

# Securities and Futures Commission

## Independent auditor's report To the Securities and Futures Commission

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

### Opinion

#### *What we have audited*

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 105 to 131, which comprise:

- the consolidated statement of financial position as at 31 March 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

#### *Basis for opinion*

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is the valuation of investments.

#### *Valuation of investments*

The aggregate carrying value of the Group's investment portfolio was HK\$4,576 million, which represented 51% of consolidated total assets as at 31 March 2021.

The investment portfolio comprise of i) debt securities and pooled funds (equity instruments) with a total value of HK\$1,444 million which is carried at fair value through profit or loss and ii) debt investments with a total value of HK\$3,132 million which were accounted for at amortised cost.

The Group's debt and equity instruments at fair value through profit or loss are categorised under the Level 1 and 2 in the fair value hierarchy and valued based on market prices or valuation models using market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in assessing expected credit losses (ECL) associated with the financial instruments carried at amortised cost.

## Independent auditor's report (continued) To the Securities and Futures Commission

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

### Key audit matters (continued)

#### *How our audit addressed the Key audit matter*

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis. For investments in the pooled funds, we performed a look-through analysis to understand the underlying investments and the basis of valuation for a sample of these investments.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.
- We assessed the appropriateness of the ECL methodologies and assumptions associated with the financial instruments carried at amortised cost. The methodologies and assumptions include economic indicators selected by management, economic scenarios and probability weightings applied by management. We assessed the reasonableness of the economic indicators and performed sensitivity analysis to understand the impact of changes in economic indicators, scenarios and weightings on the ECL result. We examined data inputs to the ECL calculation on a selected sample, including historical data and data at the measurement date, to assess their accuracy and completeness.

Based on the procedures we performed, we found that the valuation of investments are supported by available evidence and the models, key parameters, significant judgements and assumptions adopted by management were considered acceptable. We found that management's estimates and judgements made in determining the ECL for financial instruments carried at amortised cost to be acceptable.

Notes 3(h), 9, 10 and 21(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, detailed breakdown of these investments and the respective fair value hierarchy disclosures.

### Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Independent auditor's report (continued) To the Securities and Futures Commission

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

### Responsibilities of directors and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent auditor's report (continued) To the Securities and Futures Commission

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

### Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 1 June 2021

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

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Income</b>			
Levies	2(a)	2,276,152	1,430,678
Fees and charges	2(b)	181,444	162,847
Net Investment income			
Investment income	5	538,489	48,233
Less: custody and advisory expenses		(10,563)	(7,857)
Recoveries from the Investor Compensation Fund		6,011	5,989
Exchange gain/(loss)		14,458	(49,510)
Other income	6	1,752	528
		<b>3,007,743</b>	1,590,908
<b>Expenses</b>			
Staff costs and directors' emoluments	7	1,485,446	1,419,420
Depreciation			
Fixed assets	11	85,216	44,015
Right-of-use assets	12	230,232	218,796
Other premises expenses		51,592	45,456
Finance costs	12	9,154	3,487
Other expenses	8	166,735	235,036
		<b>2,028,375</b>	1,966,210
<b>Surplus/(loss) and total comprehensive income for the year</b>		<b>979,368</b>	(375,302)

The notes on pages 110 to 131 form part of these financial statements.

## Consolidated statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Non-current assets</b>			
Fixed assets	11	291,496	135,712
Right-of-use assets	12	978,261	324,040
Deposits for leases		37,656	33,767
Financial assets at amortised costs – debt securities	9	3,023,857	1,600,123
		4,331,270	2,093,642
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	9	107,673	984,239
Financial assets at fair value through profit or loss			
Debt securities	10	425,610	419,469
Pooled funds	10	1,018,610	648,510
Debtors, deposits and prepayments	17	336,704	265,200
Fixed deposits with banks	13	2,641,008	2,832,302
Cash at bank and in hand	13	65,287	51,871
		4,594,892	5,201,591
<b>Current liabilities</b>			
Fees received in advance		8,198	47,097
Creditors and accrued charges	15	186,408	167,043
Lease liabilities	12	137,461	96,115
Provisions	16	574	66,532
		332,641	376,787
<b>Net current assets</b>		4,262,251	4,824,804
<b>Total assets less current liabilities</b>		8,593,521	6,918,446

