



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

Regulation for Quality Markets

Quarterly Report
October - December 2018

This third Quarterly Report of the Securities and Futures Commission for financial year 2018-19 covers the period from 1 October to 31 December 2018.

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Highlights

Regulatory enhancements

Financial resources rules: We published consultation conclusions on amendments to ensure the Securities and Futures (Financial Resources) Rules are compatible with the latest market developments.

UT Code: The revised Code on Unit Trusts and Mutual Funds (UT Code) took effect on 1 January 2019 following our consultation on amendments to update the regulatory regime for SFC-authorized funds.

Anti-money laundering: The revised Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) came into effect on 1 November following our public consultation.

OTC derivatives: We concluded a consultation on proposals to enhance the over-the-counter (OTC) derivatives regime and address conduct risks posed by dealings with group affiliates and other connected persons.

Complex products: We published consultation conclusions on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment.

Market development

MRF: We signed Mutual Recognition of Funds (MRF) agreements with the UK Financial Conduct Authority and the Luxembourg Commission de Surveillance du Secteur Financier.

Paperless securities market: We launched a consultation jointly with Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars Limited on the proposed operational model for an uncertificated securities market.

Supervision

Licensees and registrants: As at 31 December, the number of licensees and registrants totalled 46,371, up 5% from last year, and the number of licensed corporations grew 9.2% to 2,905.

Listing applications: We vetted 68 new listing applications, up 70% from 40 in the same quarter last year. In the nine months to December, the number of listing applications was 310, up 31.4% year-on-year.

Inspections: We conducted 72 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Highlights

Virtual assets: We issued a statement setting out a new approach to bring virtual asset portfolio managers and distributors of virtual asset funds under our regulatory net as well as a conceptual framework for the potential regulation of virtual asset trading platforms.

Brokers' controls: We issued a circular and report on the findings of our review of brokers' internal controls and supervision of account executives.

Reporting suspicious transactions: We issued a circular about the use of "nominees" and "warehousing" arrangements which may amount to market or corporate misconduct, reminding firms to report suspicious transactions to the SFC.

Review of SEHK's work: We published a report on our review of the performance of The Stock Exchange of Hong Kong Limited (SEHK) in its regulation of listing matters during 2016 and 2017.

Enforcement

Disciplinary actions: We disciplined two licensed corporations and four representatives during the quarter, resulting in total fines of \$2.3 million.

Market surveillance: We made 2,597 requests for trading and account records from intermediaries triggered by untoward price and turnover movements.

Remedies for investors: The Court of First Instance ordered three unlicensed firms to compensate 14 investors a total of about \$600,000.

Regulatory cooperation

CSRC: We signed a memorandum of understanding with the China Securities Regulatory Commission (CSRC) on cooperation in the supervision of financial institutions operating on a cross-border basis as well as an agreement on investor identification arrangements under Mainland-Hong Kong Stock Connect.

Operational Review

Intermediaries

Licensing

In the quarter, we received 1,953 new licence applications, down 17% from the last quarter and up 1.5% year-on-year. The number of corporate applications for new licences decreased 25.9% from the last quarter to 63, down 35.7% year-on-year.

As at 31 December, the number of licensees and registrants totalled 46,371, up 5% from last year, and the number of licensed corporations grew 9.2% to 2,905.

Beginning 26 November, approval letters are only sent to individual licence applicants electronically, copying their accredited licensed corporations, and not in paper form.

Licensing applications

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Applications to conduct new regulated activity	5,593	18,731	16,992	10.2
Applications for SFC licences [#]	1,953	6,337	5,750	10.2

[#] Figures do not include applications for provisional licences. During the quarter, we received 1,054 provisional licence applications compared with 942 in the same quarter last year.

Regulatory enhancements

Financial resources rules

In October, we issued consultation conclusions on proposed amendments to the Securities and Futures (Financial Resources) Rules to update the computation basis for the financial resources requirements and ensure the rules are compatible with the latest market developments. The new requirements were enacted on 12 December. The amendments related to a new accounting standard took effect on 1 January 2019 and the remaining amendments will come into effect on 1 April 2019.

Intermediaries

Licensees and registrants

	As at 31.12.2018	As at 31.3.2018	Change (%)	As at 31.12.2017	YoY change (%)
Licensed corporations	2,905	2,702	7.5	2,660	9.2
Registered institutions	117	120	-2.5	119	-1.7
Licensed individuals	43,349	41,536	4.4	41,390	4.7
Total	46,371	44,358	4.5	44,169	5

Anti-money laundering

In October, we issued consultation conclusions on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) and the Prevention of Money Laundering and Terrorist Financing Guideline for Associated Entities. The changes align the guidelines with the latest international standards and make them more useful and relevant in light of industry developments. The revised guidelines came into effect on 1 November.

Complex products

We issued consultation conclusions in October on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment. These include ensuring their suitability and providing product information and warning statements to clients. As a consequence, identical protective measures will be applicable to both the online and offline sale of complex products with effect from April 2019.

Virtual assets

In a November statement, we set out a conceptual framework to explore whether virtual asset trading platforms are suitable for regulation. Further, in light of the significant risks virtual assets pose to investors, we will adopt new measures within our regulatory remit to protect those who invest in virtual asset portfolios or funds. We will impose licensing conditions on firms which manage or intend to manage portfolios investing in virtual assets¹, irrespective of whether the virtual assets meet the definition of “securities” or “futures contracts”². We also provided guidance on the standards expected of virtual asset portfolio managers and fund distributors.

OTC derivatives

In December, we released consultation conclusions on proposals to enhance the over-the-counter (OTC) derivatives regime and address conduct risks posed by dealings with group affiliates and other connected persons. New risk mitigation requirements for non-centrally cleared OTC derivative transactions take

¹ Where 10% or more of the gross asset value of the portfolio is invested in virtual assets.

² At present, many virtual assets do not meet the definition of “securities” or “futures contracts” under the Securities and Futures Ordinance (SFO). As such, managing funds solely investing in virtual assets which do not constitute “securities” or “futures contracts” does not amount to a “regulated activity” as specified under the SFO.

