



# Quarterly Report

## July–September 2015

This second Quarterly Report of the Securities and Futures Commission for financial year 2015-16 covers the period from 1 July to 30 September 2015.

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Additional information can be found in the relevant sections of the Quarterly Report.

## Regulatory enhancements

- **Financial resources rules:** We launched a consultation in July on proposed changes to the Securities and Futures (Financial Resources) Rules for licensed corporations engaged in over-the-counter (OTC) derivatives activity.
- **OTC derivatives:** On 30 September, we issued a joint consultation with the Hong Kong Monetary Authority on introducing the first phase of mandatory clearing and the second phase of mandatory reporting for OTC derivatives transactions.

## Intermediaries

- **New licence applications:** We received 2,416 licence applications this quarter, up 20.9% year-on-year.

## Product development

- **Mutual Recognition of Funds:** The Mainland-Hong Kong Mutual Recognition of Funds scheme was implemented on 1 July 2015.
- **Fund authorization process:** We announced in October a revamped fund authorization process which aims to shorten the overall processing time for new fund applications.

## Listing matters

- **IPO applications:** Under the dual filing regime, we received 61 listing applications via The Stock Exchange of Hong Kong Limited during the quarter, up 35.6% year-on-year.

## Enforcement

- We disciplined three licensed corporations, resulting in total fines of \$19.9 million, and sanctioned three licensed representatives.
- We commenced proceedings against AcrossAsia Limited and its chairman and CEO in the first case in the Market Misconduct Tribunal related to disclosure obligations.
- Ernst & Young withdrew its appeal against the Court of First Instance's orders compelling its production of accounting records to the SFC.

## Global regulatory engagement

- The International Organization of Securities Commission Task Force on Cross-Border Regulation, which the SFC chairs, published its final report on 17 September.

## Stakeholder communication

- We organised the Mainland-Hong Kong Mutual Recognition of Funds Symposium on 3 July to provide further details to the industry and discuss opportunities presented by the scheme.
- Together with Radio Television Hong Kong, we produced "SFC in Action 3", a law-enforcement television drama which was broadcast from 5 August to 9 September.

## Licensing applications

We received 2,416 licence applications<sup>1</sup> this quarter. This is a 33.9% increase from the last quarter and a 20.9% increase from the same quarter last year. In the three months to 30 September, the total number of licensees and registrants rose 2.3% to 41,251. This is a record high since the implementation of the Securities and Futures Ordinance regime on 1 April 2003.

## Proposed changes to financial resources rules

On 17 July 2015, we released a consultation paper on proposed changes to the Securities and Futures (Financial Resources) Rules (FRR) relating to capital and other prudential requirements for licensed corporations engaged in over-the-counter (OTC) derivatives activity. The proposals aim to ensure that licensed corporations maintain their capital and liquidity at levels which are commensurate with the risks they undertake pertaining to derivatives business as well as to encourage them to adopt more advanced risk management standards. The consultation paper also proposes a small number of changes to FRR treatments applicable to licensed corporations which do not engage in OTC derivatives activity.

## CFTC exemption for Hong Kong brokers

On 13 August 2015, the SFC issued a circular to corporations licensed for Type 2 regulated activity (dealing in futures contracts) setting out the procedures to be exempted from US Commodity Futures Trading Commission (CFTC) registration when dealing directly with US customers. This followed a March 2015 CFTC order permitting SFC-licensed corporations to deal directly with US customers in relation to trading of futures or options products on exchanges under the SFC's oversight without having to register as futures brokers in the US.

## Supervisory assistance to regulators outside Hong Kong

The Securities and Futures (Amendment) Bill was introduced to the Legislative Council on 24 June 2015 and passed on 5 November. It enables the SFC, subject to a number of conditions and safeguards, to provide additional supervisory assistance to regulators outside Hong Kong upon request by making enquiries and obtaining certain records and documents from licensed corporations or their related corporations.

## Promoting compliance

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

On 25 September 2015, we launched a Money Laundering Risk Assessment Survey to selected licensed corporations and associated firms. The survey will collect information for the purpose of assessing the money laundering risk of Hong Kong's securities sector in accordance with the Financial Action Task Force Recommendations.

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

## Reorganisation of Intermediaries Division

Licensing and off-site supervisory functions of the Intermediaries Division were reorganised during the second quarter of 2015 to allow for greater specialisation and a more proactive supervisory focus around key segments of the market, with major firms categorised in four groups: asset management, global institutions, Greater China institutions and Asian institutions. Specific licensing and supervisory teams now work together more closely to cover largely the same firms, businesses and industry segments. The reorganisation also enables more coordinated and effective communication with firms.

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 1,477 provisional licence applications compared to 1,218 in the same quarter last year.

## Licensees and registrants

	As at 30.9.2015	As at 31.3.2015	Change (%)	As at 30.9.2014	YoY change (%)
Licensed corporations	2,125	2,068	2.8	2,021	5.1
Registered institutions	118	118	0	119	-0.8
Licensed individuals	39,008	37,783	3.2	37,726	3.4
<b>Total</b>	<b>41,251</b>	<b>39,969</b>	<b>3.2</b>	<b>39,866</b>	<b>3.5</b>

## Licensing applications

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Applications to conduct new regulated activity	7,161	12,211	10,299	18.6
Applications for SFC licences <sup>1</sup>	2,416	4,221	3,567	18.3

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 1,477 provisional licence applications compared with 1,218 in the same quarter last year.

## Intermediary inspection

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Risk-based, on-site inspections	87	156	160	-2.5

## Mainland-Hong Kong Mutual Recognition of Funds

The Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme was implemented on 1 July 2015. To ensure smooth implementation of the scheme, we have been engaging industry participants and maintaining regular dialogue with our Mainland counterparts. We are reviewing applications from Mainland fund managers for authorization of recognised Mainland funds under the scheme.

## Fund Management Activities Survey

In July, we released the annual *Fund Management Activities Survey* for 2014. The findings showed that Hong Kong's combined fund management business experienced 10.5% growth year-on-year to reach a record high of \$17,682 billion as of 31 December 2014, despite volatile global markets and a challenging investment climate.

