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Quarterly Report
October - December 2019

This third Quarterly Report of the Securities and Futures Commission for financial year 2019-20 covers the period from 1 October to 31 December 2019.

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Highlights

Regulatory enhancements

Investor compensation: Following the release of our consultation conclusions in October, enhancements to the investor compensation regime, including raising the compensation limit to \$500,000 per investor per default, came into effect on 1 January 2020.

Virtual assets (VA): We issued a position paper in November setting out a regulatory framework for licensing VA trading platforms. We also published terms and conditions for licensed corporations managing portfolios which invest in VA.

Over-the-counter (OTC) derivatives: In December, we released consultation conclusions on margin requirements for non-centrally cleared OTC derivatives which will be phased in starting from 1 September 2020.

Open-ended fund companies (OFC): We launched a consultation in December on proposed enhancements to the OFC regime to encourage more private funds to set up in Hong Kong.

Investor identification: Together with the China Securities Regulatory Commission (CSRC), we launched an investor identification regime for southbound trading under Stock Connect on 13 January 2020.

Listing regulation

Listing applications: We vetted 51 new listing applications during the quarter.

Corporate conduct: As part of our review of corporate disclosure, we issued section 179 directions to gather additional information in 14 cases and wrote to detail our concerns in six transactions.

Disclosure of counterparties: We issued a statement reminding listed companies not to disclose false, incomplete or misleading information about their counterparties in a transaction.

Highlights

Intermediaries

Licensing: As at 31 December, the number of licensees and registrants rose 2.3% from last year to 47,437, including the number of licensed corporations which grew to 3,084, up 6.2%.

Inspections: We conducted 76 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

External electronic data storage: An October circular set out requirements for keeping regulatory records exclusively with external electronic data storage providers.

Dubious fund arrangements: Our November circular to asset managers reminded them to properly assess private fund and discretionary account arrangements or transactions which are proposed or directed by investors.

Sustainable finance

ESG survey: In December, we published a report on our survey on integrating environmental, social and governance (ESG) factors and climate risks in asset management.

Green and ESG funds: We launched a central database to improve the visibility of SFC-authorized green and ESG funds. Twenty-one funds complied with our enhanced ESG disclosure requirements as at the end of the quarter.

Enforcement

Disciplinary actions: We disciplined five licensed corporations and five individuals, resulting in total fines of \$413.3 million.

Market surveillance: We made 2,345 requests for trading and account records triggered by untoward price and turnover movements.

Operational Review

Corporates

Disclosure of actual counterparties

In November, we issued a statement to remind listed companies that their announcements and other documents must not include false, incomplete or misleading information about their counterparties in a transaction. The statement sets out examples where companies may be required to disclose the identities of a counterparty's actual controllers or beneficial owners.

Climate-related disclosure

As part of our strategic framework for sustainable finance¹, we work closely with The Stock Exchange of Hong Kong Limited (SEHK) to enhance listed companies' environmental disclosure, with a focus

on climate-related issues. In December, SEHK issued consultation conclusions on proposed changes to its environmental, social and governance reporting framework. Most respondents supported the proposals, which were adopted with a few modifications. Following our approval, the rule amendments will come into effect for financial years commencing on or after 1 July 2020.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 51 new listing applications.

We received two listing applications from pre-profit biotech companies in the quarter.

¹ See the SFC's *Strategic Framework for Green Finance* published in September 2018.

Listing applications and takeovers activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Listing applications	51	242	310	-21.9
Takeovers and share buy-backs transactions	84	276	285	-3.2

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 14 cases and wrote to detail our concerns in six transactions. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Takeovers matters

In October, the Takeovers and Mergers Panel ruled that Bradford Global Limited was not allowed to deduct the final dividend approved by shareholders of Dalian Port (PDA) Company Limited from its offer price

in a possible mandatory offer. The panel considered that readers of the announcement would have expected Dalian Port's shareholders to receive the full offer price.

In December, we publicly censured CLSA Limited, CITIC Securities Brokerage (HK) Limited, Beijing Enterprises Holdings Limited and their representatives for breaching the Code on Share Buy-backs. CLSA and CITIC Securities executed on-market trades in the shares of Beijing Enterprises Holdings Limited in 2016. Since these trades were pre-arranged and pre-agreed, they were in substance off-market share buy-backs which required the approval of the Takeovers Executive³ and Beijing Enterprises' independent shareholders.

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.

³ The Executive Director of the SFC's Corporate Finance Division or his delegate.

Intermediaries

Licence applications

As at 31 December 2019, the number of licensees and registrants totalled 47,437, up 2.3% from last year, and the number of licensed corporations grew 6.2% to 3,084.

In the quarter, we received 1,499 licence applications¹, down 27.2% from the last quarter and 23.3% year-on-year. The number of corporate applications decreased 39.7% from the last quarter to 44, down 30.2% year-on-year.

Licensing fee waiver

We announced in December that annual licensing fees for the financial year 2020-21 will be waived in view of the current challenging market environment.

External electronic data storage

In an October circular, we set out requirements for keeping regulatory records exclusively with external electronic data storage providers. We also reminded licensed corporations about their obligations to ensure information security.