Intermediaries

effect on 1 September 2019, while client clearing requirements for OTC derivative transactions will become effective when the new Types 11 and 12 regulated activities come into effect. The conduct requirements to address risks posed by group affiliates and other connected persons take effect on 14 June 2019.

Non-exchange traded investment products

Our latest *Survey on the Sale of Non-exchange Traded Investment Products*, published in December³, showed that the aggregate transaction amount of investment products increased by 34% compared to the 2016 survey. As in the previous survey, structured investment products accounted for the largest share of the aggregate transaction amount, followed by fixed income products and collective investment schemes. By collecting information about the industry landscape and the types and value of investment products sold by licensed corporations, the survey helps us supervise selling practices.

In light of the significant increase in the sale of investment products such as equity-linked products and non-investment grade corporate bonds, we concurrently issued a circular reminding intermediaries to observe the requirements governing selling practices when they distribute structured products and corporate bonds with complex features or high risks.

Updated reporting arrangements

Revamped Business and Risk Management Questionnaire

We issued a revamped Business and Risk Management Questionnaire (BRMQ)⁴ in January 2019. For financial years ending on or after 31 March 2019⁵, licensed corporations and associated entities are required to complete and electronically submit the questionnaire to the SFC through WINGS⁶, the SFC's new online portal. The BRMQ collects information about the business operations of licensed corporations and associated entities as well as the specific measures they adopt to ensure sound risk management and proper internal controls. This enables the SFC to supervise licensed corporations and associated entities more effectively.

Electronic submission of notifications and annual returns

Starting 26 November, directors of licensed corporations or registered institutions and persons authorised by their boards can submit corporate notifications and annual returns⁷ via the SFC online portal. Previously, only responsible officers and executive officers were allowed to submit notifications and annual returns.

³ Previous surveys were published in 2012, 2014 and 2016.

⁴ All licensed corporations and associated entities are required to complete and submit the questionnaire to the SFC under section 156 of the SFO.

⁵ For financial years ending before 31 March 2019, the previous version of the BRMQ can be downloaded from the SFC's website and submitted in paper form.

⁶ Web-based INteGrated Service.

⁷ Registered institutions are not required to submit annual returns under the SFO.

Intermediaries

Monitoring

During the quarter, we conducted 72 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Promoting compliance

We issued a circular in October highlighting our concerns about the increasingly prevalent use of “nominees” and “warehousing” arrangements which may amount to market or corporate misconduct. Firms were reminded to be vigilant in identifying potential red flags which may suggest the use of these arrangements for illegitimate purposes and, where necessary, to make due follow-up enquiries with clients and report suspicious transactions promptly to the SFC and other authorities.

We issued a circular in November to announce a thematic review assessing the risk governance, oversight frameworks and risk management practices of selected licensed corporations in light of the increasing complexity of trading and business models. The review, combining industry surveys, meetings and on-site inspections, focuses on operational risk, data risk and the underlying risks of remote booking models.

Intermediary inspection

	Quarter ended 31.12.2018	Quarter ended 30.9.2018	Change (%)	Quarter ended 31.12.2017	YoY change (%)
On-site inspections conducted	72	81	-11.1	71	1.4

In December, we issued a circular and report to summarise the findings and highlight the key regulatory concerns identified during a circularisation exercise and high-level review of brokers’ control measures for protecting client assets along with a thematic review of brokers’ internal controls and supervision of account executives. We also published a comprehensive self-assessment checklist to help brokers review and improve these areas.

We issued a set of FAQs in December to clarify the application of the secrecy provisions under section 378 of the Securities and Futures Ordinance to the disclosure of supervisory information by licensed corporations to auditors, counsel, solicitors or other professional advisers.

We published the third issue of the *SFC Compliance Bulletin: Intermediaries* in November to highlight the SFC’s Fintech initiatives and recent regulatory developments.

Products

Authorisations

As of 31 December, 2,780 SFC-authorized collective investment schemes were on offer to the public. During the quarter, we authorised 47 unit trusts and mutual funds, one mandatory provident fund (MPF) pooled investment fund and 18 unlisted structured investment products for public offering.

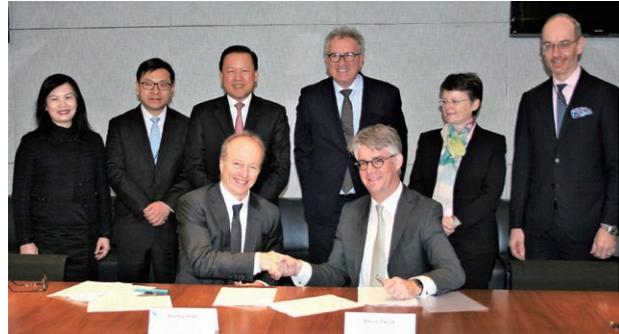
Mutual recognition of funds (MRF)

United Kingdom and Luxembourg

We entered into memoranda of understanding (MoUs) on MRF with the UK Financial Conduct Authority in October and with the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) in January. Each MoU allows eligible Hong Kong public funds (including funds structured in the form of open-ended fund companies) to be distributed in the other market, and vice versa. It also establishes a framework for information exchange, regular dialogue and regulatory cooperation on the cross-border offering of eligible funds.

Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 31 December, we had authorised a total of 50 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 17 Hong Kong funds.



Signing of MoU with the CSSF

Switzerland and France

Following our discussions with the Swiss Financial Market Supervisory Authority and the French Autorité des marchés financiers, both regulators confirmed that SFC-authorized funds structured in the form of open-ended fund companies are now eligible under our MRF arrangements with Switzerland and France.

Regulatory enhancements

On 6 December, we published consultation conclusions on proposed amendments to the Code on Unit Trusts and Mutual Funds (UT Code) as part of a holistic review to update the regulatory regime for SFC-authorized funds. Key changes included strengthening the requirements for key operators¹ and introducing new fund types such as active exchange-traded funds (ETFs). The revised UT Code became effective on 1 January 2019. We also published new guidance and frequently asked questions on our website to facilitate implementation and transition arrangements.

Unlisted structured investment products

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Unlisted structured investment products ^a	18	98	105	-6.7
Authorisations granted under section 105 of the Securities and Futures Ordinance ^b	11	68	68	0

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, most of which were equity-linked investments and deposits.