## Revamp of fund authorization process

In October, we announced the revamped fund authorization process (effective on 9 November), which aims to promote fund providers' self-compliance and to shorten the overall processing time for new fund applications without compromising investor protection.

A "two-stream" approach will be adopted. New fund applications will be classified as standard or non-standard. Standard applications will be fast-tracked with an aim that authorization (if granted) will be given on average between one and two months from take up. For non-standard applications, under an enhanced process, we aim that authorization (if granted) will be given on average within two to three months from take up. We published a new *Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds*, a streamlined New Information Checklist and frequently asked questions (FAQs). Two briefings were held in October to further provide guidance to the industry.

Separately, we also announced in October that a six-month application lapse policy (also effective on 9 November) will be applied to applications for new mandatory provident fund and pooled retirement fund products seeking SFC authorization, following consultations with key stakeholders. This will bring the authorization process for these products in line with the six-month application lapse period currently applied to other SFC-authorized investment products. We have also organised a briefing to provide guidance to the industry on the application lapse policy.

## Renminbi products

We authorized one unlisted RQFII<sup>1</sup>/Stock Connect fund and one RQFII/Stock Connect exchange-traded fund (ETF)<sup>2</sup> this quarter. The total number of SFC-authorized RQFII/Stock Connect unlisted funds and ETFs were 72 and 22, respectively, as of 30 September.

## Regulation and surveillance

In view of volatile market conditions, we enhanced surveillance of SFC-authorized funds to monitor, among other things, large redemptions and liquidity risk management. We issued a circular on 20 July 2015 to provide guidance to management companies, trustees and custodians of SFC-authorized funds on valuation policies and procedures, particularly when the market value of an asset is unavailable, unreliable, illiquid or hard to value as a result of significant market events. We also met with some licensed asset managers to review their practices on valuation and liquidity risk management.

<sup>1</sup> Renminbi Qualified Foreign Institutional Investor.

<sup>2</sup> The RQFII/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.

Authorized collective investment schemes<sup>1</sup>

	As at 30.9.2015	As at 31.3.2015	Change (%)	As at 30.9.2014	YoY change (%)
Unit trusts and mutual funds	2,090	2,045	2.2	1,983	5.4
Investment-linked assurance schemes	295	294	0.3	265	11.3
Pooled retirement funds	35	35	0	35	0
MPF schemes	37	37	0	38	-2.6
MPF pooled investment funds	171	185	-7.6	186	-8.1
Others <sup>2</sup>	26	26	0	27	-3.7
<b>Total</b>	<b>2,654</b>	<b>2,622</b>	<b>1.2</b>	<b>2,534</b>	<b>4.7</b>

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

<sup>2</sup> Other schemes comprise 15 paper gold schemes and 11 real estate investment trusts as of 30 September 2015.

## Unlisted structured investment products

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Unlisted structured investment products <sup>1</sup> authorized	52	59	60	-1.7
Authorizations granted under section 105 of the SFO <sup>2</sup>	34	49	54	-9.3

<sup>1</sup> Comprising mostly equity-linked investments and equity-linked deposits. The number is on a "one product per key facts statement" basis.

<sup>2</sup> Comprising offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

## Review of IPO applications

Under the dual filing regime, we received 61 listing applications via The Stock Exchange of Hong Kong Limited during the quarter, up 35.6% from 45 in the same period last year. One listing application was returned and an eight-week moratorium<sup>1</sup> was imposed because the application proof was not substantially complete.

## Takeovers matters

In July 2015, the Takeovers and Mergers Panel (Takeovers Panel) imposed cold shoulder orders against Chow Yei Ching, Chairman of the Chevalier Group, and two other persons, and publicly censured them for breach of the Takeovers Code.

The cold shoulder order against Chow Yei Ching denies him direct or indirect access to the securities markets in Hong Kong for 10 years. Oscar Chow and Joseph Leung are denied direct or indirect access to the securities markets in Hong Kong for two years.

The Takeovers Panel published its written decision in April 2015 setting out the reasons for finding that these three individuals were in breach of the

mandatory offer requirement under the Takeovers Code. They acted in concert with the late Nina Kung to obtain and consolidate control of ENM Holdings Limited through the acquisition of voting rights and failed to make a general offer as required by the Takeovers Code.

## Principles of Responsible Ownership

The public consultation on the proposed Principles of Responsible Ownership which aim to provide guidance on fulfilling investors' ownership responsibilities ended on 2 June. The submissions we received from 52 respondents were generally supportive. We are working on the consultation conclusions.

## Corporate Regulation

Throughout the quarter, we conducted a daily review of corporate announcements under the statutory inside information disclosure regime and as a result issued a number of section 179<sup>2</sup> directions to gather additional information.

## Listing applications and takeovers activities

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Listing applications filed under the dual filing regime	61	123	94	30.9
Takeovers and share buy-backs transactions	115	228	193	18.1

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

<sup>2</sup> 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.



## OTC derivatives

As part of the implementation of the new over-the-counter (OTC) derivatives regime, the revised Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules were implemented on 10 July, beginning the first phase of mandatory reporting and related record-keeping obligations. On 30 September, the Hong Kong Monetary Authority and the SFC began a joint consultation on introducing the first phase of mandatory clearing and the second phase of mandatory reporting. We also posted a set of frequently asked questions (FAQs) on the SFC website to help market participants better understand the new regulations.

## Stock Connect

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

## Automated trading services

As of 30 September, the number of automated trading services<sup>1</sup> (ATS) authorizations under Part III of the Securities and Futures Ordinance (SFO) was 35, while 28 corporations, including 16 dark pool operators, were licensed or registered under Part V of the SFO to provide ATS.

<sup>1</sup> As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed or registered under Part V of the SFO, while those solely providing ATS are expected to be authorized under Part III of the SFO.

## Redress for investors

Court-appointed administrators completed the distribution of restoration payments to all but three of the 297 counterparties to Du Jun, a former managing director of Morgan Stanley Asia Limited convicted of insider dealing. The restoration orders were the result of civil proceedings we commenced against Du in 2007. About \$23 million out of the restoration fund of \$23.9 million was paid out to investors. As three investors could not be contacted, the remaining sum of \$813,686 was returned to Du after the court's approval was obtained.