Virtual assets

In November, we published a position paper setting out a regulatory framework for licensing virtual asset trading platforms under our existing powers. We also issued a statement warning investors about the risks associated with virtual asset futures contracts and setting out our view that platforms offering these contracts may be in breach of the laws of Hong Kong.

We published a proforma set of terms and conditions for licensed corporations managing portfolios which invest in virtual assets in October. These terms and conditions will be imposed on all licensed virtual asset portfolio managers subject to minor variations depending on individual managers' circumstances.

Dubious private fund and discretionary account arrangements

In November, we issued a circular to provide guidance for asset managers considering private fund and discretionary account arrangements or transactions. We reminded them that if they fail to detect dubious arrangements or transactions proposed or directed by investors, or facilitate illegal or improper conduct due to inadequacies in their procedures and controls, we would take regulatory action against them and their senior management.

Licensees and registrants

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Licensed corporations	3,084	2,960	4.2	2,905	6.2
Registered institutions	114	116	-1.7	117	-2.6
Licensed individuals	44,239	43,602	1.5	43,349	2.1
Total	47,437	46,678	1.6	46,371	2.3

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 7 for details.

Intermediaries

Margin requirements for OTC derivatives

In December, we released the conclusions to a consultation on proposals to impose margin requirements for non-centrally cleared over-the-counter (OTC) derivatives to reduce systemic market risks. The requirements will be phased in starting from 1 September 2020.

Sustainable finance

We published a report in December on our survey on integrating environmental, social and governance factors and climate risks in asset management. The report also set out next steps to more closely align our regulatory regime with global standards.

SFC-HKMA joint product survey

A December circular announced the first product survey conducted jointly by the SFC and the Hong Kong Monetary Authority (HKMA). Covering the sale of non-exchange traded investment products by intermediaries, the survey will enable us to better understand market trends, identify risks associated with selling activities and coordinate our responses to address areas of common concern. The survey will be conducted on an annual basis beginning with the period from 1 January to 31 December 2020.

Anti-money laundering

We conducted three seminars in November to provide updates on anti-money laundering for around 800 executives of licensed corporations.

Licensing applications

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Applications to conduct new regulated activity	4,352	15,848	18,731	-15.4
Applications for SFC licences [#]	1,499	5,315	6,337	-16.1

[#] Figures do not include applications for provisional licences. During the quarter, we received 788 provisional licence applications compared with 1,054 in the same quarter last year.

Intermediary inspections

	Quarter ended 31.12.2019	Quarter ended 30.9.2019	Change (%)	Quarter ended 31.12.2018	YoY change (%)
On-site inspections conducted	76	106	-28.3	72	5.6

Products

Authorisations and registrations

As of 31 December, 2,761 collective investment schemes were authorised by us for public offering. During the quarter, we authorised 50 unit trusts and mutual funds, one paper gold scheme, one real estate investment trust and 18 unlisted structured investment products.

Mutual Recognition of Funds

Under the Mainland-Hong Kong Mutual Recognition of Funds (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 23 Hong Kong funds.

As of 31 December, the cumulative net subscription for Mainland funds was about RMB264.2 million and for Hong Kong funds it was about RMB16.18 billion. Mainland funds recorded a net redemption of about RMB6.73 million this quarter whilst Hong Kong funds recorded a net redemption of about RMB479.44 million.

Enhancements to OFC regime

To encourage more private funds to set up in Hong Kong, we launched a consultation in December on proposed enhancements to the open-ended fund companies (OFC) regime. The changes would allow licensed or registered securities brokers to act as custodians for private OFCs and expand the investment scope for private OFCs to include loans as well as shares and debentures of Hong Kong private companies. We also proposed to introduce a statutory mechanism for the re-domiciliation of overseas

corporate funds to Hong Kong and require OFCs to keep a register of beneficial shareholders to enhance anti-money laundering and counter-terrorist financing measures.

Revised UT Code

The 12-month transition period for the implementation of the revised Code on Unit Trusts and Mutual Funds (UT Code) ended on 31 December 2019. Changes included setting a clear limit for derivative usage by plain vanilla funds (ie, non-derivative funds). To provide transparency, SFC-authorised funds are now listed as derivative or non-derivative funds on the SFC website. As at 31 December, there were 1,777 non-derivative funds and 114 derivative funds.

Master-feeder ETF requirements

In December, we issued a circular on streamlined requirements which allow an SFC-authorised feeder exchange-traded fund (ETF) to invest in a non-SFC authorised overseas master ETF, subject to conditions, on a case-by-case basis. This will make the development of ETF products more cost-effective and provide investors with more investment choices.

Green and ESG funds

In December, we launched a central database to improve the transparency and visibility of SFC-authorised green and environmental, social and governance (ESG) funds. As at the end of the quarter, 21 funds complied with the enhanced disclosure guidance for green and ESG funds which we announced in April 2019.

Products

Authorised and registered collective investment schemes^a

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Unit trusts and mutual funds	2,165	2,216	-2.3	2,195	-1.4
Investment-linked assurance schemes	299	300	-0.3	300	-0.3
Pooled retirement funds	33	34	-3	34	-3
Mandatory provident fund (MPF) schemes	29	31	-6	31	-6
MPF pooled investment funds	206	191	8	195	6
Private OFCs	2	0	N/A	0	N/A
Others	27 ^b	25	8	25	8
Total	2,761	2,797	-1	2,780	-0.7

^a Excluding unlisted structured investment products.

