



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

Quarterly Report April - June 2020



This first Quarterly Report of the Securities and Futures Commission for financial year 2020-21 covers the period from 1 April to 30 June 2020.

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Highlights



Regulatory enhancements

REIT Code: We launched a consultation on proposed enhancements to the Code on Real Estate Investment Trusts (REITs) to provide Hong Kong REITs with more flexibility in making investments.

Paperless securities market: We concluded a joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated securities market.

OTC derivatives regime: We released consultation conclusions on refinements to the scope of the over-the-counter (OTC) derivatives licensing regime to exclude corporate treasury activities of non-financial groups and some portfolio compression services. The paper also set out the competence requirements for those licensed under the regime.

Listing regulation

Listing applications: We vetted 82 new listing applications during the quarter, including three from pre-profit biotech companies.

Corporate conduct: As part of our review of corporate disclosures, we issued section 179 directions to gather additional information in 18 cases and wrote to detail our concerns in one transaction.

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 2018.

Shareholders' meetings: In view of the COVID-19 outbreak, we issued a joint statement with SEHK to provide guidance to listed companies in determining when and how general meetings for shareholders are held.

Intermediaries

Licensing: As at 30 June, the number of licensees and registrants totalled 46,824, of which 3,109 were licensed corporations.

Supervision: We conducted 74 on-site inspections of licensed corporations to review their compliance with regulatory requirements. During the COVID-19 outbreak, we stepped up our supervisory work and stress tests to monitor firms' financial and operational resilience in light of heightened market volatility and issued frequently asked questions to explain the flexibility we allow for some regulatory requirements.

Highlights

Cybersecurity risks: We issued a circular to remind licensed corporations to assess their operational capabilities and implement appropriate measures to manage the cybersecurity risks associated with remote office arrangements.

Commodity futures and ETFs: We warned brokers against opening new crude oil futures contracts for clients who do not have the financial capacity to bear the potential losses and reminded managers of SFC-authorised futures-based exchange-traded funds (ETFs) to remain vigilant in extreme market conditions.

Leveraged foreign exchange trading: Our report on licensed corporations' leveraged foreign exchange trading (LFET) activities set out good practices and our expected regulatory standards with which LFET brokers are expected to comply by 1 January 2021.

Market development

Product authorisation: We authorised 41 unit trusts and mutual funds, including 28 funds domiciled in Hong Kong, and 24 unlisted structured investment products for public offering.

Swap-based L&I products: We began accepting applications for authorisation of swap-based leveraged and inverse (L&I) products tracking Mainland equity indices to provide investors with more short-term trading and hedging tools.

MSCI index futures: We approved 33 MSCI index futures contracts proposed by HKEX to expand its derivatives product line and provide more trading and hedging tools for market participants.

Enforcement

Disciplinary actions: We disciplined eight licensed corporations and two individuals, resulting in total fines of \$67.5 million.

Market surveillance: We made 2,366 requests for trading and account records triggered by untoward price and turnover movements.

Disqualification orders: We obtained disqualification orders in the Court of First Instance against eight individuals for breaches of their duties as listed company directors.

Regulatory cooperation

Sustainable finance: Together with the Hong Kong Monetary Authority, we initiated the establishment of Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group to coordinate the management of climate and environmental risks to the financial sector and support the Government's climate strategies.

Competition Commission: We entered into a memorandum of understanding with the Competition Commission to enhance cooperation and the exchange of information.

Operational Review



Corporates

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 82 new listing applications, including three listing applications from pre-profit biotech companies.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, this quarter we issued four letters of concern and eight requisition letters directly to 12 listing applicants. Amongst our concerns were the accuracy and completeness of the information submitted, legal and regulatory compliance issues, a lack of sufficient public interest in the listing applicant's business and the representativeness of the financial information in the prospectus.

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 179¹ directions to gather additional information in 18 cases and wrote to detail our concerns in one transaction. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Review of SEHK's work

In July, 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 2018. The issues under review included the management of potential conflicts of interest by Hong Kong Exchanges and Clearing Limited (HKEX), the interaction between the Listing Department and HKEX's business units in pre-initial public offering enquiries, oversight of the Listing Department and the Listing Committee's supervisory role. We also looked into SEHK's handling of share option schemes² and complaints about listing applicants and issuers. The report identified a number of areas for SEHK to enhance its performance.

Shareholders' meetings

Following the Government's regulation restricting the size of group gatherings amidst the COVID-19 outbreak, we issued a statement jointly with SEHK in April to provide guidance to listed companies in determining the timing of general meetings for shareholders as well as the manner in which they are held.

¹ 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.

² Under Chapter 17 of the Listing Rules.

Listing applications and takeovers activities

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Listing applications	82	61	34.4	105	-21.9
Takeovers and share buy-backs transactions	111	83	33.7	103	7.8

HSBC dividend

In May, we issued a statement in light of the significant public interest in HSBC Holdings plc's cancellation of its fourth interim dividend for 2019 and the suspension of future dividends until the end of 2020. After carefully assessing all the available information, we concluded that there were no grounds for us to pursue regulatory action.

In the same month, we publicly criticised CICC Financial Trading Limited and China International Capital Corporation Limited for breaching the dealing disclosure requirements under the Takeovers Code during the offers for Dalian Port (PDA) Company Limited and Maanshan Iron & Steel Company Limited in 2019.

Takeovers matters

In June, we publicly censured Fu Kwan for acquiring shares in Macrolink Capital Holdings Limited within six months after the close of an offer at above the offer price in breach of dealing restrictions under the Takeovers Code.

Intermediaries

Licence applications

As at 30 June 2020, the number of licensees and registrants totalled 46,824, of which 3,109 were licensed corporations.

In the quarter, we received 1,043 licence applications¹ including 54 corporate applications.