We issued a notice to the counterparties of futures trader Tsoi Bun, who was convicted of price rigging on the futures market and ordered to pay over \$13 million to compensate the investors affected by his actions. Despite attempts by the administrators to locate all the counterparties, 207 investors have not come forward and about \$4.6 million remains unclaimed. Affected counterparties were advised to follow the steps set out in the notice if they wish to receive compensation.

## Market Misconduct Tribunal proceedings

For the first time, we started proceedings for breach of listed companies' obligations to announce inside information as soon as reasonably practicable under Part XIVA of the Securities and Futures Ordinance (SFO). The case, which will be heard by the Market Misconduct Tribunal, is against AcrossAsia Limited and both its Chairman, Albert Saychuan Cheok, and CEO, Vicente Binalhay Ang, for their delay in announcing to the public the commencement of insolvency-related proceedings in Indonesia against AcrossAsia.

Cheok and Ang received copies of court documents initiating proceedings, along with their English translations, by 4 January 2013, but such information was not announced to the public until 17 January, two days after the Indonesian court made insolvency-related orders against AcrossAsia.

We allege that the insolvency-related proceedings were specific information regarding AcrossAsia, not generally known to the public at the material time and highly price sensitive because they threatened AcrossAsia with loss of control of its major asset and could lead to the company being put into liquidation.

## Production of accounting records

Ernst & Young (EY) withdrew its appeal against the orders in a judgement made by the Court of First Instance compelling it to produce to the SFC accounting records from the proposed listing of Standard Water Limited. After the judgment was handed down, EY produced the records to the SFC. We are satisfied that all the requested records have been produced and EY has complied with the court orders.

## Disciplinary actions

We disciplined three corporations and three licensed representatives:

- BNP Paribas Securities (Asia) Limited was fined \$15 million for failures in relation to its alternative liquidity pool trading services. BNP had breached its licensing condition, failed to notify the SFC of its change of business plan as required and failed to maintain sufficient trade records. In addition, the services were not operated as represented in materials provided to clients.
- Nomura International (Hong Kong) Limited was reprimanded and fined \$4.5 million for failing to report significant misconduct by a former trader in a timely manner.
- Kiang Mang Yi Laura was banned from re-entering the industry for three years. She knowingly made a false representation about her academic qualifications and submitted a fake diploma to her former employer.
- Tai Nga Chun was suspended for eight months for operating a secret account and conducting 85 personal trading activities through it, in breach of her employer's internal control policies.

<sup>1</sup> Effective on 1 January 2013.

## Securities and Futures Appeals Tribunal

In June, the Securities and Futures Appeals Tribunal (SFAT) affirmed our decision to reprimand The Pride Fund Management Limited and fine the company \$400,000. It failed to enter into mediation with an eligible claimant under the Financial Dispute Resolution Scheme administered by the Financial Dispute Resolution Centre. This is the first time the SFC has enforced the Code of Conduct obligations of intermediaries to comply with the scheme.

In August, the SFAT affirmed our decision to revoke approval for Sham Sze Wai Miranda to act as a responsible officer. She was involved in serious internal

control deficiencies at Ping An of China Securities (Hong Kong) Company Limited, including failure in reporting suspicious transactions in a timely manner and not establishing anti-money laundering internal control procedures.

## Surveillance work

We made 1,721 requests for trading and account records from intermediaries in the quarter. In addition, we posted on our website two 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.

## Enforcement activities

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Trading inquiries issued under S181 <sup>1</sup>	1,801 <sup>2</sup>	3,931	5,149	-23.7
Investigations started	124	255	282	-9.6
Investigations completed	139	238	140	70
Investigations completed within seven months (%)	72 (52%)	127 (53%)	104 (74%)	22.1
Persons/corporations charged in criminal proceedings	0	4	10	-60
Criminal charges laid	0	19	20	-5
Notices of Proposed Disciplinary Action <sup>3</sup>	8	15	20	-25
Decision Notices <sup>4</sup>	8	17	31	-45.2
Persons/corporations subject to ongoing civil proceedings	88	88	79	11.4
Compliance advice letters issued	196	230	143	60.8

<sup>1</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

<sup>2</sup> Includes all trading inquiries made by the Enforcement Division.

<sup>3</sup> 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.

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

## IOSCO

We remain actively involved in the work of the International Organization of Securities Commissions (IOSCO), serving as a member of the IOSCO Board and participating in all eight of its policy committees. Mr Ashley Alder, our Chief Executive Officer, chairs the IOSCO Asia-Pacific Regional Committee.

Mr Alder also chaired the IOSCO Task Force on Cross-Border Regulation, which published its final report on 17 September 2015. The report recommends a series of concrete next steps to support cross-border regulation in order to minimise unnecessary burdens on the financial industry and markets, and in particular how to avoid conflicting cross-border rules covering the same activity. It also contains a detailed resource for regulators for developing, implementing and evaluating cross-border regulatory approaches. Mr Alder presented the work of the task force at the Financial Stability Board (FSB) Plenary meeting on 25 September 2015.

Mr Stephen Po, Senior Director of Intermediaries Supervision, is Chairman of IOSCO's Committee on Regulation of Market Intermediaries. The Committee discussed and finalised two reports in September: *Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings* and *Market Intermediary Business Continuity and Recovery Planning*. The committee is now designing an online toolkit for regulatory capacity building, which is one of the IOSCO Board's current priorities.

## Financial Stability Board

In September, Mr Alder attended the FSB Standing Committee on Assessment of Vulnerabilities and plenary meetings to discuss, among other things, financial stability risks arising from asset management activities and IOSCO's recent work on cross-border regulation.

Also in September, Mr Keith Lui, Executive Director of Supervision of Markets, attended the FSB Standing Committee on Standards Implementation which discussed the status of implementation of various global financial reforms such as those related to over-the-counter derivatives and shadow banking.

During the quarter, we continued to coordinate with the Hong Kong Monetary Authority, the Office of the Commissioner of Insurance and the Government of the Hong Kong Special Administrative Region (HKSAR) to respond to FSB's peer review on shadow banking and its survey on the monitoring of the implementation status of non-priority reforms.