^b Comprising 15 paper gold schemes and 12 real estate investment trusts (REITs).

Unlisted structured investment products

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Unlisted structured investment products ^a	18	116	98	18.4
Authorisations granted under section 105 of the Securities and Futures Ordinance ^b	11	79	68	16

^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.

Products

SFC-authorized renminbi investment products

	As at 31.12.2019
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	60
Unlisted funds (non-renminbi denominated) with renminbi share classes	229
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products issued in renminbi ^b	146
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	28
ETFs (non-renminbi denominated) with renminbi trading counters	20
Renminbi gold ETFs ^c	1
Renminbi REITs	1

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

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

^c Only includes gold ETF denominated in renminbi.

Markets

Investor identification

As a further step in the enhancement of Mainland-Hong Kong Stock Connect, we worked with the China Securities Regulatory Commission to launch an investor identification regime for southbound trading on 13 January 2020. The regime will facilitate our regulation and the orderly operation of the Stock Connect programme.

Investor compensation

Following a consultation concluded in October, enhancements to the investor compensation regime to raise the compensation limit from \$150,000 to \$500,000 per investor per default and cover northbound trading under Mainland-Hong Kong Stock Connect came into effect on 1 January 2020.

ATS providers

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Under Part III	51	48 [#]	6.3	48 [#]	6.3
Under Part V	25	24	4.2	24	4.2

[#] The number of ATS providers, some of which have more than one authorisation. In previous reports, the number given indicated the number of authorisations.

HKEX

In October, we approved Hong Kong Exchanges and Clearing Limited's (HKEX) proposal to allow banks to become general clearing participants in the derivatives markets. This is in line with the existing arrangement in the stock market.

We provided input to the review by the Financial Services Agency of Japan of OTC Clear's application for a licence to clear derivatives trades for Japanese institutions, which was approved in December.

Automated trading services

As of 31 December, the number of automated trading services (ATS)¹ providers authorised under Part III of the Securities and Futures Ordinance (SFO) was 51, while 25 corporations, including 15 dark pool operators, were licensed under Part V of the SFO to provide ATS.

¹ 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 proceedings

- We obtained a compensation order under section 214¹ of the Securities and Futures Ordinance (SFO) in the Court of First Instance (CFI) against Chin Jong Hwa, the former chairman and executive director of Minth Group Limited, ordering him to compensate the group's wholly-owned subsidiary RMB20.3 million for losses due to his misconduct. Chin and three other former executive directors were disqualified from being directors or being involved in the management of any listed or unlisted corporation in Hong Kong for three to six years.
- We obtained disqualification orders in the CFI against the former chairman and three other former executive directors of Inno-Tech Holdings Limited. All were disqualified for three years for failing to exercise due and reasonable skill, care and diligence in the company's acquisition of three hotels.
- The Eastern Magistrates' Court convicted Ken Yiu Ka Lun, a former senior regulatory affairs manager of Hong Kong Television Network Limited, for insider dealing in the company's shares. He was sentenced to two and a half months' imprisonment and ordered to pay a fine of \$165,000.
- We commenced proceedings to seek compensation and disqualification orders under section 214 of the SFO against Cheng Wai Tak, the chairman and executive director of Perfect Optronics Limited, and its five directors for alleged breach of fiduciary duties.

Market Misconduct Tribunal

During the quarter, we commenced proceedings in the Market Misconduct Tribunal against China Medical & HealthCare Group Limited² for allegedly failing to disclose information in relation to its significant gains in securities trading and its profit figures as soon as reasonably practicable, and against six of the company's directors for their reckless or negligent conduct causing the alleged breach.

Disciplinary actions

We disciplined five licensed corporations and five individuals during the quarter, resulting in total fines³ of \$413.3 million.

Internal control deficiencies

- We reprimanded and fined UBS AG \$400 million for overcharging its clients over a ten-year period through post-trade spread increases and excess charges, and for related serious internal control failures. The overcharges affected about 5,000 Hong Kong-managed client accounts and involved about 28,700 transactions.
- We reprimanded and fined China Rise Securities Asset Management Company Limited⁴ \$6.3 million for internal control failures and regulatory breaches related to short selling orders, cross trades and record keeping.
- We reprimanded and fined Adamas Asset Management (HK) Limited \$2.5 million for failing to implement adequate measures to ensure proper disclosure of notifiable interests in the shares of Hong Kong-listed companies in client portfolios.

¹ Under section 214, the SFC may seek disqualification, compensation and other orders for breaches of duty by current or former directors of listed corporations.

² Formerly known as COL Capital Limited.

³ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

⁴ Formerly known as China Rise Securities Company Limited.

Enforcement

Unauthorised transactions

- We banned Vincent Ng Lok Kan, a former licensed representative of Sun Hung Kai Investment Services Limited, from re-entering the industry for 30 months for effecting unauthorised transactions through a client's account to push up a warrant's price when selling his personal holdings.
- We banned Song Baojun, a former relationship manager of The Hongkong and Shanghai Banking Corporation Limited, for 12 months for not obtaining a client's specific authorisation before conducting unit trust transactions and failing to advise the client to adopt a lower cost option for other transactions.

Other regulatory breaches

- We reprimanded and fined FIL Investment Management (Hong Kong) Limited \$3.5 million for regulatory breaches including unlicensed dealing in futures contracts.
- We reprimanded and fined SEAVI Advent Ocean Private Equity Limited \$1 million for breach of the Code of Conduct⁵ in allowing its director and an investment manager, who were not licensed, to carry out regulated activities.
- We banned Ma Sin Chi, a former responsible officer of Deutsche Securities Asia Limited, from re-entering the industry for life following his conviction of accepting bribes of around \$6.4 million from a client.

- We banned Ang Wing Fung, former chairman of W. Falcon Asset Management (Asia) Limited, and Chan Kam Wah, former chief financial officer and company secretary, from re-entering the industry for life and three years respectively in connection with their roles in window-dressing the company's liquid capital. We revoked the company's licence in February 2019 for this and other failures.

Restriction notice

We issued a restriction notice to Hong Kong Wan Kiu Investment Company Limited prohibiting it from carrying on regulated activities for which it is licensed and dealing with client assets. Our investigation is ongoing.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,345 requests for trading and account records from intermediaries in the quarter. In addition, we published three high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

⁵ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Enforcement

Enforcement activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
S179 ^a inquiries commenced	5	26	19	36.8
S181 ^b inquiries commenced (number of letters sent)	58 (2,345)	186 (7,415)	225 (6,734)	10.1
S182 ^c directions issued	31	151	179	-15.6
Investigations started	32	158	180	-12.2
Investigations completed	55	145	191	-24.1
Individuals and corporations charged in criminal proceedings	0	5	4	25
Criminal charges laid	0	8	37	-78.4
Notices of Proposed Disciplinary Action ^d issued	9	26	13	100
Notices of Decision ^e issued	11	37	27	37
Individuals and corporations subject to ongoing civil proceedings ^f	158	158	98	61.2
Compliance advice letters issued	45	178	182	-2.2
Cases with search warrants executed	6	14	24	-41.7

^a Section 179 of the Securities and Futures Ordinance (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

Mr Ashley Alder, our Chief Executive Officer, chairs the Board of the International Organization of Securities Commissions (IOSCO). In October, he chaired the IOSCO Board meeting and co-chaired the meeting of the CPMI¹-IOSCO Steering Group, which coordinates regulatory policy work for the supervision of central counterparties.

In the same month, Mr Alder participated in the EU-Asia Pacific Forum on Financial Regulation to discuss cross-border regulatory issues arising from EU regulations.

Mr Tim Lui, our Chairman, attended the Asia Pacific Regional Committee (APRC) meeting to discuss market conduct issues, sustainable finance and regional supervisory cooperation. Following the meeting, the APRC set up a Green and Sustainable Finance Working Group led by the SFC.

FSB

As the IOSCO Board Chair, Mr Alder participates in the work of various committees of the Financial Stability Board (FSB). During the quarter, Mr Alder attended the FSB Plenary meeting to discuss vulnerabilities in the global financial system and financial technology. He also took part in the Steering Committee meeting, the plenary conference call and the Standing Committee on Supervisory and Regulatory Cooperation conference call, which discussed stablecoins, market fragmentation and asset management.

Green and sustainable finance

We engage with local and global stakeholders on our work in green and sustainable finance. We actively participate in the IOSCO Sustainable Finance Network and the Central Banks and Supervisors Network for Greening the Financial System.

In the quarter, Mr Tim Lui gave opening remarks at the Climate Finance and Sustainable Investing Conference organised by the United Nations Economic and Social Commission for Asia and the Pacific. Mr Alder spoke on climate-related financial risks at a roundtable hosted by the Bank of England as well as at the United Nations Climate Change Summit.

¹ The Committee on Payments and Market Infrastructures.

² The China Securities Regulatory Commission.

Mainland China

In November, the sixth SFC-CSRC² high-level meeting held in Shenzhen discussed risk control, market development and cross-boundary supervisory and enforcement cooperation.



The sixth SFC-CSRC high-level meeting

We worked with the CSRC on the expansion of the full circulation of H-shares to a wider range of Hong Kong listed companies. We also contributed to the formation of cooperation initiatives in the securities and futures sector under the Amendments to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed in November.

During the quarter, we received visitors from the Dalian Commodity Exchange to discuss the opening-up of the Mainland futures market and introduced our enforcement work to the People's Court of Shanghai. We also met with the Shenzhen Municipal Financial Regulatory Bureau to explore market development opportunities.

Other regulatory engagement

To keep abreast of emerging regulatory developments, we met with overseas regulators and government representatives from Australia, the UK, the US, the European Commission and other jurisdictions during the quarter.

In November, we held our 11th bilateral regulatory meeting with the Taiwan Financial Supervisory Commission to exchange views on the regulation of virtual assets, bond exchange traded funds and other topics.

Stakeholders

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

During the quarter, we supported seven industry events. Our senior executives spoke at 27 local and international conferences and we posted four of their speeches on our website to reach a wider audience. We met with various industry associations to understand their views on regulatory issues.

We were a regulatory partner of the Hong Kong FinTech Week 2019 Main Conference held on 6-7 November. Our Chief Executive Officer Mr Ashley Alder delivered a keynote speech and the Head of our Fintech unit gave a presentation on regulatory issues related to the development of financial technology.

We released the following publications in the quarter:

- The findings of the *Survey on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management* provided an overview of industry practices as a reference for formulating future policies.
- The December issue of the *Takeovers Bulletin* highlighted the Takeovers Panel's decision on deducting a final dividend from the stated price of a possible mandatory general offer.

We issued 14 circulars providing guidance on a wide range of matters, including virtual assets, external data storage, dubious private fund and discretionary account arrangements, streamlined requirements for master-feeder exchange traded funds and updates on anti-money laundering and counter-terrorist financing.

Publications and other communications

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY Change (%)
Press releases	33	97	94	3.2
Consultation papers	1	3	4	-25
Consultation conclusions	2	4	13	-69.2
Industry-related publications	3	10	12	-16.7
Codes and guidelines ^a	0	5	10	-50
Circulars to industry	14	54	70	-22.9
Corporate website average daily page views ^b	32,094	46,635	61,477	-24.1
General enquiries	1,455	4,753	5,100	-6.8

^a Includes updates to previous versions.

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

Corporate Developments

Finance

Our income for the quarter was \$449 million, 19% higher than the previous quarter and 44% higher than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$84 billion for the quarter, 5% higher than the \$80 billion recorded in the previous quarter. Our expenditure for the quarter was \$488 million, largely unchanged from last quarter and 9% higher than the same quarter last year.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$3.9 billion as of 31 December.

Staffing

As of 31 December, we had 925 staff members, up from 912 a year ago.

Information technology

In September 2019, we introduced a new analytics tool which adopts machine learning technology to significantly reduce the manual effort needed to process large volumes of emails and documents in our case management systems.

Finance

(\$ million)	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Income	449	1,238	1,185	4%
Expenses including depreciation	488	1,441	1,327	9%
Loss	(39)	(203)	(142)	43%

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	3	7	7	0
Failure to safekeep client securities	8	22	26	-15.4
Failure to maintain proper books and records	4	16	13	23.1
Failure to safekeep client money	9	30	27	11.1
Unlicensed dealing and other registration issues	2	13	11	18.2
Breach of licensing conditions	0	3	4	-25
Breach of requirements of contract notes/statements of account/receipts	10	24	23	4.3
Failure to make filing/notification	1	3	0	N/A
Breach of margin requirements	1	4	8	-50
Dealing malpractices	0	5	2	150
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	54	210	225	-6.7
Breach of Corporate Finance Adviser Code of Conduct	2	4	6	-33.3
Breach of Fund Manager Code of Conduct	23	60	48	25
Breach of regulation of online trading	2	6	2	200
Non-compliance with anti-money laundering guidelines	87	277	140	97.9
Breach of other rules and regulations of the Exchanges ²	4	10	10	0
Internal control weaknesses ³	123	339	321	5.6
Others	25	132	64	106.3
Total	358	1,165	937	24.3

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

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

³ 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 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Bond	471	474	-0.6	468	0.6
Equity	960	1,005	-4.5	995	-3.5
Diversified	182	181	0.6	179	1.7
Money market	43	44	-2.3	42	2.4
Fund of funds	107	110	-2.7	110	-2.7
Index ¹	176	162	8.6	161	9.3
Guaranteed	3	3	0	3	0
Other specialised ²	1	5	-80	5	-80
Sub-total	1,943	1,984	-2.1	1,963	-1
Umbrella structures	222	234	-5.1	232	-4.3
Total	2,165	2,218	-2.4	2,195	-1.4

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds that 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 31.12.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 31.12.2018	YoY change (%)
Bond	600,639	534,298	12.4	493,953	21.6
Equity	736,578	721,365	2.1	650,173	13.3
Diversified	169,628	165,708	2.4	154,866	9.5
Money market	19,773	22,284	-11.3	22,700	-12.9
Fund of funds	23,479	22,581	4	21,006	11.8
Index ¹	127,457	96,164	32.5	88,942	43.3
Guaranteed	67	72	-6.9	79	-15.2
Other specialised ²	145	748	-80.6	818	-82.3
Total	1,677,766	1,563,220	7.3	1,432,537	17.1

¹ Including leveraged and inverse products.

² Including futures and options funds.

Table 4 Authorised unit trusts and mutual funds – by origin

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Hong Kong	763	789	-3.3	775	-1.5
Luxembourg	1,041	1,064	-2.2	1,050	-0.9
Ireland	220	218	0.9	218	0.9
United Kingdom	51	53	-3.8	53	-3.8
Mainland China	50	50	0	50	0
Other Europe	3	3	0	3	0
Bermuda	1	1	0	1	0
Cayman Islands	30	30	0	37	-18.9
Others	6	8	-25	8	-25
Total	2,165	2,216	-2.3	2,195	-1.4

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

	Total NAV (US\$ million) as at 31.12.2019	Total NAV (US\$ million) as at 31.3.2019	Change (%)	Total NAV (US\$ million) as at 31.12.2018	YoY change (%)
Hong Kong	160,130	154,831	3.4	137,745	16.2
Luxembourg	1,107,091	1,059,476	4.5	977,502	13.3
Ireland	251,373	207,154	21.3	187,928	33.8
United Kingdom	83,239	73,987	12.5	66,508	25.2
Mainland China	19,252	19,615	-1.9	14,955	28.7
Other Europe	150	140	7.1	126	19
Bermuda	145	153	-5.2	156	-7.1
Cayman Islands	7,427	7,718	-3.8	7,491	-0.9
Others	48,959	40,146	22	40,126	22
Total	1,677,766	1,563,220	7.3	1,432,537	17.1

Table 6 Takeovers activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs				
General and partial offers under Code on Takeovers and Mergers	9	30	44	-31.8
Privatisations	5	12	5	140
Whitewash waiver applications	3	11	16	-31.3
Other applications under Code on Takeovers and Mergers ¹	67	216	207	4.3
Off-market and general offer share buy-backs	0	5	7	-28.6
Other applications under Code on Share Buy-backs ¹	0	2	6	-66.7
Total	84	276	285	-3.2
Executive Statements				
Sanctions imposed with parties' agreement ²	1	3	2	50
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)	0	2	0	N/A
Statements issued by the Panel ³	1	2	0	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.

Activity Data

Table 7 Complaints against intermediaries and market activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Conduct of licensees	154	418	332	25.9
Conduct of registered institutions	6	25	11	127.3
Listed companies and disclosure of interests	899	1,695	2,990	-43.3
Market misconduct ¹	54	409	265	54.3
Product disclosure	2	6	3	100
Unlicensed activities	71	147	134	9.7
Breach of offers of investments	5	90	20	350
Boiler rooms and suspicious websites	105	387	274	41.2
Scams and frauds ²	51	194	247	-21.5
Other financial activities ³	59	204	768	-73.4
Total	1,406	3,575	5,044	-29.1

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 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Income					
Levies		972,326	1,108,814	306,990	343,945
Fees and charges		118,998	97,297	45,229	28,656
Investment income net of third party expenses					
Investment income/(loss)		177,781	(21,416)	120,621	(62,013)
Less: custody and advisory expenses		(5,854)	(5,797)	(1,915)	(1,838)
Recoveries from the Investor Compensation Fund	8(a)	4,544	4,423	1,503	1,461
Exchange (loss)/gain		(29,608)	(10,303)	(23,947)	2,048
Other income		292	11,533	192	169
		1,238,479	1,184,551	448,673	312,428
Expense					
Staff costs and directors' emoluments	8(b)	1,057,169	1,003,423	349,743	339,830
Premises					
Rent	2	–	150,539	–	50,197
Rates, management fees and others		33,401	34,898	11,268	11,890
Other expenses		159,418	112,536	58,704	38,192
Depreciation					
Fixed assets		31,054	25,365	10,527	8,999
Right-of-use assets	2	157,686	–	57,068	–
Finance costs	2	2,519	–	349	–
		1,441,247	1,326,761	487,659	449,108
Loss and total comprehensive income for the period		(202,768)	(142,210)	(38,986)	(136,680)

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		106,880	94,835
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,092	1,076,337
Current assets			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		238,286	227,018
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		66,670	71,908
		5,956,184	6,237,681
Current liabilities			
Fees received in advance		59,550	8,850
Creditors and accrued charges	8(a)	271,022	189,855
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		530,638	198,705
Net current assets		5,425,546	6,038,976
Total assets less current liabilities		6,868,638	7,115,313
Non-current liabilities			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
Net assets		6,867,454	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Non-current assets			
Fixed assets		106,815	94,738
Right-of-use assets	2	146,121	–
Financial assets at amortised costs – debt securities		1,190,091	981,502
		1,443,027	1,076,240
Current assets			
Financial assets at amortised costs – debt securities		1,083,034	563,877
Financial assets at fair value through profit or loss			
Debt securities		405,434	795,946
Pooled funds		827,581	925,476
Debtors, deposits and prepayments		271,115	233,187
Fixed deposits with banks		3,335,179	3,653,456
Cash at bank and in hand		22,009	49,747
		5,944,352	6,221,689
Current liabilities			
Fees received in advance		59,550	8,850
Creditors and accrued charges		259,125	173,766
Lease liabilities	2	133,534	–
Provisions	4	66,532	–
		518,741	182,616
Net current assets		5,425,611	6,039,073
Total assets less current liabilities		6,868,638	7,115,313
Non-current liabilities			
Lease liabilities	2	610	–
Provisions	4	574	45,091
		1,184	45,091
Net assets		6,867,454	7,070,222
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,824,614	4,027,382
		6,867,454	7,070,222

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2019 (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 2018	42,840	3,000,000	4,121,924	7,164,764
Loss and total comprehensive income for the period	–	–	(142,210)	(142,210)
Balance at 31 December 2018	42,840	3,000,000	3,979,714	7,022,554
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the period	–	–	(202,768)	(202,768)
Balance at 31 December 2019	42,840	3,000,000	3,824,614	6,867,454