COVID-19 response

In light of heightened market volatility and unanticipated disruptions caused by the COVID-19 pandemic, we stepped up our supervisory work and stress tests to monitor firms' financial and operational resilience. We also worked with the industry to provide flexibility without lowering standards or compromising investor protection. We extended the implementation deadlines for three regulatory changes by six months and reminded intermediaries of alternatives for receiving and recording orders to help them comply with regulatory requirements when staff work out of the office.

As part of our commitment to handle licensing matters pragmatically during the crisis, we issued frequently asked questions (FAQs) to explain the flexibility we allow in fulfilling requirements related to regulatory examinations and continuous professional training, staff working overseas as part of contingency arrangements, and notifications of changes or disruptions to firms' operations.

Commodity futures and ETFs

To remind commodity futures brokers to take precautionary measures to manage the risks of trading crude oil futures contracts, we issued a circular in April to warn them against opening new positions for clients who do not have the financial capacity to bear the potential losses. In a separate circular issued on the same day, we reminded managers of SFC-authorised futures-based exchange-traded funds (ETFs) to remain vigilant so that the funds can be managed in the best interests of investors even in extreme market conditions. In addition, we reminded firms to ensure compliance with conduct requirements when providing trading services for futures-based ETFs.

Licensees and registrants

	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Licensed corporations	3,109	3,109	0	3,017	3
Registered institutions	112	112	0	115	-2.6
Licensed individuals	43,603	43,946	-0.8	44,107	-1.1
Total	46,824	47,167	-0.7	47,239	-0.9

Licensing applications

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Applications to conduct new regulated activity	3,491	3,513	-0.6	5,101	-31.6
Applications for SFC licences [^]	1,043	1,122	-7	1,756	-40.6

[^] Figures do not include applications for provisional licences. During the quarter, we received 639 provisional licence applications compared with 929 in the same quarter last year.

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

Intermediaries

Leveraged foreign exchange trading

A report we issued in April summarises the findings of a survey of licensed corporations' leveraged foreign exchange trading (LFET) activities between 1 January and 31 December 2018. The report also set out our expected regulatory standards and good industry practices for customer due diligence, handling client orders, conflicts of interest and information for clients. LFET brokers are expected to review their policies and controls to ensure compliance with these standards by 1 January 2021.

Cybersecurity risks

Also in April, we issued a circular to remind licensed corporations to assess their operational capabilities and implement appropriate measures to manage the cybersecurity risks associated with remote office arrangements. We provided examples of typical security controls for remote network access and videoconferencing platforms.

Intermediary inspections

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
On-site inspections conducted	74	53	39.6	82	-9.8

Margin requirements for OTC derivatives

We issued a circular in May 2020 to announce that the implementation of the initial margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions will be phased in starting from 1 September 2021 to align with the international timetable which was revised in view of the COVID-19 situation. The effective date for the variation margin requirements remains 1 September 2020.

SFC-HKMA review of spread charges

In May, we issued a joint circular with the Hong Kong Monetary Authority (HKMA) to announce a thematic review which will assess intermediaries' spread charges and their compliance with requirements governing the disclosure of trading capacity and monetary benefits, with a focus on the distribution of non-exchange traded investment products. The review will commence in the second half of 2020.

Products

Authorisations

During the quarter ended 30 June, we authorised 41 unit trusts and mutual funds including 28 funds domiciled in Hong Kong and 24 unlisted structured investment products for public offering in Hong Kong.

Mutual Recognition of Funds

Under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, as of 30 June, we had authorised a total of 51 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 29 Hong Kong funds.

As of 30 June, the cumulative net subscription for Mainland funds was about RMB330.37 million and that for Hong Kong funds was about RMB16.93 billion. During the quarter, Mainland funds recorded a net subscription of about RMB6.18 million, down from RMB59.02 million in the previous quarter. Hong Kong funds recorded a net subscription of about RMB1.65 billion this quarter, compared to a net redemption of RMB906.61 million last quarter.

REIT regime

In June, we launched a two-month consultation on proposed enhancements to the Code on Real Estate Investment Trusts (REITs) to provide Hong Kong REITs with more flexibility in making investments. Key proposals include allowing minority holdings in portfolio properties, providing more flexibility to invest in property development projects and increasing the borrowing limit from 45% to 50% of gross asset value. We also proposed to broadly align the requirements for REITs' connected party and notifiable transactions with the requirements for listed companies.

ETF market making

We have been working with The Stock Exchange of Hong Kong Limited (SEHK) to enhance the exchange-traded fund (ETF) market making regime. The continuous quoting regime for ETF market making and revised spread table for ETF trades were implemented in June.

In response to a temporary disruption of ETF market making arrangements due to the COVID-19 outbreak, we issued a circular to remind ETF managers to closely monitor the secondary market trading and liquidity of ETFs as well as to urge market makers to have proper business contingency plans in place to deal with operational disruptions.

Futures-based ETFs

In view of the unprecedented volatility in overseas crude oil futures markets in April, we issued a circular to remind managers of futures-based ETFs to remain vigilant to extreme market movements and intermediaries to ensure compliance with conduct requirements when providing trading services for futures-based ETFs. In addition, we worked with the Investor and Financial Education Council to step up investor education relating to commodities futures ETF products.

Leveraged and inverse products

To provide investors with more short-term trading and hedging tools for Mainland equities, we announced that we would accept applications for authorisation of swap-based leveraged and inverse products tracking Mainland equity indices with a leverage factor up to two-times (2x) or negative one-time (-1x).

Separately, the first gold futures leveraged 2x product in Hong Kong was listed on SEHK in June.

Products

Authorised collective investment schemes

	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Unit trusts and mutual funds – Hong Kong domiciled	781	762	2.5	792	-1.4
Unit trusts and mutual funds – non-Hong Kong domiciled	1,371	1,373	-0.1	1,426	-3.9
Investment-linked assurance schemes	299	299	0	299	0
Pooled retirement funds	33	33	0	34	-2.9
Mandatory provident fund (MPF) schemes	27	29	-6.9	31	-12.9
MPF pooled investment funds	206	206	0	192	7.3
Others	26 ^a	26	0	25	4
Total	2,743	2,728	0.5	2,799	-2

a Comprising 14 paper gold schemes and 12 REITs.

Unlisted structured investment products

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Unlisted structured investment products ^a	24	30	-20	18	33.3
Authorisations granted under section 105 of the Securities and Futures Ordinance ^b	22	32	-31.3	18	22.2

a On a “one product per key facts statement” basis, the number of unlisted structured investment products authorised during the period, including equity-linked investments and deposits.

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

Products

SFC-authorised renminbi investment products

	As at 30.6.2020
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	54
Unlisted funds (non-renminbi denominated) with renminbi share classes	240
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	51
Unlisted structured investment products issued in renminbi ^b	152
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	30
ETFs (non-renminbi denominated) with renminbi trading counters	18
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

Supervision of HKEX

Volatility Control Mechanism

We monitored the implementation by Hong Kong Exchanges and Clearing Limited (HKEX) of the expansion of the Volatility Control Mechanism (VCM) to cover around 500 Hang Seng Composite Index constituents¹ beginning on 11 May. After the expansion, the VCM was triggered several times and operated smoothly.

Derivatives contracts

We approved the launch by HKEX of futures and options contracts on NetEase and JD.com on the stocks' debut dates in June.

We also approved 33 MSCI index futures contracts referencing the performance of Asia and other emerging market indices proposed by HKEX to expand its derivatives product range and provide more trading and hedging tools for market participants. The first batch of contracts launched in July with the others to follow in phases.

Exchange-traded products

To promote the development of the exchange-traded fund (ETF) market, we approved the introduction by HKEX of a new spread table and continuous quoting market making obligations for ETFs in June. The changes narrowed spreads and reduced trading costs.

ATS providers

	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Under Part III	52	54	-3.7	49	6.1
Under Part V	23	25	-8	24	-4.2

Uncertificated securities market

On 8 April, the SFC, HKEX and the Federation of Share Registrars Limited jointly released consultation conclusions on a proposed operational model for an uncertificated, or paperless, securities market in Hong Kong. This initiative will make securities-related transactions, including initial public offerings and corporate actions, more efficient and cost-effective. The proposal received strong market support. We are jointly developing the operational and technical details of the revised model as well as the regulatory framework to support it. Implementation is expected in 2022.

OTC derivatives regime

On 10 June, we released a consultation conclusions paper on refinements to the scope of the over-the-counter (OTC) derivatives licensing regime to exclude corporate treasury activities of non-financial groups and certain portfolio compression services. The refinements focus our licensing framework on derivatives market intermediaries and avoid creating an unnecessary compliance burden for other market participants. The paper also set out the competence and continuous professional training requirements which will apply under the regime.

Automated trading services

As of 30 June, the number of automated trading services (ATS) providers² authorised under Part III of the Securities and Futures Ordinance (SFO) was 52, while 23 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

¹ Including the approximately 80 constituents of Hang Seng Index and Hang Seng China Enterprises Index previously covered by the VCM.

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 proceedings

We obtained disqualification orders in the Court of First Instance (CFI) under section 214¹ of the Securities and Futures Ordinance (SFO) against:

- three former directors² of EganaGoldpfeil (Holdings) Limited who, for their misconduct in approving payments for transactions with no genuine commercial basis, may not be a director or take part in the management of any corporation in Hong Kong for six to nine years. We commenced proceedings in the Court of Appeal to appeal against the CFI's decision not to make compensation orders against the three former directors.
- five former directors³ of Long Success International (Holdings) Limited were disqualified for two to five years for breaching their duties as directors to act in the company's interest. Proceedings against other former directors of the company are ongoing.

We obtained a court order under section 214 of the SFO requiring Shandong Molong Petroleum Machinery Company Limited to reconstitute its audit committee and appoint an independent external auditor to review its internal control and financial reporting procedures. We are also seeking disqualification orders against seven current and former senior officers of the company who we allege were responsible for a scheme to inflate its financial position.

We applied to the CFI to wind up Combest Holdings Limited under section 212⁴ of the SFO, appoint provisional liquidators and disqualify two of its executive directors⁵ and a suspected shadow director⁶ under section 214.

The Eastern Magistrates' Court separately convicted Yau Ka Fai and Chong Kin Ting for holding themselves out as carrying on a business in regulated activities without an SFC licence.

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine
Guotai Junan Securities (Hong Kong) Limited	Internal control failures and regulatory breaches in connection with anti-money laundering (AML), handling of third-party fund transfers and placing activities, as well as the detection of wash trades and late reporting	\$25.2 million
BOCOM International Securities Limited	Failure to handle third-party fund deposits and to maintain and implement margin lending and margin call policies	\$19.6 million
Mega International Commercial Bank Co., Ltd.	Failures relating to the sale of collective investment schemes	\$7 million
Convoy Asset Management Limited	Failures relating to the solicitation or recommendation of bonds listed under Chapter 37 of the Listing Rules	\$6.4 million
Southwest Securities (HK) Brokerage Limited	Internal control deficiencies and regulatory breaches in relation to AML and counter-terrorist financing (CFT)	\$5 million

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

² David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

³ Victor Ng, Winfield Ng Kwok Chu, Robert Ng Chau Tung, Tse Ching Leung and Zhang Chi.

⁴ Section 212 of the SFO permits the SFC to apply for an order to wind-up a company if it appears to the SFC that it is desirable in the public interest to do so.