^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

¹ Including management companies, trustees and custodians.

Products

Authorised collective investment schemes^a

	As at 31.12.2018	As at 31.3.2018	Change (%)	As at 31.12.2017	YoY change (%)
Unit trusts and mutual funds	2,195	2,215	-0.9	2,205	-0.5
Investment-linked assurance schemes	300	299	0.3	299	0.3
Pooled retirement funds	34	34	0	34	0
MPF schemes	31	31	0	31	0
MPF pooled investment funds	195	194	0.5	194	0.5
Others	25 ^b	26	-4	26	-4
Total	2,780	2,799	-0.7	2,789	-0.3

^a Excluding unlisted structured investment products.

^b Comprising 14 paper gold schemes and 11 real estate investment trusts (REITs).

SFC-authorised renminbi investment products

	As at 31.12.2018
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	66
Other unlisted funds with renminbi share classes ^b	191
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products with renminbi features ^c	105
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	34
Other ETFs with renminbi trading counters ^b	20
Renminbi gold ETFs ^d	1
Renminbi REITs	1

^a Refers to onshore Mainland investments through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market.

^b Refers to unlisted funds or ETFs which have non-renminbi base currency.

^c The number is on a "one product per key facts statement" basis.

^d Only includes gold ETF denominated in renminbi.

Corporates

Review structure for Listing Committee decisions

Following discussions with the SFC, The Stock Exchange of Hong Kong Limited (SEHK) issued conclusions to its consultation on the review structure for Listing Committee decisions in January 2019. To promote transparency and accountability in decision-making, SEHK concluded that significant Listing Committee decisions will be subject to one level of review. A new independent committee, the Listing Review Committee, will be established to replace the existing Listing (Review) Committee and Listing (Disciplinary Review) Committee. In addition, the Listing Appeals Committee will be discontinued. All decisions on non-disciplinary matters made by the new Listing Review Committee will be published. The new regime is expected to take effect in mid-2019.

Review of SEHK's work

In December, we published a report on our review of SEHK's performance in its regulation of listing matters during 2016 and 2017. We reviewed the Listing Department's operations, processes and procedures, focusing on SEHK's vetting of initial public offering applications and suitability for listing, the regulation of reverse takeover transactions, the handling of disclaimer audit opinions as well as its policy on listing enforcement. The report identified a number of areas for SEHK to enhance its performance.

Listing applications and takeovers activities

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Listing applications	68	310	236	31.4
Takeovers and share buy-backs transactions	93	285	339	-15.9

¹ The SFC may object to a listing of securities based on one or more of the grounds set out in section 6(2) of the Securities and Futures (Stock Market Listing) Rules. A letter of mindedness to object sets out our substantive concerns along with detailed reasons.

² 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.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 68 new listing applications, up 70% from 40 in the same quarter last year. The number of listing applications in the nine months from April to December was 310, up 31.4% year-on-year.

During the quarter, we received two listing applications from pre-profit biotech companies. We also issued one letter of mindedness to object directly to a listing applicant¹ in the period.

Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179² directions to gather additional information in 24 cases and wrote to detail our concerns in 13 transactions. These concerns included, for example, whether a corporate action or transaction was being conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Takeovers matters

In December, we introduced a new Practice Note 22 which provides guidance on the interpretation of material contracts under the Takeovers Code requirements. All contracts relating to discloseable transactions under the Listing Rules should normally be treated as material contracts for the purposes of the Takeovers Code. This requirement facilitates transparency and assists shareholders in reaching an informed decision about an offer.

Markets

Stock Connect

In December, we entered into an agreement with the China Securities Regulatory Commission (CSRC) to enhance the exchange of information under Mainland-Hong Kong Stock Connect. The enhancements are part of arrangements for the investor identification regime for both northbound and southbound trading under Stock Connect.

The investor identification regime for northbound trading has been operating smoothly since its launch on 26 September. We are working with the CSRC to introduce a similar regime for southbound trading in the first quarter of 2019.

Paperless securities market

In January 2019, we launched a consultation jointly with Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars on the proposed operational model for implementing an uncertificated securities market. The consultation will close in late April.

ATS providers

	As at 31.12.2018	As at 31.3.2018	Change (%)	As at 31.12.2017	YoY change (%)
Under Part III	58	57	1.8	52	11.5
Under Part V	24	24	0	24	0

OTC derivatives

Following our joint consultation with the Hong Kong Monetary Authority on enhancements to the over-the-counter (OTC) derivatives regime¹, amendments to subsidiary legislation to provide for the second phase of mandatory clearing were gazetted on 7 December. They will be effective on 1 March 2019 subject to legislative vetting by the Legislative Council.

Automated trading services

As of 31 December, the number of automated trading services (ATS)² authorisations under Part III of the Securities and Futures Ordinance (SFO) was 58, while 24 corporations, including 15 dark pool operators, were licensed under Part V of the SFO to provide ATS.

¹ The enhancements include proposals to mandate the use of Legal Entity Identifiers for the reporting obligation, expand the clearing obligation and adopt a process for determining for which products it may be appropriate to introduce a platform trading obligation.

² Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Court rulings

During the quarter, the Court of Final Appeal (CFA) dismissed the appeal of Eric Lee Kwok Wa, a solicitor, and his sisters, Patsy Lee Siu Ying and Stella Lee Siu Fan, against the judgment of the Court of Appeal (CA), thereby affirming the original determination that they had engaged in fraudulent or deceptive conduct in transactions involving the shares of Taiwan-listed Hsinchu International Bank Company Limited.

The CFA allowed our appeal against the findings of the Market Misconduct Tribunal (MMT) that two former executives of Asia Telemedia Limited¹, Charles Yiu Hoi Ying and Marian Wong Nam, had not engaged in insider dealing. The CFA held that they failed to establish that they did not use inside information for financial gain. The CFA set aside the orders made by the CA and the MMT and remitted the matter back to the MMT to deal with sanctions.

The Court of First Instance (CFI) ordered three unlicensed companies² to compensate 14 investors a total of about \$600,000, which had been subject to an interim injunction obtained by the SFC under section 213³ of the Securities and Futures Ordinance (SFO). These companies had solicited investors to open trading accounts to invest in securities and futures products. However, no trades were executed and investors were not able to recover their money.

