



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

## **Financial Review of the Securities Industry**

For the half year ended 30 June 2014



## Executive Summary

In the first half of 2014, the net profit of all securities dealers and securities margin financiers<sup>1</sup> totalled \$9.8 billion<sup>2</sup>, up 21.9% from the previous six months. The increase was mainly attributable to reduction in overheads such as inter-company management fee expenses and staff remuneration, as compared to the last 6 months period.

The total value of transactions of all securities dealers and securities margin financiers increased by 5.3% in the first half of 2014. During the period, average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) stood at \$62.9 billion<sup>3</sup>, up 10.2% from the previous six months. The Hang Seng Index closed at 23,191 at the end of June 2014, down 0.5% as compared to its 23,306 close at the end of December 2013.

In respect of SEHK participants, the total net profit reported by Category A brokerages<sup>2a</sup> was \$0.5 billion and that of Category B and C brokerages<sup>2a</sup> was \$2.8 billion and \$1.2 billion respectively.

At the end of June 2014, the total outstanding margin loan was \$93.5 billion, up 9% from the end of 2013. Average collateral coverage was 4 times<sup>1c</sup>.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the first half of 2014.

<b>Table 1 Statistical information and financial position of securities dealers and securities margin financiers<sup>1a</sup></b>		
	<b>30/6/2014</b>	<b>31/12/2013</b>
Total number of securities dealers and securities margin financiers	942	927
Total number of active cash clients <sup>1b</sup>	1,096,509	1,079,550
Total number of active margin clients <sup>1b</sup>	156,129	150,545
<b>Balance sheet (\$ million)</b>		
Cash in hand and at bank <sup>1d</sup>	295,110	286,388
Amounts receivable from margin clients	93,499	85,794
Amounts receivable from clients and other dealers arising from dealing in securities	205,423	146,898
Proprietary positions	174,888	189,300
Other assets	192,707	176,858
<b>Total assets</b>	<b>961,627</b>	<b>885,238</b>

<sup>1</sup> Securities dealers and securities margin financiers refer to corporations licensed for dealing in securities or securities margin financing. Both SEHK participants and non-SEHK participants are included unless otherwise specified.

<sup>2</sup> Unless otherwise stated, figures provided in this report are denominated in Hong Kong dollars.

<sup>3</sup> Source of information: Hong Kong Exchanges and Clearing Limited.



**Table 1 Statistical information and financial position of securities dealers and securities margin financiers (cont'd)**

	<b>30/6/2014</b>	<b>31/12/2013</b>
<b>Balance sheet (\$ million) (cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	399,936	366,299
Total cash borrowings from financial institutions	121,638	67,358
Short positions held for own account	84,470	101,044
Other liabilities	114,595	109,737
Total shareholders' funds	240,988	240,800
<b>Total liabilities and shareholders' funds (+8.6%)</b>	<b>961,627</b>	<b>885,238</b>
	<b>6 months to 30/6/2014</b>	<b>6 months to 31/12/2013</b>
<b>Profit and loss (\$ million)</b>		
Total value of transactions <sup>1e</sup>	26,401,827	25,067,064
Net securities commission income	9,809	9,357
Gross interest income	4,469	4,084
Other income <sup>1f</sup>	42,653	43,858
Net profit on proprietary trading	4,306	4,581
<b>Total income (-1.0%)</b>	<b>61,237</b>	<b>61,881</b>
Total overheads and interest expense	(51,395)	(53,805)
<b>Net profit (+21.9%)</b>	<b>9,842</b>	<b>8,076</b>
Remarks:		
1a Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office are excluded.		
1b Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
1c Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:		
	<u>As at 30/6/2014</u>	<u>As at 31/12/2013</u>
	4.0 times	3.9 times
1d Cash in hand and at bank includes \$145 billion in trust monies held on behalf of clients (31/12/2013: \$144 billion).		
1e Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1f Other income includes inter-company management fee income, asset management fees, advisory fees, underwriting fees and corporate finance income.		
<i>Sources: Monthly financial returns submitted to the Securities and Futures Commission by corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.</i>		



**Table 2 Financial performance of SEHK participants<sup>2a</sup> by category for the half year ended 30 June 2014 (\$ million)**

	Category A		Category B		Category C		All SEHK Participants	
	1H 2014	2H 2013	1H 2014	2H 2013	1H 2014	2H 2013	1H 2014	2H 2013
Total value of transactions <sup>2b</sup>	9,716,857	9,057,540	6,678,647	6,335,314	3,527,706	3,296,051	19,923,210	18,688,905
Net securities commission income	1,906	1,810	3,234	3,171	2,320	2,133	7,460	7,114
Gross interest income	400	379	1,764	1,631	1,608	1,319	3,772	3,328
Other income	4,067	5,637	4,269	3,128	3,560	3,377	11,896	12,141
Net profit/(loss) on proprietary trading	150	89	99	121	276	875	525	1,084
<b>Total income</b>	<b>6,523</b>	<b>7,914</b>	<b>9,366</b>	<b>8,051</b>	<b>7,764</b>	<b>7,704</b>	<b>23,653</b>	<b>23,668</b>
Total overheads and interest expense	(6,025)	(6,725)	(6,546)	(7,210)	(6,579)	(6,547)	(19,150)	(20,482)
<b>Net profit / (loss)</b>	<b>498</b>	<b>1,188</b>	<b>2,820</b>	<b>841</b>	<b>1,185</b>	<b>1,156</b>	<b>4,503</b>	<b>3,186</b>

Remarks:

2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the SEHK. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th, and the remainder is grouped under Category C.

2b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Sources: Monthly financial returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules.

Disclaimer: The objective of this paper is to provide summary financial data for interested parties to use in benchmarking, research analysis or other purposes. Observations made here should not be taken as definitive market commentaries.