## Mainland China

To strengthen our interaction and engagement with Mainland authorities, and to coordinate and consolidate the resources of different divisions on strategic and operational matters relating to the Mainland, we established a dedicated Mainland Affairs Unit in July.

We met with senior officials from the China Securities Regulatory Commission (CSRC) and other Mainland authorities to exchange views on various Mainland-Hong Kong cooperation initiatives, including Stock Connect and the Mutual Recognition of Funds and RQFII (Renminbi Qualified Foreign Institutional Investor) schemes. We received delegations from Mainland authorities and discussed with them Hong Kong's regulatory framework and the latest developments in our financial markets. We also arranged training programmes for senior CSRC executives to enhance mutual understanding and strengthen regulatory communication and cooperation.

We continue to provide support to the Government of the HKSAR and to follow up with Mainland authorities on the implementation of CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement). We attended the Senior Official Meetings in August 2015 to discuss this year's proposed CEPA measures which aim to further liberalise the trade in services between Hong Kong and the Mainland.

We also provided strategic input to the Government of the HKSAR on Mainland policy issues to enhance Hong Kong's role in the national development strategy and to strengthen our cooperation with Guangdong, Shenzhen, Shanghai and other Mainland regions.

Engaging a wide range of stakeholders in a proactive, timely and effective manner through multiple channels and platforms is crucial in helping us achieve our regulatory objectives.

In a July consultation, we proposed changes to financial resources rules for licensed corporations engaged in over-the-counter (OTC) derivatives activity to better align with recent developments in international capital standards for investment intermediaries. In September, we issued a joint consultation with the Hong Kong Monetary Authority on introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the new OTC derivatives regime.

We organised the Mainland-Hong Kong Mutual Recognition of Funds Symposium on 3 July to provide further details to the industry and discuss opportunities presented by the scheme. The half-day event was attended by over 500 representatives from the fund management industry as well as industry associations, regulatory bodies, chambers of commerce and foreign consulates.

To highlight the importance of vigorous enforcement for safeguarding the integrity of the market and protecting the interests of investors, we joined with Radio Television Hong Kong (RTHK) to create “SFC in Action 3”, a law-enforcement television drama.



The six half-hour Cantonese language episodes aired on TVB Jade and RTHK TV 31 from 5 August to 9 September 2015. We publicised the TV programme at MTR stations, bus shelters and on trams. A quiz related to the programme was featured in local newspapers throughout August.

We produced a wide range of industry-related publications, including:

- the half-yearly *Financial Review of the Securities Industry* which provides statistical and financial information about securities dealers and securities margin financiers as well as the financial performance of participants of The Stock Exchange of Hong Kong Limited;
- the annual *Fund Management Activities Survey* of licensed corporations, registered institutions and insurance companies;
- the September issue of the *Takeovers Bulletin*, a quarterly newsletter to help industry participants better understand the Codes on Takeovers and Mergers and Share Buy-backs.
- the *Half-yearly Review of the Global and Local Securities Markets*, an overview of stock market performance, key economic indicators, market risks and an outlook.

Our senior management spoke at more than 10 conferences and seminars to share our regulatory approaches on various topics. Separately, we met with various industry associations to brief them on proposed changes to the Securities and Futures (Financial Resources) Rules.

We conducted extensive consultation with various stakeholders on the proposed enhancements of the revamped fund authorization process, including forming a technical working group to formulate the minimum disclosure requirements for offering documents.

We also briefed visitors on the SFC's regulatory work, including 30 members of the Insurance Association of China, who were on a study tour arranged by the Hong Kong Institute of Chartered Secretaries.

## Publications and other communications

	<b>Quarter ended 30.9.2015</b>	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Press releases	<b>21</b>	52	73	-28.8
Consultation papers	<b>2</b>	2	4	-50
Consultation conclusions	<b>0</b>	3	4	-25
Industry-related publications	<b>4</b>	6	8	-25
Circulars	<b>12</b>	32	22	45.5
Corporate website average daily page views <sup>1</sup>	<b>49,607</b>	49,811	45,553	9.4
General enquiries	<b>1,697</b>	3,436	3,177	8.2

<sup>1</sup> The average number of web pages browsed per day during the reporting period.

In October, Mr Carlson Tong, SBS, JP, was re-appointed as Chairman for a three-year term effective 20 October.

In August, Mr Brian Ho, Executive Director, Corporate Finance Division, and Mr Keith Lui, Executive Director, Supervision of Markets Division, were each re-appointed for another three-year term effective from 28 August.

In September, Ms Maureen Garrett, Deputy Chief Counsel, was appointed as Interim Head of Enforcement pending the completion of a global recruitment exercise for a permanent Executive Director of Enforcement.

Our income for the quarter was \$354 million, 43% lower than the previous quarter and 2% higher than the same quarter last year. In the quarter, average daily turnover in Hong Kong's securities market was

\$102 billion, 39% lower than the previous quarter. Our levy income therefore decreased to \$375 million from \$561 million last quarter. We incurred a net investment loss of \$63 million during the quarter due to negative return from equity funds. Expenditure for the quarter was \$386 million, 4% higher than the previous quarter. We recorded a deficit of \$32 million this quarter, compared to a surplus of \$249 million last quarter and a deficit of \$6 million a year ago. As at 30 September, our reserves stood at \$7.5 billion.

As of 30 September, we had 814 staff members, up from 763 a year ago.

## Finances

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Income (\$ million)	354	973	634	53
Expenses including depreciation (\$ million)	386	756	691	9

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	4	9	11	-18.2
Failure to safekeep client securities	7	17	21	-19.1
Failure to maintain proper books and records	5	12	8	50
Failure to safekeep client money	11	20	10	100
Unlicensed dealing and other registration issues	6	14	6	133.3
Breach of licensing conditions	3	4	2	100
Breach of requirements of contract notes/statements of account/receipts	17	33	34	-2.9
Failure to make filing/notification	1	3	3	0
Breach of margin requirements	3	4	2	100
Marketing malpractices	0	0	1	-100
Illegal short selling of securities	0	0	0	0
Dealing malpractices	2	2	2	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	102	143	93	53.8
Breach of Corporate Finance Adviser Code of Conduct	4	6	4	50
Breach of Fund Manager Code of Conduct	14	30	28	7.1
Breach of regulation of on-line trading	4	6	97	-93.8
Non-compliance with anti-money laundering guidelines	81	137	54	153.7
Breach of other rules and regulations of the Exchanges <sup>1</sup>	3	5	0	N/A
Internal control weaknesses	144	240	142	69
Others	43	58	30	93.3
<b>Total</b>	<b>454</b>	<b>743</b>	<b>548</b>	<b>35.6</b>

<sup>1</sup> Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.