## Consolidated statement of financial position (continued)

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Non-current liabilities</b>			
Lease liabilities	12	830,887	203,558
Provisions	16	88,346	19,968
		919,233	223,526
<b>Net assets</b>			
		7,674,288	6,694,920
<b>Funding and reserves</b>			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	23	3,125,000	3,000,000
Accumulated surplus		4,506,448	3,652,080
		7,674,288	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 110 to 131 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	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 year	–	–	(375,302)	(375,302)
Balance at 31 March 2020 and 1 April 2020	<b>42,840</b>	<b>3,000,000</b>	<b>3,652,080</b>	<b>6,694,920</b>
Surplus and total comprehensive income for the year	–	–	<b>979,368</b>	<b>979,368</b>
Transfer to reserve for property acquisition	–	<b>125,000</b>	<b>(125,000)</b>	–
Balance at 31 March 2021	<b>42,840</b>	<b>3,125,000</b>	<b>4,506,448</b>	<b>7,674,288</b>

The notes on pages 110 to 131 form part of these financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(loss) for the year		979,368	(375,302)
Adjustments for:			
Depreciation – Fixed assets		85,216	44,015
Depreciation – Right-of-use assets		230,232	218,796
Reversal of reinstatement provision		(21,976)	–
Finance costs		9,154	3,487
Interest income on deposits for leases		(284)	(16)
Investment income		(538,489)	(48,233)
Exchange (gain)/loss		(14,574)	49,680
Loss on disposal of fixed assets		4,889	3
		733,536	(107,570)
(Increase)/decrease in right-of-use assets		(50)	303
Increase in deposits for leases		(5,143)	(33,751)
Increase in debtors, deposits and prepayments		(79,297)	(55,713)
(Decrease)/increase in fees received in advance		(38,899)	38,247
Decrease in creditors and accrued charges		(3,223)	(22,135)
Decrease in provisions for reinstatement		(44,556)	–
Net cash generated from/(used in) operating activities		562,368	(180,619)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		280,413	1,298,674
Interest received		119,761	161,139
Debt securities at fair value through profit or loss purchased		(199,107)	(544,263)
Debt securities at fair value through profit or loss sold or redeemed		192,697	934,628
Pooled funds sold		80,978	154,595
Debt securities at amortised cost purchased		(1,542,688)	(1,642,784)
Debt securities at amortised cost redeemed at maturity		984,463	573,495
Fixed assets purchased		(218,840)	(84,895)
Proceeds from fixed assets disposal		2	–
Net cash (used in)/generated from investing activities		(302,321)	850,589
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(149,200)	(202,734)
Interest element of lease payments		(9,154)	(3,487)
Net cash used in financing activities		(158,354)	(206,221)
<b>Net increase in cash and cash equivalents</b>		101,693	463,749
Cash and cash equivalents at the beginning of the year		753,406	289,657
<b>Cash and cash equivalents at the end of the year</b>	13	855,099	753,406

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

	2021 \$'000	2020 \$'000
Fixed deposits with banks	789,812	701,535
Cash at bank and in hand	65,287	51,871
	855,099	753,406

The notes on pages 110 to 131 form part of these financial statements.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

### 2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

### 3. Significant accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the SFC and its subsidiaries (together, the Group or We) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these new and revised HKFRSs have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the Group entities.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

#### (d) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

##### (i) Levies

We recognise levies from SEHK and HKFE as income over time on an accrual basis.

##### (ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income once the service is performed. We record other fees and charges received in advance as a liability.

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (e) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### (f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

#### (g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of profit or loss and other comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Financial assets

##### (i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

##### Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

##### FVPL:

Changes on fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/losses in the period in which they arise.

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Financial assets (cont'd)

##### (iv) Impairment

We assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

##### (i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

##### (j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting policy for impairment.

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (m) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be material, in which case they are stated at cost.

#### (n) Separate financial statements

We state investment in a subsidiary at cost less any impairment losses in the statement of financial position.