⁵ Liu Tin Lap and Lee Man To.

⁶ Ng Kwok Fai.

Enforcement

Other regulatory breaches

Company/Name	Breaches	Action
HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited	Failing to comply with regulatory requirements for cash management for SFC-authorized funds	Reprimanded and fined a total of \$3.5 million
Kwok Chau Mo	Breaching the trading policies of his former firm, Guosen Securities (HK) Asset Management Company Limited	Banned from re-entering the industry for nine months
Potomac Capital Limited	Failing to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$800,000
Joanna Chu Lai Wa	Failing to discharge her duties as a responsible officer and director which resulted in Guosen Securities (HK) Brokerage Company, Limited's AML and CFT regulatory breaches [^]	Banned from re-entering the industry for 12 months

[^] We reprimanded and fined Guosen \$15.2 million in February 2019 for breaches of AML and CFT regulatory requirements with respect to third-party fund deposits.

Disciplinary actions

We disciplined eight licensed corporations and two individuals during the quarter, resulting in total fines⁷ of \$67.5 million.

Restriction notice

We issued a restriction notice to Agg. Asset Management Limited, prohibiting it from carrying on its licensed regulated activities because of doubts over the firm's fitness and properness. Our investigation is ongoing.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,366 requests for trading and account records from intermediaries in the quarter.

We published one high shareholding concentration announcement to remind investors to exercise caution when trading shares in the company where a small number of shareholders hold a high concentration of shares.

Cooperation with CSRC

Following the COVID-19 outbreak, we worked actively with the China Securities Regulatory Commission (CSRC) to fine-tune our mechanisms for enforcement cooperation to ensure that major cases received prompt attention and assistance from both organisations. During the quarter, the CSRC also used innovative technologies to gather evidence for our investigations, which enabled ongoing cooperation to proceed in an orderly manner, and we exchanged views with the CSRC on the prevention of money laundering and the use of technology in enforcement work.

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

Enforcement

Enforcement activities

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
S179 ^a inquiries commenced	10	5	100	9	11.1
S181 ^b inquiries commenced (number of letters sent)	55 (2,366)	45 (1,352)	75	62 (2,579)	-8.3
S182 ^c directions issued	30	36	-17	52	-42.3
Investigations started	33	39	-15	55	-40.0
Investigations completed	61	37	65	37	64.9
Individuals and corporations charged in criminal proceedings	2	2	0	3	-33.3
Criminal charges laid	3	2	50	5	-40.0
Notices of Proposed Disciplinary Action ^d issued	4	9	-56	8	-50.0
Notices of Decision ^e issued	12	9	33	15	-20.0
Individuals and corporations subject to ongoing civil proceedings ^f	155	158	-2	100	55.0
Compliance advice letters issued	55	40	38	64	-14.1
Cases with search warrants executed	2	3	-33	6	-66.7

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 that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

f As of the last day of the period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, our Chief Executive Officer, was reappointed in June as Chair of the Board of the International Organization of Securities Commissions (IOSCO). In view of the impact of COVID-19 on markets, Mr Alder chaired very frequent calls of the IOSCO Board and other IOSCO groups in order to inform policy decisions to address the crisis. In May, Mr Alder co-chaired the CPMI¹-IOSCO Steering Group meeting to coordinate policy work for the supervision of central counterparties.

We are a member of the IOSCO Financial Stability Engagement Group and its Steering Group which coordinates IOSCO's role in ensuring financial stability in close contact with the Financial Stability Board (FSB).

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee and Asia-Pacific Regional Committee (APRC). We lead the APRC's working group on sustainable finance which aims to enhance regulation of ESG² and climate-related disclosures in the region.

FSB

In his role as the IOSCO Board Chair, Mr Alder participated in FSB discussions on financial stability, COVID-19, asset management and the reprioritisation of FSB's work. We are also actively involved in the work of the FSB Standing Committee on Standards Implementation.

Mainland China

During the COVID-19 outbreak, we communicated closely with the China Securities Regulatory Commission (CSRC) and other Mainland authorities on cross-boundary regulatory arrangements including the financial reporting of A+H companies, the supervision of financial institutions operating on a cross-boundary basis and enhancements to mutual market access schemes. We also worked with the CSRC to ensure effective enforcement collaboration³.

In June, we held the seventh SFC-CSRC high-level meeting via video conferencing to discuss cross-boundary cooperation initiatives, the impact and potential risks arising from the COVID-19 outbreak and ways to reinforce Hong Kong's status as an international financial centre.

Green and sustainable finance

In May, we initiated the establishment of Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group to coordinate the management of climate and environmental risks to the financial sector and support the Government's climate strategies. Co-chaired by the SFC and the Hong Kong Monetary Authority, the group also includes representatives of the Financial Services and the Treasury Bureau, the Environment Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

Also in May, our Chairman Mr Tim Lui delivered a keynote speech at Hong Kong's UN75⁴ Dialogue to discuss financial sector initiatives to manage climate change and promote sustainability.

Other regulatory engagement

In April, we entered into a memorandum of understanding with the Competition Commission to enhance cooperation and the exchange of information.

In May, we joined the supervisory college conference call hosted by the Federal Reserve Bank of New York to discuss major risks facing global financial institutions in the challenging business environment. To keep abreast of regulatory developments, we also had virtual meetings during the quarter with the European Commission and various overseas regulators.

¹ Committee on Payments and Market Infrastructures.

² Environmental, social and governance.

³ See Enforcement on pages 12-14.

⁴ The 75th anniversary of the United Nations.

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 two industry events, including the first online Annual Corporate and Regulatory Update organised by the Hong Kong Institute of Chartered Secretaries in June. We also held meetings with industry associations to understand their views on regulatory issues.