Table 2 Authorized unit trusts and mutual funds – by type

	As at 30.9.2015	As at 31.3.2015	Change (%)	As at 30.9.2014	YoY change (%)
Bond	407	394	3.3	382	6.5
Equity	1,021	1,011	1	985	3.7
Diversified	111	107	3.7	101	9.9
Money market	50	47	6.4	46	8.7
Fund of funds	102	92	10.9	88	15.9
Index	154	153	0.7	142	8.5
Guaranteed	3	3	0	7	-57.1
Hedge	3	3	0	3	0
Other specialised <sup>1</sup>	14	15	-6.7	15	-6.7
Sub-total	1,865	1,825	2.2	1,769	5.4
Umbrella structures	225	220	2.3	214	5.1
<b>Number of authorized funds</b>	<b>2,090</b>	<b>2,045</b>	<b>2.2</b>	<b>1,983</b>	<b>5.4</b>

<sup>1</sup> Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by origin

	As at 30.9.2015	As at 31.3.2015	Change (%)	As at 30.9.2014	YoY change (%)
Hong Kong	628	594	5.7	548	14.6
Luxembourg	1,010	1,000	1	985	2.5
Ireland	281	278	1.1	280	0.4
Guernsey	0	0	0	0	0
United Kingdom	65	64	1.6	52	25
Other Europe	0	0	0	0	0
Bermuda	5	5	0	6	-16.7
British Virgin Islands	0	0	0	0	0
Cayman Islands	92	95	-3.2	103	-10.7
Others	9	9	0	9	0
<b>Number of authorized funds</b>	<b>2,090</b>	<b>2,045</b>	<b>2.2</b>	<b>1,983</b>	<b>5.4</b>

Table 4 Takeovers activities

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under Code on Takeovers and Mergers	10	21	28	-25
Privatisations	2	4	3	33.3
Whitewash waiver applications	11	29	14	107.1
Other applications under Code on Takeovers and Mergers	89	171	143	19.6
Off-market and general offer share buy-backs	1	1	1	0
Other applications under Code on Share Buy-backs	2	2	4	-50
<b>Total</b>	<b>115</b>	<b>228</b>	<b>193</b>	<b>18.1</b>
<b>Executive Statements</b>				
Sanctions imposed with parties' agreement <sup>1</sup>	0	0	0	0
<b>Takeovers and Mergers Panel</b>				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	1	-100
Statements issued by the Panel <sup>2</sup>	1	2	1	100

<sup>1</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

<sup>2</sup> Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.9.2015	Six months ended 30.9.2015	Six months ended 30.9.2014	YoY change (%)
Conduct of licensees	78	162	141	14.9
Conduct of registered institutions	9	20	12	66.7
Listing-related matters and disclosure of interests	192	392	329	19.2
Market misconduct <sup>1</sup>	25	76	169	-55
Product disclosure	0	0	1	-100
Unlicensed activities	38	73	48	52.1
Breach of offers of investments	4	4	21	-81
Other financial activities	241	422	241	75.1
<b>Total</b>	<b>587</b>	<b>1,149</b>	<b>962</b>	<b>19.4</b>

<sup>1</sup> Includes market manipulation and insider dealing.

## Independent Auditors' Report on Review of Interim Financial Information to the board of directors of the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Introduction

We have reviewed the accompanying condensed consolidated and the condensed statement of financial position of the Securities and Futures Commission (SFC) as at 30 September 2015, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information on pages 20 to 27 (the condensed consolidated interim financial information). The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim Financial Reporting*. Our responsibility is to form a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 September 2015 is not prepared, in all material respects, in accordance with HKAS 34, *Interim Financial Reporting*.

#### KPMG

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

26 November 2015

## Condensed consolidated statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2015 \$'000	Unaudited and unreviewed Three months ended 30 September 2014 \$'000
<b>Income</b>		
Levies	374,605	293,244
Fees and charges	41,271	24,774
Investment (loss) / income	(62,137)	23,389
Less: custody and advisory expenses	(855)	(292)
Investment (loss) / income net of third party expenses	(62,992)	23,097
Recoveries from the Investor Compensation Fund	1,342	1,304
Other income	213	3,937
	354,439	346,356
<b>Expenses</b>		
Staff costs and directors' emoluments	279,533	253,042
Premises		
Rent	50,513	46,732
Rates, management fees and others	11,527	9,589
Other expenses	31,517	28,663
Depreciation	12,806	13,698
	385,896	351,724
<b>Loss and total comprehensive income for the quarter</b>	<b>(31,457)</b>	<b>(5,368)</b>

## Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Income</b>			
Levies		935,731	524,611
Fees and charges		70,523	55,835
Investment (loss) / income		(35,259)	46,936
Less: custody and advisory expenses		(1,785)	(619)
Investment (loss) / income net of third party expenses		(37,044)	46,317
Recoveries from the Investor Compensation Fund		2,688	2,611
Other income		837	4,228
		972,735	633,602
<b>Expenses</b>			
Staff costs and directors' emoluments	8(b)	549,771	502,452
Premises			
Rent		101,026	91,570
Rates, management fees and others		22,913	18,523
Other expenses		58,153	53,662
Depreciation		23,619	25,065
		755,482	691,272
<b>Surplus/(loss) and total comprehensive income for the period</b>		<b>217,253</b>	<b>(57,670)</b>