#### (o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

#### (p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that the Group will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 5. Investment income

	2021 \$'000	2020 \$'000
Interest income from bank deposits	25,513	86,295
Interest income from financial assets at FVPL – debt securities	7,923	15,468
Interest income from debt securities at amortised cost	58,634	38,573
Net gain/(loss) on financial assets at FVPL – pooled funds	447,985	(112,043)
Net (loss)/gain on financial assets at FVPL – debt securities	(1,566)	19,940
	<b>538,489</b>	48,233

### 6. Other income

	2021 \$'000	2020 \$'000
Investigation costs awarded	1,349	163
Sale of SFC publications	114	138
Others	289	227
	<b>1,752</b>	528

### 7. Staff costs and directors' emoluments

	2021 \$'000	2020 \$'000
Salaries and allowances	1,345,042	1,289,531
Retirement benefits	91,299	85,187
Medical and life insurance	44,692	39,343
Staff functions	1,058	1,924
Recruitment	2,379	1,833
Registration and membership fees	976	1,602
	<b>1,485,446</b>	1,419,420

The total number of staff as at 31 March 2021 was 959 (933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2020: the total number of staff was 947 comprising 921 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions <sup>1</sup> \$'000	2021 Total \$'000	2020 Total \$'000
<b>Chief Executive Officer</b>						
Ashley Alder, SBS, JP	-	7,146	2,144	715	10,005	10,243
<b>Executive Directors</b>						
Julia Leung Fung-yee, SBS	-	5,150	1,545	515	7,210	7,210
Thomas Atkinson	-	4,635	1,112	463	6,210	6,195
Christina Choi Fung-yee	-	4,473	1,163	447	6,083	5,959
Brian Ho Yin-tung	-	4,962	1,290	496	6,748	6,699
Rico Leung Chung-yin (appointed 28 August 2019 <sup>2</sup> )	-	4,397	1,143	440	5,980	3,526
Keith Lui Kei-kwong (retired 27 August 2019 <sup>3</sup> )	-	-	-	-	-	3,406
	-	30,763	8,397	3,076	42,236	43,238
<b>Non-executive Chairman</b>						
Tim Lui Tim-leung, SBS, JP	1,255	-	-	-	1,255	1,255
<b>Non-executive Directors</b>						
Albert Au Siu-cheung, BBS (retired 25 May 2019 <sup>4</sup> )	-	-	-	-	-	48
Agnes Chan Sui-kuen	314	-	-	-	314	314
Clement Chan Kam-wing, MH, JP (appointed 26 May 2019)	314	-	-	-	314	267
Edward Cheng Wai-sun, GBS, JP	314	-	-	-	314	314
Victor Dawes, SC (appointed 1 August 2020)	209	-	-	-	209	-
Lester Garson Huang, SBS, JP	314	-	-	-	314	314
Dr James C Lin	314	-	-	-	314	314
Nicky Lo Kar-chun, SBS, JP (appointed 24 April 2019)	314	-	-	-	314	294
Mary Ma Xuezheng (retired 23 April 2019 <sup>5</sup> )	-	-	-	-	-	18
Dr William Wong Ming-fung, SC, JP (retired 31 July 2020 <sup>6</sup> )	105	-	-	-	105	314
	3,453	-	-	-	3,453	3,452
<b>Total directors' emoluments</b>	<b>3,453</b>	<b>30,763</b>	<b>8,397</b>	<b>3,076</b>	<b>45,689</b>	<b>46,690</b>

<sup>1</sup> This represents net contribution expenses accrued during the year ended 31 March 2021 in accordance with the accounting policy set out in note 3(f) on page 112. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2021 was \$2,521,000 (as at 31 March 2020: \$2,365,000).

<sup>2</sup> Mr Rico Leung's emoluments in prior year covered the period from 28 August 2019, when his appointment took effect, to 31 March 2020.

<sup>3</sup> Retired having completed appointment period.

<sup>4</sup> Retired having completed appointment period of four years.

<sup>5</sup> Retired having completed appointment period of five and a half years.