Our senior executives spoke at six local and international events including virtual briefings and webinars held during the COVID-19 outbreak. Our Chief Executive Officer Mr Ashley Alder participated in a virtual dialogue with Bloomberg in June to share his views on the regulatory response to COVID-19. He also participated in a panel discussion on the impact of COVID-19 organised by the Asia Securities Industry & Financial Markets Association in May.

We released the following publications in the quarter:

- The report on leveraged foreign exchange trading (LFET) activities, published in April together with a circular, shared the findings of our survey of licensed corporations' LFET activities, our expected regulatory standards and examples of good industry practices.
- The June issue of the *Takeovers Bulletin* reminded parties to a transaction and their advisers of their obligation to maintain confidentiality prior to announcing a firm intention to make an offer.

- Our *Annual Report 2019-20*, released in June, set out our key priorities and reviewed our achievements amidst unprecedented challenges during the year.



Annual Report 2019-20

We issued 19 circulars providing guidance on a wide range of matters, including mutual recognition of funds arrangements, risk management by commodity futures brokers, cybersecurity risks, exchange-traded fund market making, over-the-counter derivatives reporting as well as updates on anti-money laundering and counter-terrorist financing.

Publications and other communications

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Quarter ended 30.6.2019	YoY change (%)
Press releases	31	26	34	-8.8
Policy statements and announcements	3	1	0	N/A
Consultation papers	1	1	1	0
Consultation conclusions	3	0	2	50
Industry-related publications	2	5	2	0
Codes and guidelines ^a	1	0	3	-66.7
Circulars to industry	19	19	26	-26.9
Corporate website average daily page views ^b	38,055	31,272	69,278	-45.1
General enquiries	1,953	1,284	1,548	26.2

^a Includes updates to previous versions.

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

Corporate Developments



Board

In May, the Government reappointed Mr Ashley Alder as Chief Executive Officer for another three-year term, effective from 1 October 2020.

Regulatory committees

New appointments and reappointments to the following committees¹ took effect from 1 April:

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

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

Office relocation

In July, we relocated our office from Central to Quarry Bay. This significantly reduces our rental expenses. The new office features an open layout to increase capacity and use space more efficiently.

Working arrangements

Taking into consideration the health and wellbeing of our staff and to ensure our operations are sufficiently resourced during the ongoing COVID-19 outbreak, we continued our split-team arrangements for staff to work remotely on a rotating basis.

¹ Each of these committees is set up under the Securities and Futures Ordinance and specialises in particular regulatory areas.

Corporate Developments

Finance

Our income for the quarter was \$626 million. Average daily turnover in Hong Kong's securities market was \$119 billion for the quarter, 6% lower than the \$126 billion recorded in the previous quarter. Our levy income dropped moderately this quarter while net investment income increased substantially. Our expenditure was \$521 million, slightly lower than last quarter. We had a surplus of \$105 million.

After setting aside \$3 billion for the possible acquisition of office premises, our reserves stood at \$3.8 billion as of 30 June.

Staffing

As of 30 June, we had 925 staff members, up from 908 a year ago.

Information technology

During the quarter, we increased our remote access capacity to cope with special working arrangements during the COVID-19 outbreak. We also relocated our computing centre to a secured off-site location to provide more reliable around-the-clock service and support remote working arrangements when our office is inaccessible.

We deployed artificial intelligence technology in more areas to facilitate our regulatory work, including a project launched in June to detect conflicts of interest by extracting and analysing information from initial public offering prospectuses about the roles of companies and individuals. Internally, our document management and search systems were enhanced to boost productivity and efficiency.

Finance

(\$ million)	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Quarter ended 30.6.2019	YoY change (%)
Income	626	352	412	52
Expenses including depreciation	521	525	465	12
Surplus/(loss)	105	(173)	(53)	N/A

Activity Data

Table 1 Takeovers activities

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	5	11	-54.5	6	-16.7
Privatisations	6	3	100	4	50
Whitewash waiver applications	8	2	300	6	33.3
Other applications under Code on Takeovers and Mergers ¹	91	65	40	83	9.6
Off-market and general offer share buy-backs	0	2	-100	3	-100
Other applications under Code on Share Buy-backs ¹	1	0	N/A	1	0
Total	111	83	33.7	103	7.8
Executive Statements					
Sanctions imposed with parties' agreement ²	2	0	N/A	1	100
Takeovers and Mergers Panel					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	N/A	0	N/A
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	N/A	1	-100

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.

Table 2 Breaches noted during on-site inspections

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	0	2	-100	2	-100
Failure to safekeep client securities	4	10	-60	9	-55.6
Failure to maintain proper books and records	3	3	0	7	-57.1
Failure to safekeep client money	7	12	-41.7	18	-61.1
Unlicensed dealing and other registration issues	0	1	-100	6	-100
Breach of licensing conditions	0	0	N/A	2	-100
Breach of requirements of contract notes/ statements of account/receipts	3	8	-62.5	6	-50
Failure to make filing/notification	0	2	-100	0	N/A
Breach of margin requirements	0	1	-100	3	-100
Dealing malpractices	1	0	N/A	2	-50
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	43	63	-31.7	93	-53.8
Breach of Corporate Finance Adviser Code of Conduct	4	3	33.3	1	300
Breach of Fund Manager Code of Conduct	28	19	47.4	17	64.7
Breach of regulation of on-line trading	0	1	-100	4	-100
Non-compliance with anti-money laundering guidelines	19	54	-64.8	99	-80.8
Breach of other rules and regulations of the Exchanges ²	3	1	200	5	-40
Internal control weaknesses ³	102	111	-8.1	100	2
Others	15	32	-53.1	55	-72.7
Total	232	323	-28.2	429	-45.9