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Non-current assets</b>			
Fixed assets		79,140	89,139
Held-to-maturity debt securities	2	437,790	493,936
		516,930	583,075
<b>Current assets</b>			
Held-to-maturity debt securities	2	291,240	618,436
Financial assets designated at fair value through profit or loss		640,077	715,140
Debtors, deposits and prepayments		152,271	143,574
Fixed and call deposits with banks		6,054,006	5,322,706
Cash at bank and in hand		13,188	10,465
		7,150,782	6,810,321
<b>Current liabilities</b>			
Fees received in advance		7,764	8,777
Creditors and accrued charges		177,704	122,057
		185,468	130,834
<b>Net current assets</b>		6,965,314	6,679,487
<b>Total assets less current liabilities</b>		7,482,244	7,262,562
<b>Non-current liabilities</b>	4	23,798	21,369
<b>Net assets</b>		7,458,446	7,241,193
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,415,606	7,198,353
		7,458,446	7,241,193

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Non-current assets</b>			
Fixed assets		78,424	89,020
Held-to-maturity debt securities	2	437,790	493,936
		516,214	582,956
<b>Current assets</b>			
Held-to-maturity debt securities	2	291,240	618,436
Financial assets designated at fair value through profit or loss		640,077	715,140
Debtors, deposits and prepayments		159,009	147,677
Fixed and call deposits with banks		6,054,006	5,322,706
Cash at bank and in hand		3,887	2,718
		7,148,219	6,806,677
<b>Current liabilities</b>			
Fees received in advance		7,764	8,777
Creditors and accrued charges		174,425	118,294
		182,189	127,071
<b>Net current assets</b>		6,966,030	6,679,606
<b>Total assets less current liabilities</b>		7,482,244	7,262,562
<b>Non-current liabilities</b>	4	23,798	21,369
<b>Net assets</b>		7,458,446	7,241,193
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Accumulated surplus		7,415,606	7,198,353
		7,458,446	7,241,193

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive income for the period	–	(57,670)	(57,670)
Balance at 30 September 2014	42,840	7,216,466	7,259,306
Balance at 1 April 2015	42,840	7,198,353	7,241,193
Total comprehensive income for the period	–	217,253	217,253
Balance at 30 September 2015	42,840	7,415,606	7,458,446

The notes on pages 25 to 27 form part of the condensed consolidated financial statements.



## Condensed consolidated statement of cash flows

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(loss) for the period		217,253	(57,670)
Adjustments for:			
Depreciation		23,619	25,065
Investment loss/(income)		35,259	(46,936)
Exchange difference		559	(1,264)
Loss on disposal of fixed assets		12	–
		276,702	(80,805)
Decrease/(increase) in debtors, deposits and prepayments		2,340	(15,031)
Increase in creditors and accrued charges		55,647	70,126
Decrease in fees received in advance		(1,013)	(653)
Increase/(decrease) in non-current liabilities		2,429	(831)
<i>Net cash generated from/(used in) operating activities</i>		336,105	(27,194)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(1,513,190)	(403,408)
Interest received		29,948	59,352
Held-to-maturity debt securities redeemed		380,305	888,691
Sale of financial assets held at fair value through profit or loss		1,297	–
Fixed assets bought		(13,632)	(26,682)
<i>Net cash (used in)/generated from investing activities</i>		(1,115,272)	517,953
<b>Net (decrease)/increase in cash and cash equivalents</b>		(779,167)	490,759
<b>Cash and cash equivalents at beginning of the six months period</b>		2,104,324	4,270,947
<b>Cash and cash equivalents at end of the six months period</b>	3	1,325,157	4,761,706

### Analysis of the balance of cash and cash equivalents

	Unaudited At 30 September 2015 \$'000	Unaudited At 30 September 2014 \$'000
Fixed and call deposits with banks	1,311,969	4,748,512
Cash at bank and in hand	13,188	13,194
	1,325,157	4,761,706

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2015 included in this report does not constitute the SFC's statutory annual financial statements for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 30 September 2015. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2015 to the condensed interim financial information.

We adopted HKFRSs for the first time in the annual financial statements for the financial year ended 31 March 2015. To be consistent with these financial statements, this condensed interim financial information has been prepared in accordance with HKAS 34 rather than International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (IASB) which was adopted in previous periods. With due regard to the SFC's accounting policies in previous interim periods, we have concluded that no adjustments were required to the comparative amounts in this condensed consolidated interim financial information in order to comply with HKAS 34.

There were no significant changes in the operations of the SFC for the six months ended 30 September 2015.

### 2. Held-to-maturity debt securities

As of 30 September 2015, the total market value of held-to-maturity debt securities amounted to \$732,154,000 (31 March 2015: \$1,120,208,000), which was above the total carrying value of \$729,030,000 (31 March 2015: \$1,112,372,000).

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank and in hand	13,188	10,465
Fixed and call deposits with banks	6,054,006	5,322,706
Amounts shown in the condensed consolidated statement of financial position	6,067,194	5,333,171
Less: Amounts with an original maturity of beyond three months	(4,742,037)	(3,228,847)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,325,157	2,104,324

### 4. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our condensed consolidated statement of comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of rental expense.

### 5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance or creditor balance included in "debtors, deposits and prepayments" and "creditors and accrued charges" respectively as at 30 September 2015. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange fluctuation

The SFC's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, we do not consider we are exposed to significant exchange rate risk.

### 7. Investment in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

As at 30 September 2015, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2015: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The financial statements of ICC and IEC are included in the condensed consolidated financial statements.

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers' Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers' Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we entered into the following material related party transactions :

- (a) During the period, we received reimbursement from the ICF for all the ICC's expenses amounting to \$2,688,000 (2014: \$2,611,000), which is in accordance with section 242(1) of the SFO. As at 30 September 2015, the amount due to the ICF from the ICC was \$467,000 (as at 31 March 2015: \$157,000).
- (b) Remuneration of key management personnel comprised:

	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
Directors' fees and salaries, allowances and benefits in kind	16,099	16,220
Retirement scheme contributions	1,471	1,483
	17,570	17,703

The total remuneration is included in "staff costs and directors' emoluments" on page 20. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

- (c) Legal services provided by a former Non-Executive Director

During the period ended 30 September 2014, \$30,000 was paid to a former Non-Executive Director for legal services provided in respect of matters commenced prior to his appointment. There was no such fee for the period ended 30 September 2015.