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Loss for the period		(202,768)	(142,210)
Adjustments for:			
Depreciation – Fixed assets		31,054	25,365
Depreciation – Right-of-use assets		157,686	–
Finance costs		2,519	–
Investment (income)/loss		(177,781)	21,416
Exchange difference		29,635	10,338
Loss on disposal of fixed assets		3	–
		(159,652)	(85,091)
(Increase)/decrease in debtors, deposits and prepayments		(17,076)	49,520
Increase/(decrease) in fees received in advance		50,700	(797)
Increase in creditors and accrued charges		81,844	137,381
Increase in non-current liabilities		–	3,185
Net cash (used in)/generated from operating activities		(44,184)	104,198
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		1,373,433	(226,014)
Interest received		113,549	87,833
Debt securities at fair value through profit or loss purchased		(326,992)	(198,529)
Debt securities at fair value through profit or loss sold or redeemed		722,468	182,288
Pooled funds sold		153,396	3,299
Debt securities at amortised cost purchased		(1,086,352)	–
Debt securities at amortised cost redeemed at maturity		342,842	–
Fixed assets purchased		(43,102)	(40,593)
Net cash generated from/(used in) investing activities		1,249,242	(191,716)
Cash flows from financing activities			
Lease payments		(150,844)	–
Net cash used in financing activities		(150,844)	–
Net increase/(decrease) in cash and cash equivalents		1,054,214	(87,518)
Cash and cash equivalents at the beginning of the nine-month period		289,657	292,105
Cash and cash equivalents at the end of the nine-month period	3	1,343,871	204,587

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	1,277,201	137,284
Cash at bank and in hand	66,670	67,303
	1,343,871	204,587

The notes on pages 28 to 31 form part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (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 Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2019. 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 2019 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 31 December 2019. We eliminated all material intra group 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 2019 to the interim financial information, except for the adoption of HKFRS 16, *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 2.

There were no significant changes in the operations of the Group for the nine months ended 31 December 2019.

2. Changes in accounting policies

Impact on the interim financial information

The Group has applied HKFRS 16 from 1 April 2019. The Group applied the simplified transition approach and did not restate comparative amounts. In applying HKFRS 16 for the first time, the Group has adopted the following practical expedients as permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

2. Changes in accounting policies (continued)

Impact on the interim financial information (continued)

Upon adoption of HKFRS 16, leases that were previously classified as 'operating leases' under the HKAS 17 *Leases* are now recognised in the condensed consolidated statement of financial position as lease liabilities with corresponding right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period. The right-of-use assets are measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments or provisions for reinstatement relating to that lease as at 31 March 2019. The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$303,807,000 and lease liabilities of \$282,469,000 discounted at 1.55% as at 1 April 2019.

For the nine months ended 31 December 2018, the Group recognised rent expense for the operating lease of \$150,539,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$157,686,000 and interest expense on lease liabilities of \$2,519,000 for the nine months ended 31 December 2019.

During the period, the Group has entered into a new operating lease for the office premises for eight years commencing on 1 February 2020. Minimum lease payment throughout the lease term is \$1,036,692,000.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank and in hand	66,670	71,908
Fixed deposits with banks	3,335,179	3,653,456
Amounts shown in the condensed consolidated statement of financial position	3,401,849	3,725,364
Less: Amounts with an original maturity beyond three months	(2,057,978)	(3,435,707)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,343,871	289,657

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

4. Provisions

Provisions represent premises reinstatement cost to restore the premises to its original condition when the lease expires.

5. Ageing analysis of debtors and creditors

There was no material overdue debtors and creditors balance included in “debtors, deposits and prepayment” and “creditors and accrued charges” respectively as at 31 December 2019. Therefore, an ageing analysis of debtors and creditors is not provided.

6. Exchange risk

The Group’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, the exposure to exchange rate risk is not considered significant.

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 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 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 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2019: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

8. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers’ Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers’ Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers’ Security Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

(a) Reimbursement from the ICF for all the ICC’s expenses, in accordance with Section 242(1) of the SFO

During the period, \$4,544,000 was recovered from the ICF for the ICC’s expenses (2018: \$4,423,000). As at 31 December 2019, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$300,000 (as at 31 March 2019: \$54,000).

(b) Remuneration of key management personnel

	Unaudited nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Directors’ fees and salaries, allowances and benefits in kind	26,839	25,219
Retirement scheme contributions	2,320	2,300
	29,159	27,519

The total remuneration is included in “staff costs and directors’ emoluments” on page 23. Discretionary pay is not included above as the decision to pay is subject to an approval process at the end of the financial year and therefore is not determined until then.

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 2019.

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 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 33 to 38.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	
Mr Tai Chi Kin, Calvin	

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

Rico Leung
Chairman

21 February 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Income					
Net investment income	2	46,705	22,712	14,771	14,441
Exchange difference		(9,940)	(3,941)	(8,176)	737
Compensation payment given up		–	150	–	150
		36,765	18,921	6,595	15,328
Expenses					
Investor Compensation Company Limited expenses	3	4,544	4,423	1,503	1,461
Auditor's remuneration		142	137	36	35
Bank charges		–	406	–	11
Professional fees		–	1,465	–	16
		4,686	6,431	1,539	1,523
Surplus and total comprehensive income for the period		32,079	12,490	5,056	13,805

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

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Current assets		
Interest receivable	17,149	25,425
Due from Investor Compensation Company Limited	300	54
Fixed deposits with banks	2,405,913	2,365,483
Cash at bank	486	845
	2,423,848	2,391,807
Current liabilities		
Creditors and accrued charges	264	302
	264	302
Net current assets	2,423,584	2,391,505
Net assets	2,423,584	2,391,505
Representing:		
Compensation fund	2,423,584	2,391,505

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

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2019 (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 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
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	32,079	32,079
Balance at 31 December 2019	994,718	108,923	1,319,943	2,423,584

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

Condensed statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Surplus for the period		32,079	12,490
Adjustments for:			
Net investment income		(46,705)	(22,712)
Exchange difference		9,940	3,941
		(4,686)	(6,281)
Increase in amount due from Investor Compensation Company Limited		(246)	(23)
Decrease in creditors and accrued charges		(38)	(1,040)
Net cash used in operating activities		(4,970)	(7,344)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		644,868	(2,295,470)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	2,055,094
Pooled fund sold		–	338,934
Interest received		54,897	46,565
Net cash generated from/(used in) investing activities		699,765	(20,183)
Net increase/(decrease) in cash and cash equivalents		694,795	(27,527)
Cash and cash equivalents at the beginning of the nine-month period		32,944	55,933
Cash and cash equivalents at the end of the nine-month period	4	727,739	28,406

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	727,253	26,987
Cash at bank	486	1,419
	727,739	28,406

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

Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

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 2019. 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 2019 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.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2019.

2. Net investment income

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Interest income from bank deposits	46,705	19,268
Interest income on financial assets at fair value through profit or loss	–	22,500
Realised loss on disposal of pooled fund	–	(10,350)
Realised loss on redemption/disposal of debt securities	–	(9,274)
Gain on revaluation of debt securities	–	568
Net investment income	46,705	22,712

3. Investor Compensation Company Limited expenses

The Securities and Futures Commission (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 2019, the ICC incurred costs of \$4,544,000 for its operation (for the nine months ended 31 December 2018: \$4,423,000) which were reimbursed by the Fund.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

4. Cash and cash equivalents

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank	486	845
Fixed deposits with banks	2,405,913	2,365,483
Amounts shown in the condensed statement of financial position	2,406,399	2,366,328
Less: Amounts with an original maturity of beyond three months	(1,678,660)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	727,739	32,944

5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the nine months ended 31 December 2019 and 2018.

6. Contingent liabilities

As at the date of this report, there are 16 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,210,000 at 31 December 2019 (at 31 March 2019: \$2,121,000). 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 2019.

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 from 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 2019, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

Financial statements

The financial performance of the Fund for the reporting period ended 31 December 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 40 to 45.

Members of the Committee

The members of the Committee during the nine months ended 31 December 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	
Mr Tai Chi Kin, Calvin	
Ms Mak Po Shuen	

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

Rico Leung
Chairman

18 February 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Income					
Interest income		1,359	1,120	496	441
Recoveries	2	(1)	1	–	–
		1,358	1,121	496	441
Expenses					
Auditor's remuneration		67	65	15	15
Surplus and total comprehensive income for the period		1,291	1,056	481	426

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Current assets			
Equity securities received under subrogation	2	–	1
Interest receivable		268	187
Accounts receivable		9	9
Fixed deposits with banks		91,967	88,338
Cash at bank		591	1,922
		92,835	90,457
Current liabilities			
Creditors and accrued charges		10,312	10,325
Relinquished trading rights payable to SEHK	3	900	800
		11,212	11,125
Net current assets		81,623	79,332
Net assets		81,623	79,332
Representing:			
Compensation fund		81,623	79,332

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 3) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000		
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	
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	1,000	-	-	-	-	-	1,000	
Surplus and total comprehensive income for the period	-	-	-	-	1,291	-	1,291	
Balance at 31 December 2019	55,500	353,787	630,000	6,502	30,552	(994,718)	81,623	

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities		
Surplus for the period	1,291	1,056
Adjustments for:		
Interest income	(1,359)	(1,120)
Recoveries	1	–
	(67)	(64)
(Decrease)/increase in creditors and accrued charges	(13)	7
Increase in relinquished trading rights payable to SEHK	100	150
Net cash generated from operating activities	20	93
Cash flows from investing activities		
Interest received	1,278	988
Net cash generated from investing activities	1,278	988
Cash flows from financing activities		
Net trading rights deposits from SEHK	1,000	700
Net cash generated from financing activities	1,000	700
Net increase in cash and cash equivalents	2,298	1,781
Cash and cash equivalents at the beginning of the nine-month period	90,260	86,749
Cash and cash equivalents at the end of the nine-month period	92,558	88,530

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	91,967	87,882
Cash at bank	591	648
	92,558	88,530

The notes on pages 44 and 45 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the 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.

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 2019. 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 2019 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.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2019.

2. Recoveries/Equity securities received under subrogation

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in Recoveries.

As at 31 December 2019, the equity securities received under subrogation amounted to \$205 (as at 31 March 2019: \$1,191). The balance as at 31 December 2019 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. 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 Securities and Futures Commission (SFC) must refund to SEHK the deposit within six months after the trading right was relinquished.

During the nine-month period, deposits of \$1,600,000 in respect of 32 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK.

As at 31 December 2019, there were 18 trading rights in total of \$900,000 that have been relinquished but not yet refunded (as at 31 March 2019: 16). The net trading right deposits from SEHK as at 31 December 2019, excluding the relinquished trading rights payable, amounted to \$55,500,000 (as at 31 March 2019: \$54,500,000).

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

4. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the nine months ended 31 December 2019 and 2018.

Securities and Futures Commission

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