1 Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

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

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

Table 3 Hong Kong domiciled authorised funds

a) Number of funds by type	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Bond	145	136	6.6	134	8.2
Equity	188	185	1.6	201	-6.5
Mixed ¹	63	61	3.3	59	6.8
Money market	29	28	3.6	26	11.5
Fund of funds	80	78	2.6	84	-4.8
Index ²	131	129	1.6	133	-1.5
Guaranteed	3	3	0	3	0
Other specialised ³	0	0	N/A	2	-100
Sub-total	639	620	3.1	642	-0.5
Umbrella structures	142	142	0	150	-5.3
Total	781	762	2.5	792	-1.4

b) Assets under management by type	Total NAV (US\$ million) as at 30.6.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.6.2019	YoY change (%)
Bond	31,347	28,245	11	27,251	15
Equity	46,011	39,238	17.3	49,919	-7.8
Mixed ¹	15,816	14,629	8.1	14,586	8.4
Money market	7,956	7,331	8.5	5,650	40.8
Fund of funds	18,198	16,494	10.3	20,550	-11.4
Index ²	35,769	32,168	11.2	36,864	-3
Guaranteed	61	59	3.4	70	-12.9
Other specialised ³	0	0	N/A	92	-100
Total	155,157⁴	138,163⁴	12.3	154,982	0.1

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Presented as "Diversified" previously.

2 Including exchange-traded funds and leveraged and inverse products.

3 Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

4 These figures do not add up to total due to rounding.

Table 4 Non-Hong Kong domiciled authorised funds

a) Number of funds by origin	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Luxembourg	1,027	1,032	-0.5	1,058	-2.9
Ireland	227	222	2.3	222	2.3
United Kingdom	34	37	-8.1	53	-35.8
Other Europe	0	0	N/A	3	-100
Mainland China	51	50	2	51	0
Bermuda	1	1	0	1	0
Cayman Islands	26	26	0	30	-13.3
Others	5	5	0	8	-37.5
Total	1,371	1,373	-0.1	1,426	-3.9

b) Assets under management by origin	Total NAV (US\$ million) as at 30.6.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.6.2019	YoY change (%)
Luxembourg	1,052,712	884,452 ¹	19	1,074,139 ²	-2
Ireland	237,286	204,602	16	228,645	3.8
United Kingdom	65,015	60,602	7.3	74,981	-13.3
Other Europe	0	0	N/A	145	-100
Mainland China	20,439	18,496	10.5	18,570	10.1
Bermuda	130	142	-8.5	156	-16.7
Cayman Islands	5,183	4,705	10.2	8,332	-37.8
Others	71,855	54,638	31.5	43,203	66.3
Total	1,452,620	1,227,637¹	18.3	1,448,170^{2,3}	0.3

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report's issuance.

2 These figures differ from those disclosed in the *Quarterly Report April-June 2019* due to a revised figure reported after the report's issuance.

3 These figures do not add up to total due to rounding.

Activity Data

c) Number of funds by type	As at 30.6.2020	As at 31.3.2020	Change (%)	As at 30.6.2019	YoY change (%)
Bond	329	329	0	337	-2.4
Equity	755	760	-0.7	800	-5.6
Mixed ¹	124	123	0.8	123	0.8
Money market	16	15	6.7	18	-11.1
Fund of funds	26	26	0	26	0
Index ²	41	41	0	35	17.1
Hedge	1	1	0	0	N/A
Other specialised ³	0	0	N/A	3	-100
Sub-total	1,292	1,295	-0.2	1,342	-3.7
Umbrella structures	79	78	1.3	84	-6
Total	1,371	1,373	-0.1	1,426	-3.9

d) Assets under management by type	Total NAV (US\$ million) as at 30.6.2020	Total NAV (US\$ million) as at 31.3.2020	Change (%)	Total NAV (US\$ million) as at 30.6.2019	YoY change (%)
Bond	538,728	469,281	14.8	545,979	-1.3
Equity	649,708	532,133 ⁴	22.1	668,905 ⁵	-2.9
Mixed ¹	137,627	123,753	11.2	149,181	-7.7
Money market	13,889	13,877	0.1	16,795	-17.3
Fund of funds	1,497	1,414	5.9	2,291	-34.7
Index ²	111,041	87,036	27.6	64,399	72.4
Hedge	130	142	-8.5	0	N/A
Other specialised ³	0	0	N/A	621	-100
Total	1,452,620	1,227,637^{4,6}	18.3	1,448,170^{5,6}	0.3

1 Presented as "Diversified" previously.

2 Including exchange-traded funds.

3 Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

4 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report's issuance.

5 These figures differ from those disclosed in the *Quarterly Report April-June 2019* due to a revised figure reported after the report's issuance.

6 These figures do not add up to total due to rounding.

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
Conduct of licensees	176	165	6.7	149	18.1
Conduct of registered institutions	7	2	250	16	-56.3
Listing-related matters and disclosure of interests	1,123	370	203.5	433	159.4
Market misconduct ¹	128	69	85.5	204	-37.3
Product disclosure	74	8	825	3	2,366.7
Unlicensed activities	32	29	10.3	50	-36
Breach of offers of investments	18	8	125	69	-73.9
Boiler rooms and suspicious websites	156	99	57.6	149	4.7
Scams and frauds ²	143	82	74.4	50	186
Other financial activities not regulated by SFC ³	82	84	-2.4	77	6.5
Total	1,939	916	111.7	1,200	61.6