Market Misconduct Tribunal

During the quarter, we commenced proceedings in the MMT against the following companies and persons for allegedly failing to disclose inside information as soon as reasonably practicable:

- Health and Happiness (H&H) International Holdings Ltd⁴ and Luo Fei, its Chairman, Chief Executive Officer and Executive Director; and
- CMBC Capital Holdings Limited⁵ and six of its former directors and senior executives⁶.

¹ Now known as Yunfeng Financial Group Limited.

² Cardell Limited or Cardell Company Limited, Waldmann Asset Management and Doyle Hutton Associates.

³ Section 213 of the SFO gives the SFC the power to apply to the CFI for injunctions and other orders under specified conditions.

⁴ Formerly known as Biostime International Holdings Limited.

⁵ Formerly known as Mission Capital Holdings Limited.

⁶ Philip Suen Yick Lun (former Chief Executive Officer and Company Secretary), Paul Suen Cho Hung (former Chairman), Lau King Hang (former Executive Director) and three former Independent Non-Executive Directors, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

⁷ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

⁸ Now known as China Silver Asset Management (Hong Kong) Limited.

Disciplinary actions

We disciplined two licensed corporations and four representatives during the quarter, resulting in total fines⁷ of \$2.3 million.

Mis-handling client money

We banned Lok Wai Fong, a former employee of Bank of China (Hong Kong) Limited, from re-entering the industry for life for unauthorised transfers of client money and failure to act on client instructions.

We banned Kong Kar Bong, a former account executive of Sanfull Securities Limited, from re-entering the industry for 10 years for misappropriating client money and forging an account statement.

Other regulatory breaches

We reprimanded and fined SFM HK Management Limited \$1.5 million for failures relating to the short selling of Great Wall Motor Company Limited shares in 2015 on behalf of a fund it managed.

We suspended the licences of Chan Ho Wai and Lam Wai Kit, responsible officers of FT Securities Limited, for nine months for failing to exercise due skill, care and diligence in handling research reports issued by the firm. They also failed to ensure that the firm maintained appropriate standards of conduct and adhered to proper procedures.

We reprimanded and fined Ardon Maroon Fund Management (Hong Kong) Limited⁸ \$800,000 for cross-trade failures in managing the Ardon Maroon Asia Master Fund.

Enforcement

Market surveillance

In the quarter, we made 2,597 requests for trading and account records from intermediaries as a result of our surveillance of untoward price movements and turnover. In addition, we posted two 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.

Fostering enforcement cooperation

We co-organised our third joint training with the China Securities Regulatory Commission (CSRC) in Shenzhen in November where we discussed the latest developments in digital forensics and the application

of big data in law enforcement. The more than 120 participants included experts from the Economic Crime Investigation Department of the Ministry of Public Security, Hong Kong Police, Independent Commission Against Corruption and an overseas digital forensic firm, as well as SFC and CSRC staff.

In December, the SFC and CSRC held their seventh regular high-level meeting on enforcement cooperation in Hong Kong. We discussed a range of matters, including market surveillance workflows and procedures and the progress of high-priority investigations. These meetings are crucial to combat cross-boundary market misconduct and for the orderly operation of the Mainland-Hong Kong mutual market access programme.



SFC-CSRC joint training in Shenzhen



Seventh SFC-CSRC regular high-level meeting on enforcement cooperation

Enforcement

Enforcement activities

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
S179 ^a inquiries commenced	7	19	20	-5
S181 ^b inquiries commenced (number of letters sent)	80 (2,597)	225 (6,734)	199 (6,561)	13.1 (2.6)
S182 ^c directions issued	59	179	203	-11.8
Investigations started	57	180	215	-16.3
Investigations completed	69	191	174	9.8
Individuals and corporations charged in criminal proceedings	0	4	11	-63.6
Criminal charges laid	0	37	44	-15.9
Notices of Proposed Disciplinary Action ^d issued	5	13	22	-40.9
Notices of Decision ^e issued	6	27	19	42.1
Individuals and corporations subject to ongoing civil proceedings ^f	98	98	110	-10.9
Compliance advice letters issued	60	182	215	-15.3
Cases with search warrants executed	9	24	19	26.3

^a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

^b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

^c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

^d 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.

^e A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

^f As of the last day of the reporting period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, our Chief Executive Officer, chairs the Board of the International Organization of Securities Commissions (IOSCO), which met in October, and we participate in all eight IOSCO policy committees.

The SFC hosted the October CPMI¹-IOSCO Steering Group meeting which was co-chaired by Mr Alder and Mr Benoît Cœuré of the European Central Bank.

In the same month, Mr Alder participated in the EU-Asia Pacific Forum on Financial Regulation, which discussed the implementation of EU regulations with a cross-border impact, crypto-assets, sustainable finance and other capital market developments.

Financial Stability Board (FSB)

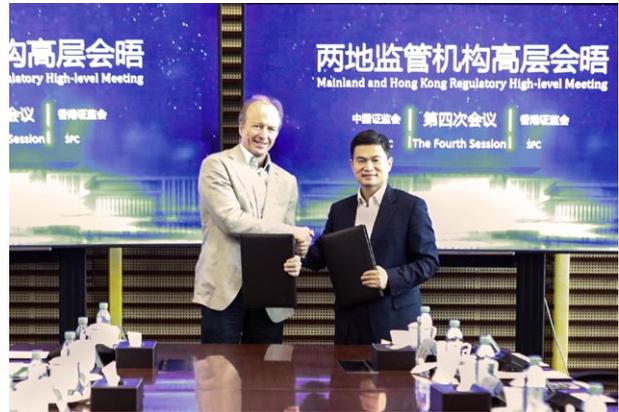
During the quarter, Mr Alder, in his capacity as Chair of the IOSCO Board, participated as a member of the FSB Plenary and Steering Committee, which considers financial vulnerabilities in the global financial system.

We are actively involved in the work of the FSB Standing Committee on Standards Implementation (SCSI). Mr Keith Lui, Executive Director of Supervision of Markets, participated in the SCSI's meeting in October which focussed on the implementation and effects of the Group of Twenty (G20) reforms, the FSB's thematic monitoring work and peer reviews.