### 9. Commitment to pay rents for offices

At 30 September 2015 the minimum amount we are committed to pay in rent for our offices up to 16 December 2018, being the rent review date as set out in the lease agreements, are as follows :

	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
Payable next year	208,263	208,002
Payable in one to five years	191,766	294,173
Payable in more than five years	–	–
	400,029	502,175

During the period, \$101,026,000 net of lease incentives was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2014: \$91,570,000).

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2015.

### Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### Financial statements

The deficit of the Fund for the reporting period ended 30 September 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 30 to 36.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2015 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Mark Steward	(resigned with effect from 24 September 2015)

### Interests in contracts

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

On behalf of the Committee

Keith Lui  
Chairman  
27 November 2015

## Independent Auditors' Report on Review of Interim Financial Information to the board of directors of the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Ordinance)

### Introduction

We have reviewed the accompanying condensed statement of financial position of Investor Compensation Fund (the Fund) as at 30 September 2015, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information on pages 31 to 36 (the condensed interim financial information). The directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim Financial Reporting*. Our responsibility is to form a conclusion on this condensed interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 30 September 2015 is not prepared, in all material respects, in accordance with HKAS 34, *Interim Financial Reporting*.

#### KPMG

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

27 November 2015

## Condensed statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2015 \$'000	Unaudited and unreviewed Three months ended 30 September 2014 \$'000
<b>Income</b>		
Net investment (loss)/income	(30,742)	811
Exchange difference	(501)	2,795
	(31,243)	3,606
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,342	1,303
Compensation expenses	6,738	198
Auditor's remuneration	31	29
Bank charges	234	229
Professional fees	928	963
	9,273	2,722
<b>(Deficit)/surplus and total comprehensive income for the quarter</b>	<b>(40,516)</b>	<b>884</b>

## Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Income</b>			
Net investment (loss)/income		(29,415)	30,977
Exchange difference		(589)	1,597
		(30,004)	32,574
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	2,688	2,611
Compensation expenses	4	9,436	198
Auditor's remuneration		62	59
Bank charges		474	438
Professional fees		1,928	1,942
		14,588	5,248
<b>(Deficit)/surplus and total comprehensive income for the period</b>		<b>(44,592)</b>	<b>27,326</b>

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



## Condensed statement of financial position

At 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
Debt securities		1,857,902	1,887,972
Pooled fund		262,741	304,967
Interest receivable		11,788	12,900
Due from Investor Compensation Company Limited		467	157
Fixed and call deposits with banks		59,791	46,258
Cash at bank		5,053	7,787
		<b>2,197,742</b>	2,260,041
<b>Current liabilities</b>			
Provision for compensation	4	26,162	43,808
Creditors and accrued charges		1,351	1,412
		<b>27,513</b>	45,220
<b>Net current assets</b>		<b>2,170,229</b>	2,214,821
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,066,588	1,111,180
		<b>2,170,229</b>	2,214,821

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

## Condensed statement of changes in equity

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive income for the period	–	–	27,326	27,326
Balance at 30 September 2014	994,718	108,923	1,124,731	2,228,372
Balance at 1 April 2015	994,718	108,923	1,111,180	2,214,821
Total comprehensive loss for the period	–	–	(44,592)	(44,592)
Balance at 30 September 2015	994,718	108,923	1,066,588	2,170,229

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

## Condensed statement of cash flows

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Cash flows from operating activities</b>			
(Deficit)/surplus for the period		(44,592)	27,326
Net investment loss/(income)		29,415	(30,977)
Exchange difference		589	(1,597)
Increase in amount due from Investor Compensation Company Limited		(310)	(236)
(Decrease)/increase in provision for compensation		(17,646)	198
(Decrease)/increase in creditors and accrued charges		(61)	389
<i>Net cash used in operating activities</i>		<b>(32,605)</b>	(4,897)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(1,700)	–
Purchase of debt securities		(324,825)	(440,220)
Sale or maturity of debt securities		342,990	294,085
Sale of equity securities		761	382
Interest received		24,478	25,315
<i>Net cash generated from/(used in) investing activities</i>		<b>41,704</b>	(120,438)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,099</b>	(125,335)
<b>Cash and cash equivalents at beginning of the six-month period</b>		<b>54,045</b>	223,659
<b>Cash and cash equivalents at end of the six-month period</b>	3	<b>63,144</b>	98,324

### Analysis of the balance of cash and cash equivalents

	Note	Unaudited At 30 September 2015 \$'000	Unaudited At 30 September 2014 \$'000
Fixed and call deposits with banks		58,091	83,330
Cash at bank		5,053	14,994
	3	<b>63,144</b>	98,324

## Notes to the condensed financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

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

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2015 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

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

The Fund adopted HKFRSs for the first time in the annual financial statements for the financial year ended 31 March 2015. To be consistent with these financial statements, this condensed interim information has been prepared in accordance with HKAS 34 rather than International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (IASB) which was adopted in previous periods. With due regard to the Fund's accounting policies in previous interim periods, we have concluded that no adjustments were required to the comparative amounts in this condensed interim financial information in order to comply with HKAS 34.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2015.

### 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 (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the six months ended 30 September 2015, ICC incurred \$2,688,000 for its operations and was reimbursed by the Fund (for the six months ended 30 September 2014 : \$2,611,000).

### 3. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank	5,053	7,787
Fixed and call deposits with banks	59,791	46,258
Amounts shown in the condensed statement of financial position	64,844	54,045
Less : Amounts with an original maturity of beyond three months	(1,700)	–
Cash and cash equivalents in the condensed statement of cash flows	63,144	54,045

## Notes to the consolidated financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 4. Provision for compensation

	\$'000
Balance as at 1 April 2014	150
Add: compensation expenses during the year ended 31 March 2015	44,006
Less: compensation write-backs during the year ended 31 March 2015	(150)
Less: compensation paid during the year ended 31 March 2015	(198)
Balance as at 31 March 2015 and 1 April 2015	43,808
Add: compensation expenses during the six months ended 30 September 2015	9,436
Less: compensation paid during the six months ended 30 September 2015	(27,082)
Balance as at 30 September 2015	26,162

As at 30 September 2015, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 30 September 2015 was \$26,162,000 (31 March 2015: \$43,808,000). As at 30 September 2015 all provisions were expected to be paid within one year.