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking complaints.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Levies		414,111	344,341
Fees and charges		53,023	37,432
Investment income net of third party expenses			
Investment income		159,703	49,355
Less: custody and advisory expenses		(2,020)	(1,971)
Recoveries from the Investor Compensation Fund	7(a)	1,559	1,517
Exchange loss		(243)	(18,707)
Other income		143	94
		626,276	412,061
Expense			
Staff costs and directors' emoluments	7(b)	360,440	348,407
Other premises expenses		19,474	11,728
Depreciation			
Fixed assets		16,728	9,981
Right-of-use assets		87,805	50,296
Finance costs		2,482	1,084
Other expenses		34,339	43,256
		521,268	464,752
Surplus/(loss) and total comprehensive income for the quarter		105,008	(52,691)

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

Condensed consolidated statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		301,519	135,712
Right-of-use assets		1,111,708	324,040
Deposits for leases		33,299	33,767
Financial assets at amortised costs – debt securities		1,584,810	1,600,123
		3,031,336	2,093,642
Current assets			
Financial assets at amortised costs – debt securities		555,613	984,239
Financial assets at fair value through profit or loss			
Debt securities		425,405	419,469
Pooled funds		768,782	648,510
Debtors, deposits and prepayments		258,470	265,200
Fixed deposits with banks		3,260,671	2,832,302
Cash at bank and in hand		56,058	51,871
		5,324,999	5,201,591
Current liabilities			
Fees received in advance		31,250	47,097
Creditors and accrued charges	7(a)	316,848	167,043
Lease liabilities		132,890	96,115
Provisions	3	59,295	66,532
		540,283	376,787
Net current assets		4,784,716	4,824,804
Total assets less current liabilities		7,816,052	6,918,446
Non-current liabilities			
Lease liabilities		928,077	203,558
Provisions	3	88,047	19,968
		1,016,124	223,526
Net assets		6,799,928	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,757,088	3,652,080
		6,799,928	6,694,920

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

Condensed statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Non-current assets			
Fixed assets		301,366	135,658
Right-of-use assets		1,111,708	324,040
Deposits for leases		33,299	33,767
Financial assets at amortised costs – debt securities		1,584,810	1,600,123
		3,031,183	2,093,588
Current assets			
Financial assets at amortised costs – debt securities		555,613	984,239
Financial assets at fair value through profit or loss			
Debt securities		425,405	419,469
Pooled funds		768,782	648,510
Debtors, deposits and prepayments		266,430	274,141
Fixed deposits with banks		3,260,671	2,832,302
Cash at bank and in hand		41,170	29,836
		5,318,071	5,188,497
Current liabilities			
Fees received in advance		31,250	47,097
Creditors and accrued charges		309,767	153,895
Lease liabilities		132,890	96,115
Provisions	3	59,295	66,532
		533,202	363,639
Net current assets		4,784,869	4,824,858
Total assets less current liabilities		7,816,052	6,918,446
Non-current liabilities			
Lease liabilities		928,077	203,558
Provisions	3	88,047	19,968
		1,016,124	223,526
Net assets		6,799,928	6,694,920
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,757,088	3,652,080
		6,799,928	6,694,920

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

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2020 (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 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the quarter	–	–	(52,691)	(52,691)
Balance at 30 June 2019	42,840	3,000,000	3,974,691	7,017,531
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the quarter	–	–	105,008	105,008
Balance at 30 June 2020	42,840	3,000,000	3,757,088	6,799,928

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

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter end	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus/(loss) for the quarter		105,008	(52,691)
Adjustments for:			
Depreciation – Fixed assets		16,728	9,981
Depreciation – Right-of-use assets		87,805	50,296
Finance costs		2,482	1,084
Interest income on deposits for leases		(71)	–
Investment income		(159,703)	(49,355)
Exchange difference		230	18,703
Loss on disposal of fixed assets		–	2
		52,479	(21,980)
Decrease/(increase) in debtors, deposits and prepayments		189	(29,375)
(Decrease)/increase in fees received in advance		(15,847)	20,610
Increase/(decrease) in creditors and accrued charges		154,213	(30,339)
Decrease in provisions		(7,237)	–
Net cash generated from/(used in) operating activities		183,797	(61,084)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		539,735	285,203
Interest received		37,004	29,490
Debt securities at fair value through profit or loss purchased		(72,848)	(80,717)
Debt securities at fair value through profit or loss sold or redeemed		76,006	91,017
Pooled funds sold		1,094	1,103
Debt securities at amortised cost purchased		(8,525)	–
Debt securities at amortised cost redeemed at maturity		449,608	78,454
Fixed assets purchased		(182,535)	(13,065)
Net cash generated from investing activities		839,539	391,485
Cash flows from financing activities			
Principal element of lease payments		(48,470)	(49,180)
Interest element of lease payments		(2,482)	(1,084)
Net cash used in financing activities		(50,952)	(50,264)
Net increase in cash and cash equivalents		972,384	280,137
Cash and cash equivalents at the beginning of the quarter		753,406	289,657
Cash and cash equivalents at the end of the quarter	2	1,725,790	569,794

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	1,669,732	522,689
Cash at bank and in hand	56,058	47,105
	1,725,790	569,794

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

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2020 (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 2020. 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 2020 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 30 June 2020. 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 2020 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2020.

2. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank and in hand	56,058	51,871
Fixed deposits with banks	3,260,671	2,832,302
Amounts shown in the condensed consolidated statement of financial position	3,316,729	2,884,173
Less: Amounts with an original maturity beyond three months	(1,590,939)	(2,130,767)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,725,790	753,406

3. Provisions

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

4. 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 30 June 2020. Therefore, an ageing analysis of debtors and creditors is not provided.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

5. 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.

6. 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 30 June 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2020: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

7. 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 parties transactions disclosed in 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, \$1,559,000 was recovered from the ICF for the ICC's expenses (2019: \$1,517,000). As at 30 June 2020, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$538,000 (as at 31 March 2020: \$138,000).

(b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,554	8,614
Retirement scheme contributions	769	775
	9,323	9,389

The total remuneration is included in "staff costs and directors' emoluments" on page 25. 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.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2020.

