Committee on Standards Implementation which discussed the status of the implementation of various global financial reforms such as those related to OTC derivatives markets and shadow banking.

We are coordinating with the Government and other financial regulators to respond to FSB's peer review on shadow banking and its survey on the monitoring of the implementation status of non-priority reforms. During the quarter, we provided support to the Hong Kong Monetary Authority for its work on other FSB committees.

Mainland China

A new CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement) was signed between the Government and the Ministry of Commerce on 27 November and will be implemented on 1 June 2016.

We participated in extensive discussions with Mainland authorities to formulate the new CEPA measures relating to the securities sector which include relaxing the shareholding requirements for Hong Kong financial institutions establishing joint ventures on the Mainland and exploring ways to promote qualified Hong Kong companies to issue renminbi bonds on Mainland exchanges. These breakthroughs will facilitate Hong Kong financial institutions' access to the Mainland capital market and promote Hong Kong's offshore renminbi business.

¹ The committee published its first Report on the IOSCO Social Media and Automation of Advice Tools Surveys in July 2014.

To enhance mutual understanding, effective communication and cooperation between the SFC and Mainland regulators, we organised training programmes for senior executives from the China Securities Regulatory Commission and other Mainland authorities.

We participated in the seventh Meeting of the Expert Group on Hong Kong-Guangdong Financial Cooperation in Nansha, as well as a symposium co-hosted by the Government and the Beijing Finance Office to promote financial cooperation between Hong Kong and Beijing.

Other joint initiatives

We attended the seventh Memorandum of Understanding (MoU) Meeting with the Financial Supervisory Commission in Taipei on 24 November when we discussed various cooperation initiatives and shared Hong Kong's experience in regulating financial intermediaries.

We entered into an MoU with ESMA to facilitate the exchange of information on derivatives contracts held in trade repositories. Separately, we signed an MoU with the US Commodity Futures Trading Commission on the supervision and oversight of regulated entities that operate on a cross-border basis.

We engage a wide range of stakeholders in a proactive, timely and effective manner through multiple channels and platforms to explain our regulatory objectives.

In November, we launched separate consultations on proposals to update the Guidelines for the Regulation of Automated Trading Services and on proposals to extend the short position reporting requirements to all securities that can be short sold. These changes will bring our regulation in line with international standards and practices. (See Market infrastructure and trading on page 7 for details.)

In October, a consultation response was issued on a new financial resolution regime for Hong Kong, and in December we issued consultation conclusions on our further consultation on client agreement requirements. (See Intermediaries on page 3 for details.)

During the quarter, our senior executives spoke at more than 27 local and international conferences to share our regulatory approaches to various topics.



Mr Ashley Alder, CEO, speaks at ASIFMA (Asia Securities Industry & Financial Markets Association) Annual Conference 2015 in December

Our executives attended a meeting of the Legislative Council Financial Affairs Panel in November to explain the implementation of the over-the-counter (OTC) derivatives regulatory regime in Hong Kong.

In October, we made a presentation to a broker association on management’s responsibilities and the internal controls and systems that firms should put in place to safeguard client assets.

We also briefed visitors from local and overseas institutions on the SFC’s regulatory work, including the UK Financial Conduct Authority, European Commission, the US Securities and Exchange Commission and Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange).

During the quarter, we published the *Takeovers Bulletin*, a quarterly newsletter highlighting key regulatory updates related to takeovers, mergers and share buy-backs. We also issued 18 circulars to inform industry participants of the implementation of new regulatory measures or requirements such as those related to OTC derivatives activities and anti-money laundering.

Our Annual Report 2014-15 received gold prizes in the Hong Kong Management Association’s Best Annual Reports Awards and in the Hong Kong Institute of Certified Public Accountants’ Best Corporate Governance Disclosure Awards.