### 5. Material related party transactions

The Fund has related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the six months ended 30 September 2014 and 2015.

### 6. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 4, there are other claims received for which currently there is insufficient information to determine the likely level of payment. For each claim, the contingent liability is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed. The maximum liability in respect of these claims is \$2,319,000 (31 March 2015: \$1,951,000).

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 2015.

### Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect on 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 September 2015, the Fund has transferred \$994,718,000 to the ICF. After 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 results

The surplus of the Fund for the reporting period ended 30 September 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 39 to 45.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2015 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Mark Steward	(resigned with effect from 24 September 2015)

### Interests in contracts

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

On behalf of the Committee

Keith Lui  
Chairman  
16 November 2015

## Independent Auditors' Report on Review of Interim Financial Information to the board of directors of the Securities and Futures Commission

### Introduction

We have reviewed the accompanying condensed statement of financial position of the Unified Exchange Compensation Fund (the Fund) as at 30 September 2015, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information on pages 40 to 45 (the condensed interim financial information). The directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim Financial Reporting*. Our responsibility is to form a conclusion on this condensed interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 30 September 2015 is not prepared, in all material respects, in accordance with HKAS 34, *Interim Financial Reporting*.

#### KPMG

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

16 November 2015

## Condensed statement of profit or loss and other comprehensive income (unaudited and unreviewed)

For the three months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended 30 September 2015 \$'000	Unaudited and unreviewed Three months ended 30 September 2014 \$'000
<b>Income</b>		
Interest income	121	169
<b>Expenses</b>		
Auditor's remuneration	13	13
Professional fees	9	8
	22	21
<b>Surplus and total comprehensive income for the quarter</b>	<b>99</b>	<b>148</b>



## Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Income</b>		
Interest income	271	313
<b>Expenses</b>		
Auditor's remuneration	26	25
Professional fees	18	17
Sundry expenses	–	1
	44	43
<b>Surplus and total comprehensive income for the period</b>	<b>227</b>	<b>270</b>

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

## Condensed statement of financial position

At 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	1
Interest receivable		55	59
Fixed and call deposits with banks		81,255	82,182
Cash at bank		277	175
		<b>81,588</b>	82,417
<b>Current liabilities</b>			
Creditors and accrued charges		10,298	10,304
Relinquished trading rights payable to SEHK	4	900	2,100
		<b>11,198</b>	12,404
<b>Net current assets</b>		<b>70,390</b>	70,013
<b>Net assets</b>		<b>70,390</b>	70,013
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK		48,250	48,100
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		26,569	26,342
		<b>1,065,108</b>	1,064,731
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		<b>70,390</b>	70,013

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

## Condensed statement of changes in equity

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
Compensation fund balance as at 1 April	70,013	62,894
Net contributions from/(to) SEHK	150	(400)
Total comprehensive income for the period	227	270
Compensation Fund balance as at 30 September	70,390	62,764

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

## Consolidated statement of cash flows

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended 30 September 2015 \$'000	Unaudited Six months ended 30 September 2014 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		227	270
Interest income		(271)	(313)
Decrease in creditors and accrued charges		(6)	(5)
(Decrease)/increase in relinquished trading rights payable to SEHK		(1,200)	200
<i>Net cash (used in)/generated from operating activities</i>		<i>(1,250)</i>	<i>152</i>
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(34,776)	(40,809)
Interest received		275	316
<i>Net cash used in investing activities</i>		<i>(34,501)</i>	<i>(40,493)</i>
<b>Cash flows from financing activities</b>			
Net contributions from/(to) SEHK		150	(400)
<i>Net cash generated from/(used in) financing activities</i>		<i>150</i>	<i>(400)</i>
<b>Net decrease in cash and cash equivalents</b>		<b>(35,601)</b>	<b>(40,741)</b>
<b>Cash and cash equivalents at beginning of the six-month period</b>		<b>82,357</b>	<b>74,586</b>
<b>Cash and cash equivalents at end of the six-month period</b>	3	<b>46,756</b>	<b>33,845</b>

### Analysis of the balance of cash and cash equivalents

	Note	Unaudited At 30 September 2015 \$'000	Unaudited At 30 September 2014 \$'000
Fixed and call deposits with banks		46,479	33,758
Cash at bank		277	87
	3	<b>46,756</b>	<b>33,845</b>

## Notes to the condensed financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance (SFO) which came into effect from 1 April 2003, the Fund has prepared the condensed interim financial information on a break-up basis with assets stated at recoverable amounts. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

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

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2015 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

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

The Fund adopted HKFRSs for the first time in the annual financial statements for the financial year ended 31 March 2015. To be consistent with these financial statements, this condensed interim information has been prepared in accordance with HKAS 34 rather than International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (IASB) which was adopted in previous periods. With due regard to the Fund's accounting policies in previous interim periods, we have concluded that no adjustments were required to the comparative amounts in this condensed interim financial information in order to comply with HKAS 34.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2015.

### 2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 September 2015 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in HKAS 39, *Financial Instruments: Recognition and Measurement*. According to HKFRS 13, *Fair value measurement*, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

## Notes to the condensed financial statements

For the six months ended 30 September 2015 (Expressed in Hong Kong dollars)

### 3. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 30 September 2015 \$'000	Audited At 31 March 2015 \$'000
Cash at bank	277	175
Fixed and call deposits with banks	81,255	82,182
Amounts shown in the condensed statement of financial position	81,532	82,357
Less : Amounts with an original maturity of beyond three months	(34,776)	–
Cash and cash equivalents in the condensed statement of cash flows	46,756	82,357

### 4. Contributions from SEHK

During the six months, deposits of \$250,000 in respect of five new trading rights were received from SEHK and deposits of \$1,300,000 in respect of 26 relinquished trading rights were refunded to SEHK. As at 30 September 2015, there were 18 trading rights in total that had been relinquished but not yet refunded.

### 5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the six months ended 30 September 2014 and 2015.

### 6. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 2) will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

## Securities and Futures Commission

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