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 30 June 2020 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 quarter ended 30 June 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

Interests in contracts

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

On behalf of the Committee

Rico Leung

Chairman

13 August 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Interest income		10,173	15,971
Exchange loss		(78)	(6,342)
		10,095	9,629
Expenses			
Investor Compensation Company Limited expenses	2	1,559	1,517
Auditor's remuneration		55	52
		1,614	1,569
Surplus and total comprehensive income for the quarter		8,481	8,060

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

Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Current assets		
Interest receivable	5,423	7,185
Due from Investor Compensation Company Limited	538	138
Fixed deposits with banks	2,430,610	2,420,558
Cash at bank	351	651
	2,436,922	2,428,532
Current liabilities		
Creditors and accrued charges	177	268
	177	268
Net current assets	2,436,745	2,428,264
Net assets	2,436,745	2,428,264
Representing:		
Compensation fund	2,436,745	2,428,264

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 quarter ended 30 June 2020 (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 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the quarter	–	–	8,060	8,060
Balance at 30 June 2019	994,718	108,923	1,295,924	2,399,565
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the quarter	–	–	8,481	8,481
Balance at 30 June 2020	994,718	108,923	1,333,104	2,436,745

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

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus for the quarter		8,481	8,060
Adjustments for:			
Interest income		(10,173)	(15,971)
Exchange loss		78	6,342
		(1,614)	(1,569)
Increase in amount due from Investor Compensation Company Limited		(400)	(374)
(Decrease)/increase in creditors and accrued charges		(91)	45
Net cash used in operating activities		(2,105)	(1,898)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		367,425	161,615
Interest received		11,935	16,186
Net cash generated from investing activities		379,360	177,801
Net increase in cash and cash equivalents		377,255	175,903
Cash and cash equivalents at the beginning of the quarter		1,086,662	32,944
Cash and cash equivalents at the end of the quarter	3	1,463,917	208,847

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	1,463,566	208,231
Cash at bank	351	616
	1,463,917	208,847

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

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2020.

2. 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 quarter ended 30 June 2020, the ICC incurred costs of \$1,559,000 for its operation (for the quarter ended 30 June 2019: \$1,517,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank	351	651
Fixed deposits with banks	2,430,610	2,420,558
Amounts shown in the condensed statement of financial position	2,430,961	2,421,209
Less: Amounts with an original maturity of beyond three months	(967,044)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,463,917	1,086,662

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

4. 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 quarters ended 30 June 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

As at the date of this report, there are 13 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 \$2,053,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit per claimant or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2020.

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 30 June 2020, 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 30 June 2020 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 quarter ended 30 June 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Yiu Ka Yan Wilfred

Ms Kwok Hom Siu

Interests in contracts

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

On behalf of the Committee

Rico Leung

Chairman

5 August 2020

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Interest income		382	390
Recoveries	2	3,626	(1)
		4,008	389
Expenses			
Auditor's remuneration		27	26
Surplus and total comprehensive income for the quarter		3,981	363

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 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Current assets			
Interest receivable		199	243
Accounts receivable		9	9
Fixed deposits with banks		96,606	92,879
Cash at bank		334	470
		97,148	93,601
Current liabilities			
Creditors and accrued charges		10,272	10,306
Relinquished trading rights payable to SEHK	4	1,100	1,250
		11,372	11,556
Net current assets		85,776	82,045
Net assets		85,776	82,045
Representing:			
Compensation fund		85,776	82,045

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 quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Unaudited						
	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 ICF \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	550	–	–	–	–	–	550
Surplus and total comprehensive income for the quarter	–	–	–	–	363	–	363
Balance at 30 June 2019	55,050	353,787	630,000	6,502	29,624	(994,718)	80,245
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(250)	–	–	–	–	–	(250)
Surplus and total comprehensive income for the quarter	–	–	–	–	3,981	–	3,981
Balance at 30 June 2020	55,200	353,787	630,000	6,502	35,005	(994,718)	85,776

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 quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus for the quarter		3,981	363
Adjustments for:			
Interest income		(382)	(390)
Recoveries		–	1
		3,599	(26)
(Decrease)/increase in creditors and accrued charges		(34)	26
(Decrease)/increase in relinquished trading rights payable to SEHK		(150)	150
Net cash generated from operating activities		3,415	150
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		61,350	–
Interest received		426	356
Net cash generated from investing activities		61,776	356
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(250)	550
Net cash (used in)/generated from financing activities		(250)	550
Net increase in cash and cash equivalents		64,941	1,056
Cash and cash equivalents at the beginning of the quarter		31,999	90,260
Cash and cash equivalents at the end of the quarter	3	96,940	91,316

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	96,606	90,494
Cash at bank	334	822
	96,940	91,316

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

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2020.

2. Recoveries/Equity securities received under subrogation

For the quarter ended 30 June 2020, the Fund recognised as recoveries the payment of \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd (for the quarter ended 30 June 2019: nil).

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 30 June 2020, the equity securities received under subrogation amounted to \$193 (as at 31 March 2020: \$142). The balance as at 30 June 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank	334	470
Fixed deposits with banks	96,606	92,879
Amounts shown in the condensed statement of financial position	96,940	93,349
Less: Amounts with an original maturity of beyond three months	–	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	96,940	31,999

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

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 Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the quarter, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$600,000 in respect of 12 relinquished trading rights were refunded to SEHK.

As at 30 June 2020, 22 trading rights totalling \$1,100,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded). The net trading right deposits from SEHK as at 30 June 2020, excluding the relinquished trading rights payable, amounted to \$55,200,000 (as at 31 March 2020: \$55,450,000).

5. 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 quarters ended 30 June 2020 and 2019.

Securities and Futures Commission

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