Publications and other communications

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Press releases	33	85	105	-19
Consultation papers	2	4	6	-33.3
Consultation conclusions	2	5	6	-16.7
Industry-related publications	1	7	11	-36.4
Circulars	18	50	34	47.1
Corporate website average daily page views ¹	51,886	50,746	44,422	14.2
General enquiries	1,729	5,165	4,427	16.7

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

The Government appointed Mr Lester Huang and re-appointed Ms Mary Ma as Non-Executive Directors (NED) for two-year terms effective from 15 November. At the same time, Mr Lawrence Lee stepped down as NED.

Our income for the quarter was \$348 million, 2% lower than the previous quarter. Average daily turnover in Hong Kong's securities market was \$75 billion, 26% lower than the previous quarter. Our levy income therefore decreased to \$275 million from \$375 million last quarter. Expenditure was \$416 million, 8% higher than the previous quarter. We recorded a deficit of

\$68 million this quarter, compared to a deficit of \$32 million last quarter. As at 31 December, our reserves stood at \$7.4 billion.

We had 823 staff members as of 31 December, up from 784 a year ago.

We established the SFC Women's Network in November to provide a platform for staff, both female and male, to interact and to participate in events, training and other activities which promote women's leadership.

Finances

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Income (\$ million)	348	1,320	975	35
Expenses including depreciation (\$ million)	416	1,171	1,052	11

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	7	16	15	6.7
Failure to safekeep client securities	17	34	28	21.4
Failure to maintain proper books and records	8	20	15	33.3
Failure to safekeep client money	18	38	18	111.1
Unlicensed dealing and other registration issues	9	23	13	76.9
Breach of licensing conditions	3	7	5	40
Breach of requirements of contract notes/statements of account/receipts	26	59	56	5.4
Failure to make filing/notification	2	5	3	66.7
Breach of margin requirements	1	5	2	150
Marketing malpractices	0	0	1	-100
Illegal short selling of securities	1	1	0	N/A
Dealing malpractices	0	2	2	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	125	268	159	68.6
Breach of Corporate Finance Adviser Code of Conduct	3	9	7	28.6
Breach of Fund Manager Code of Conduct	15	45	44	2.3
Breach of regulation of on-line trading	7	13	97	-86.6
Non-compliance with anti-money laundering guidelines	37	174	78	123.1
Breach of other rules and regulations of the Exchanges ¹	4	9	2	350
Internal control weaknesses	214	454	211	115.2
Others	56	114	42	171.4
Total	553	1,296	798	62.4

¹ 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 31.12.2015	As at 31.3.2015	Change (%)	As at 31.12.2014	YoY change (%)
Bond	402	394	2	389	3.3
Equity	1,024	1,011	1.3	993	3.1
Diversified	128	107	19.6	104	23.1
Money market	50	47	6.4	47	6.4
Fund of funds	102	92	10.9	92	10.9
Index	156	153	2	145	7.6
Guaranteed	3	3	0	3	0
Hedge	3	3	0	3	0
Other specialised ¹	14	15	-6.7	15	-6.7
Sub-total	1,882	1,825	3.1	1,791	5.1
Umbrella structures	228	220	3.6	218	4.6
Number of authorized funds	2,110	2,045	3.2	2,009	5

¹ 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 31.12.2015	As at 31.3.2015	Change (%)	As at 31.12.2014	YoY change (%)
Hong Kong	636	594	7.1	573	11
Luxembourg	1,010	1,000	1	994	1.6
Ireland	280	278	0.7	279	0.4
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	5	0
British Virgin Islands	0	0	0	0	0
Cayman Islands	92	95	-3.2	97	-5.2
Others	22	9	144.4	9	144.4
Number of authorized funds	2,110	2,045	3.2	2,009	5

Table 4 Takeovers activities

	Quarter ended 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	14	35	39	-10.3
Privatisations	2	6	4	50
Whitewash waiver applications	10	39	23	69.6
Other applications under Code on Takeovers and Mergers ¹	78	249	205	21.5
Off-market and general offer share buy-backs	0	1	3	-66.7
Other applications under Code on Share Buy-backs	1	3	6	-50
Total	105	333	280	18.9
Executives Statements				
Sanctions imposed with parties' agreement ²	0	0	0	0
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	1	-100
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	3	-33.3
Statements issued by the Panel ³	2	4	2	100

¹ Includes stand-alone applications and those made during the course of a Code-related transaction.

² Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

³ 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 31.12.2015	Nine months ended 31.12.2015	Nine months ended 31.12.2014	YoY change (%)
Conduct of licensees	77	239	185	29.2
Conduct of registered institutions	2	22	24	-8.3
Listing-related matters and disclosure of interests	112	504	449	12.3
Market misconduct ¹	62	138	230	-40
Product disclosure	0	0	1	-100
Unlicensed activities	26	99	56	76.8
Breach of offers of investments	6	10	24	-58.3
Other financial activities	143	565	414	36.5
Total	428	1,577	1,383	14

¹ Primarily alleged market manipulation and insider dealing.

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2014 \$'000
Income					
Levies		1,210,529	827,556	274,798	302,946
Fees and charges		100,581	80,924	30,058	25,088
Investment income		6,455	56,697	41,714	9,761
Less: custody and advisory expenses		(2,636)	(1,189)	(851)	(570)
Investment income net of third party expenses		3,819	55,508	40,863	9,191
Recoveries from the Investor Compensation Fund		4,015	3,894	1,328	1,283
Other income		1,372	6,612	536	2,385
		1,320,316	974,494	347,583	340,893
Expenses					
Staff costs and directors' emoluments	8(b)	824,848	751,291	275,077	248,839
Premises					
Rent		151,544	142,083	50,518	50,514
Rates, management fees and others		34,529	27,787	11,616	9,265
Other expenses		123,799	91,033	65,647	37,370
Depreciation		36,835	39,315	13,216	14,250
		1,171,555	1,051,509	416,074	360,238
Surplus/(deficit) and total comprehensive income for the period		148,761	(77,015)	(68,491)	(19,345)

The notes on pages 22 to 24 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Non-current assets			
Fixed assets		74,696	89,139
Held-to-maturity debt securities	2	30,010	493,936
		104,706	583,075
Current assets			
Held-to-maturity debt securities	2	697,862	618,436
Financial assets designated at fair value through profit or loss		664,182	715,140
Debtors, deposits and prepayments		125,631	143,574
Fixed deposits with banks		6,069,636	5,322,706
Cash at bank and in hand		16,550	10,465
		7,573,861	6,810,321
Current liabilities			
Fees received in advance		7,357	8,777
Creditors and accrued charges		256,395	122,057
		263,752	130,834
Net current assets		7,310,109	6,679,487
Total assets less current liabilities		7,414,815	7,262,562
Non-current liabilities	4	24,861	21,369
Net assets		7,389,954	7,241,193
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,347,114	7,198,353
		7,389,954	7,241,193

The notes on pages 22 to 24 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Non-current assets			
Fixed assets		74,065	89,020
Held-to-maturity debt securities	2	30,010	493,936
		104,075	582,956
Current assets			
Held-to-maturity debt securities	2	697,862	618,436
Financial assets designated at fair value through profit or loss		664,182	715,140
Debtors, deposits and prepayments		132,632	147,677
Fixed deposits with banks		6,069,636	5,322,706
Cash at bank and in hand		4,397	2,718
		7,568,709	6,806,677
Current liabilities			
Fees received in advance		7,357	8,777
Creditors and accrued charges		250,612	118,294
		257,969	127,071
Net current assets			
		7,310,740	6,679,606
Total assets less current liabilities			
		7,414,815	7,262,562
Non-current liabilities			
	4	24,861	21,369
Net assets			
		7,389,954	7,241,193
Funding and reserves			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,347,114	7,198,353
		7,389,954	7,241,193

The notes on pages 22 to 24 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive income for the period	–	(77,015)	(77,015)
Balance at 31 December 2014	42,840	7,197,121	7,239,961
Balance at 1 April 2015	42,840	7,198,353	7,241,193
Total comprehensive income for the period	–	148,761	148,761
Balance at 31 December 2015	42,840	7,347,114	7,389,954

The notes on pages 22 to 24 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000
Cash flows from operating activities		
Surplus/(deficit) for the period	148,761	(77,015)
Adjustments for:		
Depreciation	36,835	39,315
Investment income	(6,455)	(56,697)
Exchange difference	539	12,178
Loss/(gain) on disposal of fixed assets	11	(1)
	179,691	(82,220)
Decrease/(increase) in debtors, deposits and prepayments	22,400	(27,841)
Increase in creditors and accrued charges	134,338	99,404
Decrease in fees received in advance	(1,420)	(1,437)
Increase/(decrease) in non-current liabilities	3,492	(1,085)
<i>Net cash generated from/(used in) operating activities</i>	338,501	(13,179)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	(1,792,487)	(3,263,148)
Interest received	54,703	71,227
Purchase of financial assets held at fair value through profit or loss	-	(697,956)
Held-to-maturity debt securities redeemed	380,305	1,350,829
Sale of financial assets held at fair value through profit or loss	1,909	-
Fixed assets bought	(22,403)	(33,860)
<i>Net cash used in investing activities</i>	(1,377,973)	(2,572,908)
Net decrease in cash and cash equivalents	(1,039,472)	(2,586,087)
Cash and cash equivalents at beginning of the nine-month period	2,104,324	4,270,947
Cash and cash equivalents at end of the nine-month period	1,064,852	1,684,860

Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2015 \$'000	Unaudited At 31 December 2014 \$'000
Fixed deposits with banks	1,048,302	1,666,903
Cash at bank and in hand	16,550	17,957
	1,064,852	1,684,860

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have 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.

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 Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 31 December 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 this interim financial report.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2015.

2. Held-to-maturity debt securities

As of 31 December 2015, the total market value of held-to-maturity debt securities amounted to \$728,565,000 (31 March 2015: \$1,120,208,000), which was above the total carrying cost of \$727,872,000 (31 March 2015: \$1,112,372,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank and in hand	16,550	10,465
Fixed deposits with banks	6,069,636	5,322,706
Amounts shown in the condensed consolidated statement of financial position	6,086,186	5,333,171
Less : Amounts with an original maturity of beyond three months	(5,021,334)	(3,228,847)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,064,852	2,104,324

4. Non-current liabilities

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

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

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 31 December 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 do not consider we are exposed to significant exchange rate risk.

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

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

The financial statements of the 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 :

- (a) During the period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$4,015,000 (2014: \$3,894,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2015, the amount due to the ICF from the ICC was \$259,000 (as at 31 March 2015: \$157,000).

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

- (b) Remuneration of key management personnel comprised:

	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000
Directors' fees and salaries, allowances and benefits in kind	23,109	24,440
Retirement scheme contributions	2,102	2,235
	25,211	26,675

The total remuneration is included in "staff costs and directors' emoluments" on page 17. 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 ended 31 December 2014, \$30,000 was paid to a former Non-Executive Director for legal services provided in respect of matters commenced prior to his appointment. There was no such fee for the period ended 31 December 2015.

9. Commitment to pay rents for offices

At 31 December 2015 the minimum amount we are committed to pay in rent for our offices up to 16 December 2018, being the rent review date as set out in the lease agreements, are as follows:

	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Payable next year	208,294	208,002
Payable in one to five years	139,692	294,173
Payable in more than five years	-	-
	347,986	502,175

During the period, \$151,544,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2014: \$142,083,000).

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 nine months ended 31 December 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 31 December 2015 and the state of the Fund's affairs as at that date are set out in the condensed financial statements on pages 26 to 31.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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	(resigned with effect from 24 September 2015)

Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman
17 February 2016

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2014 \$'000
Income					
Net investment (loss)/income		(18,743)	37,760	10,672	6,783
Exchange difference		(571)	(346)	18	(1,943)
		(19,314)	37,414	10,690	4,840
Expenses					
Investor Compensation Company Limited expenses	2	4,015	3,893	1,327	1,282
Compensation expenses/(write-backs)	4	5,636	34,998	(3,800)	34,800
Auditor's remuneration		93	89	31	30
Bank charges		709	675	235	237
Professional fees		2,850	2,896	922	954
		13,303	42,551	(1,285)	37,303
(Deficit)/surplus and total comprehensive income for the period					
		(32,617)	(5,137)	11,975	(32,463)

The notes on pages 30 to 31 form part of the condensed financial statements.

Statement of financial position

At 31 December 2015 (Expressed in Hong Kong dollars)

Note	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Current assets		
Financial assets designated at fair value through profit or loss		
Debt securities	1,910,683	1,887,972
Pooled fund	269,754	304,967
Interest receivable	11,175	12,900
Due from Investor Compensation Company Limited	259	157
Fixed deposits with banks	7,446	46,258
Cash at bank	2,361	7,787
	2,201,678	2,260,041
Current liabilities		
Provision for compensation	4 18,079	43,808
Creditors and accrued charges	1,395	1,412
	19,474	45,220
Net current assets	2,182,204	2,214,821
Net assets	2,182,204	2,214,821
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	1,078,563	1,111,180
	2,182,204	2,214,821

The notes on pages 30 to 31 form part of the condensed financial statements.

Statement of changes in equity

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive income for the period	–	–	(5,137)	(5,137)
Balance at 31 December 2014	994,718	108,923	1,092,268	2,195,909
Balance at 1 April 2015	994,718	108,923	1,111,180	2,214,821
Total comprehensive income for the period	–	–	(32,617)	(32,617)
Balance at 31 December 2015	994,718	108,923	1,078,563	2,182,204

The notes on pages 30 to 31 form part of the condensed financial statements.

Statement of cash flows

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000
Cash flows from operating activities			
Deficit for the period		(32,617)	(5,137)
Net investment loss/(income)		18,743	(37,760)
Exchange difference		571	346
(Increase)/decrease in amount due from Investor Compensation Company Limited		(102)	1
(Decrease)/increase in provision for compensation		(25,729)	34,800
(Decrease)/increase in creditors and accrued charges		(17)	68
<i>Net cash used in operating activities</i>		(39,151)	(7,682)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(3,035)	-
Purchase of debt securities		(440,175)	(670,456)
Sale or maturity of debt securities		397,362	421,192
Sale of equity securities		1,107	1,096
Interest received		36,619	35,905
<i>Net cash used in investing activities</i>		(8,122)	(212,263)
Net decrease in cash and cash equivalents		(47,273)	(219,945)
Cash and cash equivalents at beginning of the nine-month period		54,045	223,659
Cash and cash equivalents at end of the nine-month period	3	6,772	3,714

Analysis of the balance of cash and cash equivalents

	Note	Unaudited At 31 December 2015 \$'000	Unaudited At 31 December 2014 \$'000
Fixed deposits with banks		4,411	2,058
Cash at bank		2,361	1,656
	3	6,772	3,714

Notes to the financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2015, ICC incurred \$4,015,000 for its operations (for the nine months ended 31 December 2014: \$3,893,000).

3. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank	2,361	7,787
Fixed deposits with banks	7,446	46,258
Amounts shown in the condensed statement of financial position	9,807	54,045
Less : Amounts with an original maturity of beyond three months	(3,035)	–
Cash and cash equivalents in the condensed statement of cash flows	6,772	54,045

Notes to the consolidated financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

4. 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 nine months ended 31 December 2015	9,437
Less: compensation write-backs during the nine months ended 31 December 2015	(3,801)
Less: compensation paid during the nine months ended 31 December 2015	(31,365)
Balance as at 31 December 2015	18,079

As at 31 December 2015, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 December 2015 was \$18,079,000 (31 March 2015: \$43,808,000). As at 31 December 2015 all provisions were expected to be paid within one year.

5. 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 nine months ended 31 December 2014 and 2015.

6. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 4, there are other claims received for which currently there is insufficient information to determine the likely level of payment. For each claim, the contingent liability is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed. The maximum liability in respect of these claims is \$2,469,000 (31 March 2015: \$1,951,000).

Report of the Securities Compensation Fund Committee

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

The surplus of the Fund for the reporting period ended 31 December 2015 and the state of the Fund's affairs as at that date are set out in the condensed financial statements on pages 33 to 38.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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	(resigned with effect from 24 September 2015)

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 nine months.

On behalf of the Committee

Keith Lui
Chairman
2 February 2016

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2014 \$'000
Income					
Interest income		389	470	118	157
Recoveries	2	–	7,203	–	7,203
		389	7,673	118	7,360
Expenses					
Auditor's remuneration		39	37	13	12
Professional fees		18	17	–	–
Sundry expenses		–	–	–	(1)
		57	54	13	11
Surplus and total comprehensive income for the period					
		332	7,619	105	7,349

The notes on pages 37 to 38 form part of the condensed financial statements.

Condensed statement of financial position

At 31 December 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Current assets			
Equity securities received under subrogation	2	1	1
Interest receivable		51	59
Fixed and call deposits with banks		82,062	82,182
Cash at bank		124	175
		82,238	82,417
Current liabilities			
Relinquished trading rights payable to SEHK	4	950	2,100
Creditors and accrued charges		10,293	10,304
		11,243	12,404
Net current assets			
		70,995	70,013
Net assets			
		70,995	70,013
Representing:			
Compensation fund			
Contributions from SEHK		48,750	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		26,674	26,342
		1,065,713	1,064,731
Contributions to Investor Compensation Fund		(994,718)	(994,718)
		70,995	70,013

The notes on pages 37 to 38 form part of the condensed financial statements.

Condensed statement of changes in equity

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000
Compensation fund balance as at 1 April	70,013	62,894
Net contributions from/(to) SEHK	650	(450)
Total comprehensive income for the period	332	7,619
Compensation fund balance as at 31 December	70,995	70,063

The notes on pages 37 to 38 form part of the condensed financial statements.

Consolidated statement of cash flows

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Nine months ended 31 December 2014 \$'000
Cash flows from operating activities		
	332	7,619
	(389)	(470)
	(1,150)	300
	(11)	7
	(1,218)	7,456
Cash flows from investing activities		
	(28,074)	(33,296)
	397	452
	(27,677)	(32,844)
Cash flows from financing activities		
	650	(450)
	650	(450)
Net decrease in cash and cash equivalents		
	(28,245)	(25,838)
Cash and cash equivalents at beginning of the nine-month period		
	82,357	74,586
Cash and cash equivalents at end of the nine-month period		
3	54,112	48,748

Analysis of the balance of cash and cash equivalents

Note	Unaudited At 31 December 2015 \$'000	Unaudited At 31 December 2014 \$'000
	53,988	48,607
	124	141
3	54,112	48,748

Notes to the condensed financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect from 1 April 2003, the Fund has prepared the condensed interim financial information 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.

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2015. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information 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 annual financial statements for that financial year but is derived from those financial statements.

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

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2015.

2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the 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 31 December 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 HKFRS 13, *Fair value measurement*, these 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".

Notes to the condensed financial statements

For the nine months ended 31 December 2015 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 31 December 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank	124	175
Fixed and call deposits with banks	82,062	82,182
Amounts shown in the condensed statement of financial position	82,186	82,357
Less : Amounts with an original maturity of beyond three months	(28,074)	–
Cash and cash equivalents in the condensed statement of cash flows	54,112	82,357

4. Contributions from SEHK

During the nine months, deposits of \$800,000 in respect of 16 new trading rights were received from SEHK and deposits of \$1,300,000 in respect of 26 relinquished trading rights were refunded to SEHK. As at 31 December 2015, there were 19 trading rights in total that had been relinquished but not yet refunded.

5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the nine months ended 31 December 2014 and 2015.

6. 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

35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Telephone (852) 2231 1222
Facsimile (852) 2521 7836
Website www.sfc.hk