<sup>6</sup> Retired having completed appointment period of six years.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$36,403,000 (2020: \$36,433,000) with the breakdown as follows:

	2021 \$'000	2020 \$'000
Salaries and allowances	26,387	26,244
Discretionary pay	7,377	7,565
Retirement scheme contributions	2,639	2,624
	<b>36,403</b>	36,433

Their emoluments are within the following bands:

	2021 No. of individuals	2020 No. of individuals
\$6,000,001 to \$6,500,000	2	2
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	1	1
\$10,000,001 to \$10,500,000	1	1

### Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (cont'd)

#### Employee benefits (cont'd)

##### (a) ORSO Scheme

##### (i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2020: nil).

##### (ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$3,323,000 (2020: \$4,410,000) and the amount so forfeited available at the end of the reporting period was \$658,000 (2020: \$20,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

##### (b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

### 8. Other expenses

	2021 \$'000	2020 \$'000
Learning and development	2,426	3,480
Legal and professional services and others	47,805	99,025
Information and systems services	88,050	78,266
Auditor's remuneration	932	946
Funding for the International Financial Reporting Standards Foundation	(394)	394
General office and insurance	9,481	9,440
Investor and other education programme costs to the Investor and Financial Education Council	33,423	33,491
Overseas travelling, regulatory meeting expenses and others	2,099	9,991
Loss on disposal of fixed assets	4,889	3
Reversal of reinstatement provision	(21,976)	–
	166,735	235,036

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 9. Financial assets at amortised cost – debt securities

	2021 \$'000	2020 \$'000
(a) Amortised costs		
Listed – outside Hong Kong	<b>1,653,827</b>	1,704,233
Listed – in Hong Kong	<b>1,360,340</b>	802,589
Unlisted	<b>117,363</b>	77,540
	<b>3,131,530</b>	2,584,362
(b) Fair values		
Listed – outside Hong Kong	<b>1,676,171</b>	1,699,709
Listed – in Hong Kong	<b>1,362,707</b>	804,711
Unlisted	<b>120,556</b>	77,285
	<b>3,159,434</b>	2,581,705
(c) Maturity profile		
Within one year	<b>107,673</b>	984,239
After one year but within two years	<b>185,288</b>	74,491
After two years but within five years	<b>1,677,369</b>	970,343
After five years	<b>1,161,200</b>	555,289
	<b>3,131,530</b>	2,584,362

The weighted average yield to maturity of the debt securities was 1.6% p.a. as at 31 March 2021 (2020: 2.4% p.a.).

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 10. Financial assets at fair value through profit or loss

	2021 \$'000	2020 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	287,787	413,300
Listed – in Hong Kong	12,414	–
Unlisted	125,409	6,169
	425,610	419,469
(ii) Maturity profile		
Within one year	34,269	21,739
After one year but within two years	54,087	58,909
After two years but within five years	189,244	226,748
After five years	148,010	112,073
	425,610	419,469

The weighted average effective interest rate of debt securities on 31 March 2021 was 1.7% p.a. (2020: 2.1% p.a.)

	2021 \$'000	2020 \$'000
(b) Pooled funds – unlisted	1,018,610	648,510

The pooled funds comprise mainly listed equity securities.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 11. Fixed assets

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
At 1 April 2020	155,166	11,024	308,570	159,253	2,735	636,748
Additions	154,076	19,148	41,551	30,230	886	245,891
Disposals	(123,459)	(7,968)	(139)	(9,098)	–	(140,664)
At 31 March 2021	185,783	22,204	349,982	180,385	3,621	741,975
<b>Accumulated depreciation</b>						
At 1 April 2020	121,596	10,183	234,506	132,110	2,641	501,036
Charge for the year	30,638	2,960	29,375	21,941	302	85,216
Written back on disposals	(118,970)	(7,567)	(139)	(9,097)	–	(135,773)
At 31 March 2021	33,264	5,576	263,742	144,954	2,943	450,479
<b>Net book value</b>						
At 31 March 2021	152,519	16,628	86,240	35,431	678	291,496
<b>Cost</b>						
At 1 April 2019	127,970	10,998	270,272	144,716	2,735	556,691
Additions	27,212	59	38,588	19,036	–	84,895
Disposals	(16)	(33)	(290)	(4,499)	–	(4,838)
At 31 March 2020	155,166	11,024	308,570	159,253	2,735	636,748
<b>Accumulated depreciation</b>						
At 1 April 2019	118,720	9,731	209,194	121,651	2,560	461,856
Charge for the year	2,892	485	25,602	14,955	81	44,015
Written back on disposals	(16)	(33)	(290)	(4,496)	–	(4,835)
At 31 March 2020	121,596	10,183	234,506	132,110	2,641	501,036
<b>Net book value</b>						
At 31 March 2020	33,570	841	74,064	27,143	94	135,712