Mainland China

In November, SFC Chairman Mr Tim Lui met Mr Liu Shiyu, Chairman of the China Securities Regulatory Commission (CSRC), in Beijing to discuss cooperation between the Hong Kong and Mainland capital markets.

In December, the 4th SFC-CSRC High-level Meeting held in Shenzhen discussed ways to enhance cross-boundary regulatory cooperation and key initiatives including investor identification for southbound trading under Stock Connect, proposals for ETF² Connect, the Mainland-Hong Kong Mutual Recognition of Funds arrangement and the full circulation of H shares. We also signed a memorandum



The 4th SFC-CSRC High-level Meeting

of understanding with the CSRC to enhance cooperation and the exchange of information in the supervision and oversight of financial institutions which operate on a cross-boundary basis.

To strengthen Hong Kong's cooperation with the Mainland, we attended the 7th Shenzhen-Hong Kong-Macau Financial Innovation Conference in Shenzhen in October. In addition, we received a visit from the Chinese Academy of Social Sciences to discuss Hong Kong's capital market and new opportunities arising from the development of the Guangdong-Hong Kong-Macau Greater Bay Area. We also received visitors from the State Council to discuss Hong Kong's role in facilitating the Mainland's financial reforms and its integration into global markets as well as ways to enhance Hong Kong's status as an international financial centre. With visitors from the People's Bank of China, we discussed the development of offshore renminbi business in Hong Kong.

Green finance

As part of our efforts to advance Hong Kong's leadership in green finance, as set out in our *Strategic Framework for Green Finance* published in September, we participated in the IOSCO Sustainable Finance Network, the Advisory Group of the United Nations Sustainable Stock Exchanges Initiative and the G20 Sustainable Finance Study Group.

¹ Committee on Payments and Market Infrastructures.

² Exchange-traded fund.

Stakeholders

We engage stakeholders to help them understand our work and provide them with up-to-date regulatory information.

During the quarter, we supported seven industry events and our senior executives spoke at 24 local and international conferences. We met with a wide range of industry associations to understand their views on regulatory issues.

We released the following publications in the quarter:

- The November issue of the *SFC Compliance Bulletin: Intermediaries* provided guidance to accommodate the industry's increasing use of new technologies whilst ensuring investor protection.

- The findings of the *Survey on the Sale of Non-exchange Traded Investment Products* presented an overview of the types and value of investment products sold by licensed corporations to individual investors.
- The December issue of the *Takeovers Bulletin* reminded offerors that the structure of an offer price should not be oppressive to shareholders and introduced a new practice note providing guidance about material contracts on display.

We issued 26 circulars informing industry participants about a wide range of matters, including virtual assets, leveraged and inverse products, valuation of fund assets, our review of licensed firms' internal controls and updates on anti-money laundering and counter-terrorist financing.

Publications and other communications

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Press releases	28	94	111	-15.3
Consultation papers	0	4	8	-50
Consultation conclusions	5	13	6	116.7
Industry-related publications	4	12	11	9.1
Codes and guidelines ^a	4	10	8	25
Circulars to industry	26	70	61	14.8
Corporate website average daily page views ^b	67,870	61,477	67,825	-9.4
General enquiries	1,561	5,100	5,354	-4.7

^a Includes updates to previous versions.

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

Corporate Developments

Board

Mr Tim Lui Tim-leung was appointed by the Chief Executive of the Hong Kong Special Administrative Region as the Chairman of the SFC for a term of three years from 20 October. Mr Lui succeeded Mr Carlson Tong Ka-shing, who stepped down after a six-year chairmanship.

New corporate identity

Approaching the SFC's thirtieth anniversary in 2019, we announced a new corporate identity in October. The new image will be phased in over time.

Finance

Our income for the quarter was \$312 million, compared to \$433 million in the previous quarter but 41% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$90 billion for the quarter, 9% lower than the \$99 billion recorded in the previous quarter. Our expenditure for the quarter was \$449 million, 1% higher than that in the last quarter.

Finances

(\$ million)	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Income	312	1,185	1,429	-17.1
Expenses including depreciation	449	1,327	1,310	1.3
(Loss)/surplus	(137)	(142)	119	N/A

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$4 billion as of 31 December.

Information technology

During the quarter, we launched a new system to manage finance and human resources-related matters within the organisation. We also migrated our enforcement investigation system onto an enhanced centralised case management platform to facilitate information sharing internally, and introduced a new information system for monitoring the liquidity of SFC-authorized funds.

Staffing

As of 31 December, we had 912 staff members, up from 880 a year ago.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017 ¹	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	7	8	-12.5
Failure to safekeep client securities	11	26	34	-23.5
Failure to maintain proper books and records	2	13	26	-50
Failure to safekeep client money	9	27	46	-41.3
Unlicensed dealing and other registration issues	4	11	15	-26.7
Breach of licensing conditions	3	4	6	-33.3
Breach of requirements of contract notes/statements of account/receipts	5	23	47	-51.1
Failure to make filing/notification	0	0	1	N/A
Breach of margin requirements	1	8	4	100
Dealing malpractices	1	2	2	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	58	225	249	-9.6
Breach of Corporate Finance Adviser Code of Conduct	6	6	5	20
Breach of Fund Manager Code of Conduct	24	48	73	-34.2
Breach of regulation of online trading	0	2	4	-50
Non-compliance with anti-money laundering guidelines	65	140	128	9.4
Breach of other rules and regulations of the Exchanges ³	1	10	9	11.1
Internal control weaknesses ⁴	92	321	375	-14.4
Others	23	64	61	4.9
Total	307	937	1,093	-14.3

¹ Adjustments have been made for the period.

² Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

³ The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

⁴ Deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

Activity Data

Table 2 Authorised unit trusts and mutual funds – by type

	As at 31.12.2018	As at 31.3.2018	Change (%)	As at 31.12.2017	YoY change (%)
Bond	468	449	4.2	441	6.1
Equity	995	1,030	-3.4	1,029	-3.3
Diversified	179	172	4.1	168	6.5
Money market	42	45	-6.7	45	-6.7
Fund of funds	110	116	-5.2	117	-6
Index ¹	161	157	2.5	155	3.9
Guaranteed	3	3	0	4	-25
Hedge	0	1	-100	1	-100
Other specialised ²	5	5	0	5	0
Sub-total	1,963	1,978	-0.8	1,965	-0.1
Umbrella structures	232	237	-2.1	240	-3.3
Total	2,195	2,215	-0.9	2,205	-0.5

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

Table 3 Authorised unit trusts and mutual funds – by type and assets under management

	Total NAV (US\$ million) as at 31.12.2018	Total NAV (US\$ million) as at 31.3.2018	Change (%)	Total NAV (US\$ million) as at 31.12.2017	YoY change (%)
Bond	493,953	569,700	-13	573,417	-13.9
Equity	650,173	787,889	-17.5	772,060	-15.8
Diversified	154,866	180,353	-14.1	171,133	-9.5
Money market	22,700	20,905	8.6	20,920	8.5
Fund of funds	21,006	22,897	-8.3	22,850	-8.1
Index ¹	88,942	97,637	-8.9	99,742	-11
Guaranteed	79	105	-24.8	116	-31.9
Hedge	0	26	-100	26	-100
Other specialised ²	818	1,061	-23	1,060	-22.8
Total	1,432,537	1,680,573	-14.8	1,661,324	-13.8

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

Activity Data

Table 4 Authorised unit trusts and mutual funds – by origin

	As at 31.12.2018	As at 31.3.2018	Change (%)	As at 31.12.2017	YoY change (%)
Hong Kong	775	758	2.2	755	2.6
Mainland China	50	50	0	50	0
Luxembourg	1,050	1,041	0.9	1,023	2.6
Ireland	218	239	-8.8	247	-11.7
United Kingdom	53	69	-23.2	69	-23.2
Other Europe	3	3	0	3	0
Bermuda	1	1	0	3	-66.7
Cayman Islands	37	46	-20	47	-21
Others	8	8	0	8	0
Total	2,195	2,215	-0.9	2,205	-0.5

Table 5 Authorised unit trusts and mutual funds – by origin and assets under management

	Total NAV (US\$ million) as at 31.12.2018	Total NAV (US\$ million) as at 31.3.2018	Change (%)	Total NAV (US\$ million) as at 31.12.2017	YoY change (%)
Hong Kong	137,745	158,199	-12.9	159,247	-13.5
Mainland China	14,955	20,855	-28.3	20,438	-26.8
Luxembourg	977,502	1,105,904	-11.6	1,085,333	-9.9
Ireland	187,928	232,586	-19.2	235,916	-20.3
United Kingdom	66,508	109,340	-39.2	108,609	-38.8
Other Europe	126	137	-8	122	3.3
Bermuda	156	173	-9.8	194	-19.6
Cayman Islands	7,491	9,033	-17.1	8,507	-11.9
Others	40,126	44,346	-9.5	42,958	-7
Total	1,432,537	1,680,573	-14.8	1,661,324	-13.8

Activity Data

Table 6 Takeovers activities

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	12	44	49	-10.2
Privatisations	2	5	10	-50
Whitewash waiver applications	6	16	35	-54.3
Other applications under Code on Takeovers and Mergers ¹	71	207	244	-15.2
Off-market and general offer share buy-backs	1	7	1	600
Other applications under Code on Share Buy-backs ¹	1	6	0	N/A
Total	93	285	339	-15.9
Executive Statements				
Sanctions imposed with parties' agreement ²	0	2	4	-50
Takeovers and Mergers Panel				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	1	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	1	N/A
Statements issued by the Panel ³	0	0	1	N/A

¹ Including 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 7 Complaints against intermediaries and market activities

	Quarter ended 31.12.2018	Nine months ended 31.12.2018	Nine months ended 31.12.2017	YoY change (%)
Conduct of licensees	107	332	248	33.9
Conduct of registered institutions	4	11	17	-35.3
Listed companies and disclosure of interests	829	2,990	593	404.2
Market misconduct ¹	78	265	227	16.7
Product disclosure	1	3	7	-57.1
Unlicensed activities	43	134	102	31.4
Breach of offers of investments	5	20	43	-53.5
Boiler rooms and suspicious websites	111	274	231	18.6
Scams and frauds ²	96	247	111	122.5
Other financial activities ³	381	768	260	195.4
Total	1,655	5,044	1,839	174.3

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading and banking services.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income					
Levies		1,108,814	1,019,101	343,945	390,758
Fees and charges		97,297	120,278	28,656	45,662
Investment (loss)/income		(21,416)	271,939	(62,013)	90,638
Less: custody and advisory expenses		(5,797)	(5,726)	(1,838)	(1,984)
Investment (loss)/income net of third party expenses		(27,213)	266,213	(63,851)	88,654
Recoveries from the Investor Compensation Fund		4,423	4,314	1,461	1,431
Exchange (loss)/gain		(10,303)	18,154	2,048	3,111
Other income		11,533	336	169	239
		1,184,551	1,428,396	312,428	529,855
Expenses					
Staff costs and directors' emoluments	8(b)	1,003,423	961,033	339,830	318,721
Premises					
Rent		150,539	154,209	50,197	49,807
Rates, management fees and others		34,898	36,036	11,890	11,147
Other expenses		112,536	136,802	38,192	51,981
Depreciation		25,365	21,810	8,999	7,635
		1,326,761	1,309,890	449,108	439,291
(Loss)/surplus and total comprehensive (loss)/income for the period		(142,210)	118,506	(136,680)	90,564

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Non-current assets			
Fixed assets		87,151	71,923
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		1,364,499	1,618,536
Current assets			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		180,904	219,778
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		67,303	33,353
		5,960,775	5,709,179
Current liabilities			
Fees received in advance		8,013	8,810
Creditors and accrued charges		250,698	113,317
		258,711	122,127
Net current assets		5,702,064	5,587,052
Total assets less current liabilities		7,066,563	7,205,588
Non-current liabilities	4	44,009	40,824
Net assets		7,022,554	7,164,764
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,979,714	4,121,924
		7,022,554	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Non-current assets			
Fixed assets		87,119	71,859
Financial assets at amortised cost		1,277,348	–
Held-to-maturity debt securities		–	1,546,613
		1,364,467	1,618,472
Current assets			
Financial assets at amortised cost		299,631	–
Held-to-maturity debt securities		–	35,503
Financial assets at fair value through profit or loss			
Debt securities		787,350	772,300
Pooled funds		808,972	934,768
Debtors, deposits and prepayments		192,784	221,338
Fixed deposits with banks		3,816,615	3,713,477
Cash at bank and in hand		46,505	21,171
		5,951,857	5,698,557
Current liabilities			
Fees received in advance		8,013	8,810
Creditors and accrued charges		241,748	102,631
		249,761	111,441
Net current assets		5,702,096	5,587,116
Total assets less current liabilities		7,066,563	7,205,588
Non-current liabilities	4	44,009	40,824
Net assets		7,022,554	7,164,764
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,979,714	4,121,924
		7,022,554	7,164,764

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the period	–	–	118,506	118,506
Balance at 31 December 2017	42,840	3,000,000	3,997,566	7,040,406
Balance at 1 April 2018	42,840	3,000,000	4,121,924	7,164,764
Loss and total comprehensive loss for the period	–	–	(142,210)	(142,210)
Balance at 31 December 2018	42,840	3,000,000	3,979,714	7,022,554

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
(Loss)/surplus and total comprehensive (loss)/income for the period		(142,210)	118,506
Adjustments for:			
Depreciation		25,365	21,810
Investment loss/(income)		21,416	(271,939)
Exchange difference		10,338	(10,293)
Loss on disposal of fixed assets		–	719
		(85,091)	(141,197)
Decrease/(increase) in debtors, deposits and prepayments		49,520	(20,111)
Increase in creditors and accrued charges		137,381	119,486
Decrease in fees received in advance		(797)	(1,199)
Increase in non-current liabilities		3,185	5,607
<i>Net cash generated from/(used in) operating activities</i>		104,198	(37,414)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(226,014)	1,091,420
Interest received		87,833	61,417
Held-to-maturity debt securities purchased		–	(879,337)
Held-to-maturity debt securities redeemed at maturity		–	30,000
Debt securities at fair value through profit or loss purchased		(198,529)	(487,785)
Debt securities at fair value through profit or loss sold or redeemed		182,288	438,565
Pooled funds at fair value through profit or loss sold		3,299	104,882
Fixed assets purchased		(40,593)	(22,672)
<i>Net cash (used in)/generated from investing activities</i>		(191,716)	336,490
Net (decrease)/increase in cash and cash equivalents		(87,518)	299,076
Cash and cash equivalents at beginning of the nine-month period		292,105	676,727
Cash and cash equivalents at end of the nine-month period	3	204,587	975,803

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	137,284	929,127
Cash at bank and in hand	67,303	46,676
	204,587	975,803

The notes on pages 27 to 29 form part of the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2018
(Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the 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).

This interim financial information contains condensed consolidated 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 SFC since the annual financial statements for the year ended 31 March 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 included in this report does not constitute the SFC's statutory annual financial statements 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 and Financial Education Council (IFEC) (formerly known as Investor Education Centre) in the SFC's condensed consolidated financial statements made up to 31 December 2018. 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 2018 to the interim financial information, except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments and HKFRS 15, Revenue from Contracts with Customers as issued by the HKICPA, both with a date of transition of 1 January 2018. The adoption of HKFRS 15 did not have any impact on the Group's accounting policies and did not require retrospective adjustments. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the SFC for the nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All the debt securities are considered to have low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank and in hand	67,303	33,353
Fixed deposits with banks	3,816,615	3,713,477
Amounts shown in the condensed consolidated statement of financial position	3,883,918	3,746,830
Less: Amounts with an original maturity of beyond three months	(3,679,331)	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	204,587	292,105

4. Non-current liabilities

Non-current liabilities represent provision for premises reinstatement cost to restore the premises to its original condition when the lease has expired.

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 2018. Therefore we do not provide an ageing analysis of debtors and creditors.

6. Exchange risk

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. 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 IFEC as a company limited by guarantee with no 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 IFEC 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 2018, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2018: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

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 \$4,423,000 (2017: \$4,314,000), which is in accordance with section 242(1) of the SFO. As at 31 December 2018, the amount due to the ICF from the ICC was \$226,000 (at 31 March 2018: \$203,000).
- b) Remuneration for key management personnel comprised:

	Unaudited nine months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Directors’ fees and salaries, allowances and benefits in kind	25,219	24,264
Retirement scheme contributions	2,300	2,218
	27,519	26,482

The total remuneration is included in “staff costs and directors’ emoluments” on page 22. 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.

9. Operating lease commitments

During the period, we have entered into a new operating lease for the office premise for eight years commencing 1 January 2020.

At 31 December 2018 the minimum amount we are committed to pay in rent for our offices up to 31 December 2027 are as follows:

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Payable next year	201,162	200,457
Payable in one to five years	593,683	284,069
Payable in more than five years	612,427	–
	1,407,272	484,526

\$150,539,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of profit or loss and other comprehensive income in respect of operating leases (2017: \$154,209,000) during the period.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 2018.

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 financial performance of the Fund for the reporting period ended 31 December 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 31 to 36.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	(retired on 31 December 2018)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)

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, 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

22 February 2019

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income					
Net investment income		22,712	80,346	14,441	23,249
Exchange difference		(3,941)	9,836	737	1,413
Compensation payment given up		150	–	150	–
		18,921	90,182	15,328	24,662
Expenses					
Investor Compensation Company Limited expenses	3	4,423	4,314	1,461	1,431
Auditor's remuneration		137	132	35	33
Bank charges		406	727	11	248
Professional fees		1,465	3,097	16	1,041
		6,431	8,270	1,523	2,753
Surplus and total comprehensive income for the period		12,490	81,912	13,805	21,909

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Current assets		
Financial assets at fair value through profit or loss		
– Debt securities	37,732	1,939,279
– Pooled fund	–	350,084
Interest receivable	12,130	17,015
Due from Investor Compensation Company Limited	226	203
Fixed deposits with banks	2,322,457	52,586
Cash at bank	1,419	3,347
	2,373,964	2,362,514
Current liabilities		
Creditors and accrued charges	324	1,364
	324	1,364
Net current assets	2,373,640	2,361,150
Net assets	2,373,640	2,361,150
Representing:		
Compensation fund	2,373,640	2,361,150

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The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the period	–	–	81,912	81,912
Balance at 31 December 2017	994,718	108,923	1,258,677	2,362,318
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Surplus and total comprehensive income for the period	–	–	12,490	12,490
Balance at 31 December 2018	994,718	108,923	1,269,999	2,373,640

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Surplus and total comprehensive income for the period		12,490	81,912
Adjustments for:			
Net investment income		(22,712)	(80,346)
Exchange difference		3,941	(9,836)
		(6,281)	(8,270)
Increase in amount due from Investor Compensation Company Limited		(23)	(97)
Decrease in provision for compensation		–	(176)
Decrease in creditors and accrued charges		(1,040)	(60)
Net cash used in operating activities		(7,344)	(8,603)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(2,295,470)	–
Debt securities purchased		(165,306)	(919,710)
Debt securities sold or redeemed		2,055,094	825,678
Pooled fund sold		338,934	36,356
Interest received		46,565	35,682
Net cash used in investing activities		(20,183)	(21,994)
Net decrease in cash and cash equivalents		(27,527)	(30,597)
Cash and cash equivalents at beginning of the nine-month period		55,933	44,971
Cash and cash equivalents at end of the nine-month period	4	28,406	14,374

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	26,987	11,407
Cash at bank	1,419	2,967
	28,406	14,374

The notes on pages 35 to 36 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the 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).

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the 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 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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 2018 to this interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement.

There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

3. 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. The Fund is responsible for funding the establishment and operation of the ICC. For the nine months ended 31 December 2018, the ICC incurred costs of \$4,423,000 for its operations (for the nine months ended 31 December 2017: \$4,314,000) which were reimbursed by the Fund.

Investor Compensation Fund

4. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank	1,419	3,347
Fixed deposits with banks	2,322,457	52,586
Amounts shown in the condensed statement of financial position	2,323,876	55,933
Less: Amounts with an original maturity of beyond three months	(2,295,470)	–
Cash and cash equivalents in the condensed statement of cash flows	28,406	55,933

5. Material related party transactions

We have related party relationships with the Securities and Futures Commission, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the interim financial information of the Fund for the nine months ended 31 December 2018 and 2017.

6. Contingent liabilities

As at the date of this report, 12 claims have been received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims in aggregate is \$1,791,000 (31 March 2018: \$2,375,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 2018.

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 2018, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission 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 financial performance of the Fund for the reporting period ended 31 December 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 38 to 43.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	(retired on 31 December 2018)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)

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, 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

14 February 2019

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income				
Interest income	1,120	456	441	164
Recoveries	1	–	–	–
	1,121	456	441	164
Expenses				
Auditor's remuneration	65	63	15	14
	65	63	15	14
Surplus and total comprehensive income for the period	1,056	393	426	150

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The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Current assets			
Equity securities received under subrogation	3	1	1
Interest receivable		230	98
Accounts receivable		9	9
Fixed deposits with banks		87,882	86,525
Cash at bank		648	224
		88,770	86,857
Current liabilities			
Creditors and accrued charges		10,310	10,303
Relinquished trading rights payable to SEHK	4	900	750
		11,210	11,053
Net current assets		77,560	75,804
Net assets		77,560	75,804
Representing:			
Compensation fund		77,560	75,804

The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000		
Balance at 1 April 2017	51,200	353,787	630,000	6,502	26,120	(994,718)	72,891	
Net contributions from SEHK	2,100	-	-	-	-	-	2,100	
Surplus and total comprehensive income for the period	-	-	-	-	393	-	393	
Balance at 31 December 2017	53,300	353,787	630,000	6,502	26,513	(994,718)	75,384	
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804	
Net contributions from SEHK	700	-	-	-	-	-	700	
Surplus and total comprehensive income for the period	-	-	-	-	1,056	-	1,056	
Balance at 31 December 2018	54,200	353,787	630,000	6,502	27,789	(994,718)	77,560	

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The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities		
Surplus and total comprehensive income for the period	1,056	393
Adjustment for:		
Interest income	(1,120)	(456)
	(64)	(63)
Increase in accounts receivable	–	(59)
Increase/(decrease) in creditors and accrued charges	7	(336)
Increase in relinquished trading rights payable to SEHK	150	100
Net cash generated from/(used in) operating activities	93	(358)
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	–	(20,891)
Interest received	988	453
Net cash generated from/(used in) investing activities	988	(20,438)
Cash flows from financing activities		
Net trading rights deposits from SEHK	700	2,100
Net cash generated from financing activities	700	2,100
Net increase/(decrease) in cash and cash equivalents	1,781	(18,696)
Cash and cash equivalents at beginning of the nine-month period	86,749	84,076
Cash and cash equivalents at end of the nine-month period	88,530	65,380

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	87,882	64,817
Cash at bank	648	563
	88,530	65,380

The notes on pages 42 to 43 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the 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 which came into effect from 1 April 2003, the Fund has prepared the interim financial information on a non-going concern basis. 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 interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the 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 2018. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 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 2018 to this interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, Financial Instruments as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the interim financial information

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the condensed financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously will continue with their classification and measurement with the adoption of HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Unified Exchange Compensation Fund

3. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the Securities and Futures Commission (SFC) that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 December 2018 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 financial assets at fair value through profit or loss in accordance with HKFRS 9. 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".

4. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (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 nine months after the trading right was relinquished.

During the nine-month period, deposits of \$950,000 in respect of 19 new trading rights were received from SEHK and deposits of \$100,000 in respect of two relinquished trading rights were refunded to SEHK.

At 31 December 2018, there were 18 trading rights in total of \$900,000 that have been relinquished but not yet refunded (at 31 March 2018: 15). The net trading right deposits from SEHK at 31 December 2018, excluding the relinquished trading rights payable, amounted to \$54,200,000 (at 31 March 2018: \$53,500,000).

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 interim financial information of the Fund for the nine months ended 31 December 2018 and 2017.

Securities and Futures Commission

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