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 12. Leases

As of 31 March 2021, the Group had right-of-use assets and lease liabilities as follows:

	2021 \$'000	2020 \$'000
Right-of-use assets		
Premises	974,557	324,040
Office equipment	3,704	–
	978,261	324,040
Lease liabilities		
Current	137,461	96,115
Non-current	830,887	203,558
	968,348	299,673

- (i) During the year, the Group entered new leases for premises and office equipment and recognised additional right-of-use assets of \$884,453,000 (2020: \$239,030,000).
- (ii) For the year ended 31 March 2021, the Group recognised depreciation expense for the right-of-use assets for premises of \$229,546,000 (2020: \$218,796,000) and office equipment of \$686,000 (2020: nil). The interest expense on lease liabilities was \$9,154,000 (2020: \$3,487,000). The total cash outflow for leases during the year was \$158,354,000 (2020: \$206,221,000).

### 13. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2021 ranged from 0.07% p.a. to 0.68% p.a. (2020: 1.1% p.a. to 3.0% p.a.). These balances matured within one year as at both 31 March 2021 and 31 March 2020.

Reconciliation to cash and cash equivalents:

	2021 \$'000	2020 \$'000
Cash at bank and in hand	65,287	51,871
Fixed deposits with banks	2,641,008	2,832,302
Amounts shown in the consolidated statement of financial position	2,706,295	2,884,173
Less: Amounts with an original maturity beyond three months	(1,851,196)	(2,130,767)
Cash and cash equivalents in the consolidated statement of cash flows	855,099	753,406

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 14. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (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 established under the SFO.

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

As at 31 March 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2020: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

### 15. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2021 and 2020.

### 16. Provisions

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

### 17. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$294,199,000 of receivables (2020: \$230,320,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2021 and 2020.

### 18. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

### 19. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$84,468,000 (2020: \$142,962,000).

### 20. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the related parties relationship disclosed in note 22 in these financial statements, we have the following significant related party transactions and balances.

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

During the year, \$6,011,000 was recovered from the ICF for the ICC's expenses (2020: \$5,989,000). As at 31 March 2021, the amount due to the ICF from the ICC was \$242,000 (2020: \$138,000).

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 20. Related party transactions (cont'd)

#### (b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

#### (c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED continued to provide services in respect of matters commenced prior to his appointment. Since the appointment date, fees paid or payable to him for such services amounted to \$1,211,000 during the year and under normal commercial terms and conditions.

### 21. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in pooled funds. The underlying investments of the pooled funds mainly comprise equity securities.

The main financial risks of the Group arise from its investments in debt securities and units in pooled funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 by Moody's or A-1 or above by S&P. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

#### (b) Interest rate risk

The Group's interest bearing assets mainly comprise debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements.

As at 31 March 2021, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$26,824,000 (2020: \$34,369,000). As at 31 March 2021, the average duration of the Group's investment portfolio was 4.14 years (2020: 1.39 years). It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$16,856,000 (2020: \$15,806,000).

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 21. Financial risk management and fair values (cont'd)

#### (b) Interest rate risk (cont'd)

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2020.

#### (c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. See note 23 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As of 31 March 2021, the contractual undiscounted cash flows for financial liabilities were as follows:

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2021</u>						
Creditors and accrued charges	186,408	186,408	186,408	–	–	–
Lease liabilities	968,348	999,284	145,317	121,925	434,212	297,830
	<b>1,154,756</b>	<b>1,185,692</b>	<b>331,725</b>	<b>121,925</b>	<b>434,212</b>	<b>297,830</b>
<u>2020</u>						
Creditors and accrued charges	167,043	167,043	167,043	–	–	–
Lease liabilities	299,673	313,591	99,449	30,968	118,695	64,479
	466,716	480,634	266,492	30,968	118,695	64,479

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 21. Financial risk management and fair values (cont'd)

#### (d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2021 and 2020, the exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2021, the Group had financial assets denominated in USD of \$4,887,901,000 (2020: \$3,785,308,000). The USD/HKD exchange rate was 7.7745 (2020: 7.7509). Movement in USD/HKD exchange rate within the upper and lower bounds of the Convertibility Zone, holding all other variables constant, would increase and decrease the Group's surplus and accumulated surplus by approximately \$47,499,000 and \$15,372,000 respectively (2020: increase and decrease by approximately \$48,397,000 and \$440,000 respectively).

#### (e) Market risk

The Group's investment activities also expose to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and pooled funds. Such risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 21.5% (2020: 21.6%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$214,104,000 (2020: \$139,938,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's investment in pooled funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 21. Financial risk management and fair values (cont'd)

#### (f) Fair value measurement

##### (i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>2021</u>				
Debt securities				
– Listed	–	300,201	–	300,201
– Unlisted	–	125,409	–	125,409
Pooled funds – unlisted	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220
<u>2020</u>				
Debt securities				
– Listed	–	413,300	–	413,300
– Unlisted	–	6,169	–	6,169
Pooled funds – unlisted	648,510	–	–	648,510
	648,510	419,469	–	1,067,979

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which is publicly available in the active market. The majority of the underlying assets of the pooled funds are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

During the year, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 21. Financial risk management and fair values (cont'd)

#### (f) Fair value measurement (cont'd)

##### (ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2021 and 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2021</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–
<u>2020</u>					
Financial assets at amortised costs					
– debt securities	2,584,362	2,581,705	970,893	1,610,812	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 22. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2) (b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2021, the ICF's maximum liability in respect of claims received was \$4,969,000 (2020: \$2,204,000) and the net asset value was \$2.4 billion (2020: \$2.4 billion).

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2021, the UECF's maximum liability in respect of claims received was \$10,245,000 (2020: \$10,245,000) and the net asset value was \$86,072,000 (2020: \$82,045,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2021. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2020: nil). The related party relationships with these entities are disclosed in note 20 of these financial statements.

### 23. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 18, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3.125 billion (2020: \$3 billion) from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

## Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

### 24. Statement of financial position of the SFC

	2021 \$'000	2020 \$'000
<b>Non-current assets</b>		
Fixed assets	291,289	135,658
Right-of-use assets	978,183	324,040
Deposits for leases	37,656	33,767
Financial assets at amortised costs – debt securities	3,023,857	1,600,123
	<b>4,330,985</b>	2,093,588
<b>Current assets</b>		
Financial assets at amortised costs – debt securities	107,673	984,239
Financial assets at fair value through profit or loss		
Debt securities	425,610	419,469
Pooled funds	1,018,610	648,510
Debtors, deposits and prepayments	344,809	274,141
Fixed deposits with banks	2,641,008	2,832,302
Cash at bank and in hand	42,179	29,836
	<b>4,579,889</b>	5,188,497
<b>Current liabilities</b>		
Fees received in advance	8,198	47,097
Creditors and accrued charges	171,198	153,895
Lease liabilities	137,443	96,115
Provisions	574	66,532
	<b>317,413</b>	363,639
<b>Net current assets</b>	<b>4,262,476</b>	4,824,858
<b>Total assets less current liabilities</b>	<b>8,593,461</b>	6,918,446
<b>Non-current liabilities</b>		
Lease liabilities	830,827	203,558
Provisions	88,346	19,968
	<b>919,173</b>	223,526
<b>Net assets</b>	<b>7,674,288</b>	6,694,920
<b>Funding and reserves</b>		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	3,125,000	3,000,000
Accumulated surplus	4,506,448	3,652,080
	<b>7,674,288</b>	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer