



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

## Quarterly Report

July - September 2021

This second Quarterly Report of the Securities and Futures Commission for financial year 2021-22 covers the period from 1 July to 30 September 2021.

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# Highlights

## Regulatory enhancements

**Management and disclosure of climate-related risks by fund managers:** We concluded a consultation on amendments to the Fund Manager Code of Conduct to require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures.

**Anti-money laundering:** We issued consultation conclusions on proposed amendments to our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to align them with the Financial Action Task Force's standards and provide additional guidance for the implementation of risk-based AML/CFT measures.

**Investor identification:** We concluded a consultation on an investor identification regime for the securities market in Hong Kong and an over-the-counter securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong.

## Listing regulation

**Listing applications:** We vetted 78 new listing applications, including three from companies with weighted voting rights structures and 15 from pre-profit biotech companies.

**Corporate conduct:** As part of our review of corporate disclosures, we issued section 179<sup>1</sup> directions to gather additional information in six cases and wrote to listed issuers detailing our concerns in one case.

**Takeovers:** We publicly censured BIT Mining Limited<sup>2</sup> for breaching the rules on special deals under the Code on Takeovers and Mergers when it issued new shares to a director and shareholder during a general offer.

## Intermediaries

**Licensing:** As at 30 September, the total number of licensees and registrants remained stable at 48,364, of which 3,180 were licensed corporations.

**Supervision:** We conducted 66 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

<sup>1</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.

<sup>2</sup> Formerly known as 500.com Limited.

## Highlights

### Products

**Product authorisations and registrations:** We authorised 31 unit trusts and mutual funds (including 20 Hong Kong-domiciled funds), four mandatory provident fund pooled investment funds and 73 unlisted structured investment products for public offering in Hong Kong. We registered 12 new open-ended fund companies.

**Asset and Wealth Management Activities Survey:** Hong Kong's asset and wealth management business recorded a 21% year-on-year increase in assets under management (AUM) to \$34,931 billion as at the end of 2020 and net fund inflows of \$2,035 billion during 2020, accounting for 33% of the year-on-year increase.

**Fund flows:** Hong Kong-domiciled SFC-authorized funds reported overall net inflows of US\$7,131 million in the six months to 30 September.

**Derivatives contracts:** We approved three derivatives contracts proposed by Hong Kong Exchanges and Clearing Limited, namely Hang Seng Index Futures Options, Hang Seng China Enterprises Index Futures Options and MSCI China A50 Connect Index Futures.

**Wealth Management Connect:** On 10 September, the People's Bank of China, Hong Kong Monetary Authority and Monetary Authority of Macao announced the launch of the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area.

### Enforcement

**Disciplinary actions:** We disciplined two licensed corporations and five individuals during the quarter, resulting in total fines of \$11.95 million.

**Market surveillance:** We made 2,733 requests for trading and account records triggered by untoward price and turnover movements.

**Unregulated virtual asset platforms:** We issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong and investors should exercise extreme caution if they plan to invest in stock tokens offered on unregulated platforms.

**Joint operations with the Police and ICAC:** In our separate joint operations with the Police and the Independent Commission Against Corruption (ICAC) involving listed companies, the Police arrested two persons for suspected conspiracy to defraud, theft and money-laundering and the ICAC arrested six persons for suspected corruption offences.

### Regulatory engagement

**International:** In September, our Chief Executive Officer Mr Ashley Alder chaired a special meeting of the Board of the International Organization of Securities Commissions which discussed liquidity risks in open-ended funds and the resilience of money market funds.

**Green and sustainable finance:** The Hong Kong Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the Hong Kong Monetary Authority, announced the next steps to advance its collaborative strategy to help transition the financial ecosystem towards carbon neutrality.

### Stakeholders

**New alert list:** We introduced a new feature on our website to warn the public about unauthorised investment arrangements suspected to be collective investment schemes, which may not be offered to the public in Hong Kong without the SFC's authorisation.

**Regulatory forum:** We hosted the fourth SFC Regulatory Forum in November to exchange views with senior policymakers, professionals and industry participants on Hong Kong's future development as China's international financial centre.



# Operational Review

## Corporates

### Special Purpose Acquisition Companies<sup>1</sup> (SPACs)

We are working closely with the Stock Exchange of Hong Kong Limited (SEHK) to formulate a SPACs framework suitable for Hong Kong. On 17 September, SEHK launched a public consultation on proposals to introduce a listing regime for SPACs. The proposed regime aims to provide an alternative listing route for companies in Hong Kong, with safeguards designed to welcome experienced and reputable SPAC promoters seeking good-quality de-SPAC targets. The consultation period ended on 31 October and we will take market feedback into account when formulating the SPACs framework.

### Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 78 new listing applications, including three from companies with weighted voting rights structures and 15 from pre-profit biotech companies.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued three requisition letters directly to three listing applicants during the quarter. Amongst our concerns were the genuineness of the financial information of the listing applicant, the sufficiency of the sponsor's independent due diligence and the accuracy and completeness of the information submitted by the sponsor.

### Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179<sup>2</sup> directions to gather additional information in six cases and wrote to listed issuers detailing our concerns in one case. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

<sup>1</sup> A SPAC is a type of shell company which raises funds through its listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

<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.

## Corporates

### Takeovers matter

We publicly censured BIT Mining Limited<sup>3</sup> for breaching the rules on special deals under the Code on Takeovers and Mergers (Takeovers Code) when it issued new shares to its director and shareholder, Man San Law, who is also a shareholder of Loto Interactive Limited, during its general offer for all the shares in Loto.

The issue of shares to Law constituted special deals under the Takeovers Code and they were completed without the consent of the Takeovers Executive<sup>4</sup>. Furthermore, BIT Mining did not obtain advice from its professional advisers on the Takeovers Code implications of these deals.

### Listing applications and takeovers activities

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
Listing applications	78	198	143	38.5
Takeovers and share buy-backs transactions	92	202	225	-10.2

<sup>3</sup> Formerly known as 500.com Limited.

<sup>4</sup> The Executive Director of the SFC's Corporate Finance Division or his delegate.

# Intermediaries

## Licence applications

In the quarter, we received 2,197 licence applications<sup>1</sup>, including 63 corporate applications, a 18.5% decrease from the last quarter and up 42.9% compared with the same quarter last year.

As at 30 September, the total number of licensees and registrants remained stable at 48,364, of which 3,180 were licensed corporations.

## Management and disclosure of climate-related risks

In August, we concluded a consultation on amendments to the Fund Manager Code of Conduct (FMCC) to require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. We also issued a circular setting out the expected standards for compliance with the amended FMCC. The requirements will be implemented in phases starting from 20 August 2022.

## Conduct standards in capital market transactions

In October, we released consultation conclusions on conduct requirements for capital market transactions in Hong Kong to clarify the roles of intermediaries and set out the standards expected of them in bookbuilding, pricing, allocation and placing activities. Amendments to the Code of Conduct for Persons Licensed by or

Registered with the Securities and Futures Commission and the Guideline to sponsors, underwriters and placing agents involved in the listing and placing of GEM stocks will become effective on 5 August 2022.

## Anti-money laundering

We issued consultation conclusions in September on proposed amendments to our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines. The amendments aim to align the guidelines with the Financial Action Task Force's standards. They include additional guidance to facilitate the implementation of risk-based AML/CFT measures and help firms assess and manage the risks of cross-border correspondent relationships<sup>2</sup> more effectively. The revised guidelines came into effect on 30 September, except for the new requirements for cross-border correspondent relationships, which will take effect on 30 March 2022.

## COVID-19 response

On 1 November, the Government announced that quarantine exemption arrangements would be tightened with effect from 12 November and we issued a circular on the cancellation of the compulsory quarantine exemption scheme for senior executives of licensed corporations, the details of which were set out in circulars we issued in May and June.

## Licensees and registrants

	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Licensed corporations	3,180	3,159	0.7	3,122	1.9
Registered institutions	111	115	-3.5	113	-1.8
Licensed individuals	45,073	43,904	2.7	43,813	2.9
<b>Total</b>	<b>48,364</b>	<b>47,178</b>	<b>2.5</b>	<b>47,048</b>	<b>2.8</b>

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

<sup>2</sup> Financial institutions will be required to apply additional due diligence and risk mitigating measures for business relationships in the securities sector which are similar to cross-border correspondent banking relationships, eg, in instances where a Hong Kong securities broker executes trades for an overseas broker which acts for its own local customers.

## Intermediaries

### Licensing applications

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
Applications to conduct new regulated activity	7,702	13,272	8,650	53.4
Applications for SFC licences <sup>^</sup>	2,197	3,760	2,581	45.7

<sup>^</sup> Figures do not include applications for provisional licences. During the quarter, we received 1,682 provisional licence applications compared with 1,030 in the same quarter last year.

### Intermediary inspections

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
On-site inspections conducted <sup>^</sup>	66	137	154	-11

<sup>^</sup> Including inspections conducted remotely in light of the COVID-19 pandemic.



# Products

## Authorisations

During the quarter ended 30 September, we authorised 31 unit trusts and mutual funds (including 20 Hong Kong-domiciled funds), four mandatory provident fund (MPF) pooled investment funds and 73 unlisted structured investment products for public offering in Hong Kong.

## OFC registrations

As of 30 September, we registered 27 open-ended fund companies (OFCs), of which 12<sup>1</sup> were new OFCs registered during the quarter.

## Hong Kong-domiciled funds

Despite volatility in the local equity market, the assets under management (AUM) of Hong Kong-domiciled funds remained steady at around US\$191 billion as at 30 September and recorded net fund inflows of about US\$7 billion for the six months ended 30 September. During the same period, the number of firms licensed for Type 9 regulated activity increased 1% to 1,941.

## Wealth Management Connect

On 10 September, the People's Bank of China (PBoC), Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao announced the launch of the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. We have been working closely with HKMA, PBoC and other authorities since the establishment of the pilot scheme was announced in June 2020, providing input on the scheme's design and operations including the product scope and conduct-related matters.

## Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, as of 30 September, we authorised a total of 48 Mainland funds (including two umbrella funds) whilst the China Securities Regulatory Commission approved 38 Hong Kong funds.

As of 30 September, the cumulative net subscription was about RMB946 million for Mainland funds and about RMB15.85 billion for Hong Kong funds. During the quarter, Mainland funds recorded a net subscription of about RMB172.31 million, up from RMB111.42 million

in the previous quarter. Hong Kong funds recorded a net redemption of about RMB539.11 million this quarter, down from a net subscription of about RMB1.32 billion last quarter.

## Asset and Wealth Management Activities Survey

The *Asset and Wealth Management Activities Survey* for 2020, released in July, showed that Hong Kong experienced strong growth in asset management, fund advisory, private banking and private wealth management business, supported by strong net fund inflows.

Hong Kong's asset and wealth management business recorded a 21% year-on-year increase in AUM to \$34,931 billion as at the end of 2020. The AUM of the asset management and fund advisory business conducted by licensed corporations and registered institutions increased 20% to \$24,038 billion and the AUM of the private banking and private wealth management business grew 25% to \$11,316 billion. Net fund inflows of \$2,035 billion were recorded for the asset and wealth management business during 2020, accounting for 33% of the year-on-year increase in AUM.

## New unauthorised CIS alert list

To enhance investor protection, we launched a new alert list on our website in August to warn the public about unauthorised investment arrangements suspected to be collective investment schemes (CIS), which may not be offered to the public in Hong Kong without the SFC's authorisation<sup>2</sup>.

We liaised with the Consumer Council and the Estate Agents Authority (EAA) regarding the introduction of the list. Following the launch, the EAA issued a reminder to its licensed estate agents that the sale of certain real properties in Hong Kong may constitute a sale of interests in a CIS and advised them to check the alert list. We also worked with the Investor and Financial Education Council to raise public awareness of CIS and the risks of investing in unauthorised CIS.

<sup>1</sup> This figure includes 11 OFCs which are not authorised under section 104 of the Securities and Futures Ordinance (SFO) and hence may not be offered to the public in Hong Kong unless an exemption under the SFO applies.

<sup>2</sup> CIS offered to the Hong Kong public are subject to SFC authorisation under the SFO, unless exempted. In general, CIS must be sold by an intermediary licensed or registered with the SFC. Unauthorised CIS may generally be sold to professional investors only.

## Products

### Authorised collective investment schemes

	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	852 <sup>a</sup>	835	2	800	6.5
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,378	1,382	-0.3	1,375	0.2
Investment-linked assurance schemes	300	298	0.7	300	0
Pooled retirement funds	33	33	0	33	0
MPF schemes	26	27	-3.7	27	-3.7
MPF pooled investment funds	213	212	0.5	210	1.4
Others	25 <sup>b</sup>	25	0	25	0
<b>Total</b>	<b>2,827</b>	<b>2,812</b>	<b>0.5</b>	<b>2,770</b>	<b>2.1</b>

a This figure includes 108 approved pooled investment funds (retail APIFs) which MPFs may invest into and may also be offered to the public in Hong Kong.

b Comprising 13 paper gold schemes and 12 real estate investment trusts (REITs).

### Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type<sup>a</sup> (US\$ million)

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of US\$7,131 million, which was primarily attributed to index funds and mixed funds.

	Six months ended 30.9.2021			Six months ended 31.3.2021			Six months ended 30.9.2020		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond	7,038	7,527	(489)	13,528	9,688	3,840	11,047	6,516	4,531
Equity	10,256	9,943	313	14,829	12,175	2,654	8,912	9,164	(252)
Mixed	6,855	4,028	2,827	5,522	4,316	1,206	2,401	3,284	(883)
Money market	9,653	9,657	(4)	10,258	9,385	873	8,612	8,409	203
Fund of funds <sup>b</sup>	1,287	1,785	(498)	1,414	1,763	(349)	1,486	1,695	(209)
Index <sup>c</sup>	19,587	14,602	4,985	21,666	20,361	1,305	17,437	13,849	3,588
Guaranteed	0	3	(3)	0	6	(6)	0	6	(6)
<b>Total<sup>b</sup></b>	<b>54,676</b>	<b>47,545</b>	<b>7,131<sup>d</sup></b>	<b>67,217</b>	<b>57,694</b>	<b>9,523</b>	<b>49,895</b>	<b>42,923</b>	<b>6,972</b>

a Based on data reported by funds domiciled in Hong Kong.

b From 31 March 2021 onwards, the amount of subscription and redemption of feeder funds whose master funds are authorised by the SFC has been excluded from the fund flows figures in the "Fund of funds" category. For comparison purposes, similar adjustments have been made to the fund flows figures for the six months ended 30 September 2020 and 31 March 2021 respectively.

c Including exchange-traded funds (ETFs) and leveraged and inverse products.

d This figure includes the net fund outflow of US\$622 million reported by retail APIFs which MPFs may invest into and may also be offered to the public in Hong Kong.

## Products

### Registered OFCs

	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
OFCs	27 <sup>^</sup>	13	107.7	6	350

<sup>^</sup> This figure includes 21 OFCs which are not authorised under section 104 of the SFO and hence may not be offered to the public in Hong Kong unless an exemption under the SFO applies.

### Authorised unlisted structured investment products

	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Unlisted structured investment products <sup>^</sup>	146	146	0	145	0.7

<sup>^</sup> On a "one product per key facts statement" basis, including equity-linked investments and deposits.

### SFC-authorised renminbi investment products

	As at 30.9.2021
<b>Unlisted products</b>	
Unlisted funds primarily investing in the onshore Mainland securities markets <sup>a</sup> or offshore renminbi bonds, fixed-income instruments or other securities	53
Unlisted funds (non-renminbi denominated) with renminbi share classes	309
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	48
Unlisted structured investment products issued in renminbi <sup>b</sup>	145
<b>Listed products</b>	
ETFs primarily investing in the onshore Mainland securities markets <sup>a</sup> or offshore renminbi bonds, fixed-income instruments or other securities	46
ETFs (non-renminbi denominated) with renminbi trading counters	12
Renminbi leveraged and inverse products	2
Renminbi gold ETFs <sup>c</sup>	1
Renminbi REITs	1

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

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

c Only includes gold ETFs denominated in renminbi.

# Markets

## Supervision of HKEX

We closely monitor the operations and infrastructure-related initiatives of Hong Kong Exchanges and Clearing Limited (HKEX). During the quarter, HKEX revamped its securities market gateway, providing exchange participants with faster and more robust access to the trading system. In addition, HKEX improved the data centre infrastructure and facilities for the secondary system for cash market clearing.

## Derivatives products

We approved three derivatives contracts proposed by HKEX to meet the trading and hedging needs of market participants. Hang Seng Index Futures Options and Hang Seng China Enterprises Index Futures Options commenced trading in August.

The MSCI China A50 Connect Index Futures contract, launched in October, provides an additional risk management tool for global investors to hedge exposures in China's A-share market. It also strengthens Hong Kong's

position as an internationally significant financial risk management centre and gateway to the Mainland market.

## Investor identification

In August, we concluded a consultation on the Hong Kong investor identification regime and over-the-counter securities transactions reporting regime. We released implementation guidance in September and have been working with HKEX to prepare for the launch of the investor identification regime. We will also work with the Investor and Financial Education Council to promote investors' understanding of the regimes.

## Automated trading services

As of 30 September, the number of automated trading services (ATS) providers<sup>1</sup> authorised under Part III of the Securities and Futures Ordinance (SFO) was 53, while 24 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

## ATS providers

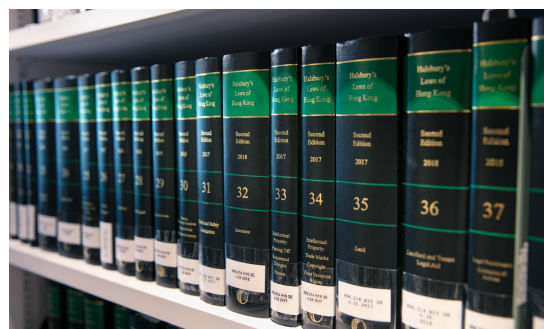
	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Under Part III	53	51	3.9	52	1.9
Under Part V	24	24	0	23	4.3

<sup>1</sup> Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

# Enforcement

## Court proceeding

In the Court of First Instance, we obtained a disqualification order under section 214<sup>1</sup> of the Securities and Futures Ordinance (SFO) against Lin Supeng, former executive director of Anxin-China Holdings Limited, from serving as a director or taking part in the management of any corporation in Hong Kong for eight years for failing to discharge his duties to ascertain the company's financial position.



## Disciplinary actions

We disciplined two licensed corporations and five individuals during the quarter, resulting in total fines<sup>2</sup> of \$11.95 million.

### Anti-money laundering regulatory breaches

Name	Breaches	Action
Budihardjo Wilhelm Soeharsono and Shing Yan	Failed to discharge their duties as members of senior management and responsible officers of Sino-Rich Securities & Futures Limited, which contributed to the firm's breaches of anti-money laundering and counter-terrorist financing (AML/CFT) regulatory requirements when handling cash deposits and third-party fund transfers	Suspended for 10 months and seven months, respectively
Leung Tak Shing, Raymond	Failed to discharge his duties as a member of the senior management of Yardley Securities Limited, which contributed to the firm's breaches of AML/CFT regulatory requirements when handling third-party fund transfers	Reprimanded and fined \$400,000

### Internal control deficiencies

Company/Name	Breaches	Action
UBS AG and UBS Securities Asia Limited	Internal control failures concerning disclosures of interests in listed securities covered in UBS' research reports, telephone recordings of client instructions, know-your-client requirements in assessing clients' derivatives knowledge and product risk disclosures in the sale of a structured note to clients	Reprimanded and fined \$9.8 million and \$1.75 million, respectively

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

<sup>2</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.



## Enforcement

### Other regulatory breaches

Company/Name	Breaches	Action
Lau Kwo	Made false representations in client account opening documents and conducted trades in client accounts without his employer's knowledge	Banned from re-entering the industry for 12 months
Cheung Man Chit	Submitted false client documents and information to his employers, transferred client money through his related bank accounts and conducted trades in a client's account without his employers' knowledge	Suspended for two years

### Joint operations with the Police and ICAC

During the quarter, we conducted a joint search operation with the Commercial Crime Bureau (CCB) of the Hong Kong Police Force at the office of a listed company and the residences of its former senior executives in a case of suspected corporate fraud involving a total of \$450 million. Two persons were arrested by the Police during the operation for the alleged offences of conspiracy to defraud, theft and money-laundering.

We also conducted joint operations with the Independent Commission Against Corruption (ICAC) in two separate investigations where we searched the offices of listed companies and the premises of their related parties. One case involved a suspected ramp-and-dump market manipulation scheme and the other was related to suspicious money lending activities and possible misconduct by the company's management. The ICAC arrested six persons for suspected corruption offences under the Prevention of Bribery Ordinance during these operations.

Following a joint SFC-ICAC operation in 2017, four individuals, including two former senior executives of Convoy Global Holdings Limited, were charged by the ICAC and convicted at the District Court of conspiracy to defraud the company and its board of directors and shareholders as well as the Stock Exchange of Hong Kong Limited over the placement of bonds issued by Convoy Global.

### Unregulated virtual asset platforms

In July, we issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong. Binance has offered trading services in stock tokens<sup>3</sup> in a number

of jurisdictions. Where stock tokens are "securities", it may be an offence to offer them to the Hong Kong public without the SFC's authorisation or registration. We warned investors to exercise extreme caution if they plan to invest in stock tokens offered on unregulated platforms.

### Enforcement cooperation with the CSRC

Despite travel restrictions amidst the COVID-19 pandemic, the China Securities Regulatory Commission (CSRC) continued to provide efficient and effective investigatory assistance in high-impact cases during the quarter.

Together with the Enforcement Bureau of the CSRC, the CCB of the Hong Kong Police Force and the Securities Crime Investigation Department of the Ministry of Public Security of the People's Republic of China, we are exploring ways to facilitate cross-boundary enforcement collaboration on top priority cases on the basis of the consensus reached at our four-party meeting held in December 2020.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,733 requests for trading and account records from intermediaries in the quarter.

We published three high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

<sup>3</sup> Stock tokens are virtual assets which are represented to be backed by depository portfolios of overseas listed stocks. The prices of the tokens closely track the performance of the stocks. In Hong Kong, stock tokens are likely to be "securities" under the SFO and if so, they are subject to the regulatory remit of the SFC.

## Enforcement

### Enforcement activities

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
S179 <sup>a</sup> inquiries commenced	17	32	16	100
S181 <sup>b</sup> inquiries commenced (number of letters sent)	66 (2,733)	129 (5,052)	133 (4,783)	5.6
S182 <sup>c</sup> directions issued	97	126	86	46.5
Investigations started	68	130	90	44.4
Investigations completed	34	65	115	-43.5
Individuals and corporations charged in criminal proceedings	0	2	8	-75
Criminal charges laid	0	18	11	63.6
Notices of Proposed Disciplinary Action <sup>d</sup> issued	15	25	13	92.3
Notices of Decision <sup>e</sup> issued	8	15	19	-21.1
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	178	178	155	14.8
Compliance advice letters issued	57	93	109	-14.7
Cases with search warrants executed	5	25	4	525

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

e A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

f As of the last day of the period.

# Regulatory engagement

## IOSCO

We are actively involved in international policy making. Mr Ashley Alder, the SFC's Chief Executive Officer (CEO), chairs the Board of the International Organization of Securities Commissions (IOSCO). In September, Mr Alder chaired a special meeting of the IOSCO Board to discuss liquidity risks in open-ended funds and the resilience of money market funds.

During the quarter, we participated in meetings of the IOSCO Financial Stability Engagement Group (FSEG), including its Steering Group. The FSEG leads IOSCO's COVID-19 crisis responses related to financial stability issues.

Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, is a Vice Chair of the IOSCO Sustainable Finance Task Force (STF) and co-leads a workstream on sustainability practices, policies, procedures and disclosure in asset management. We participate in the IOSCO STF Technical Expert Group which engages with the IFRS Foundation on the establishment of an International Sustainability Standards Board with a view to developing a global baseline for corporate sustainability reporting standards.

We are also a member of IOSCO's Retail Market Conduct Task Force, the Fintech Network, the Cyber Task Force and the Data Analytics Group.

We participate in all eight IOSCO policy committees, the Committee on Emerging Risks, the Assessment Committee and the Asia-Pacific Regional Committee (APRC). At the APRC meeting in September we presented on regulatory developments in sustainable finance in Hong Kong. In July, we participated in a meeting of the Assessment Committee which discussed a thematic review of liquidity risk management.

Mr Alder co-chairs the CPMI<sup>1</sup>-IOSCO Steering Group which is involved in the regulatory policy work for the oversight and supervision of central counterparties and the application of the CPMI-IOSCO Principles for Financial Market Infrastructures to global stablecoin arrangements.

## Financial Stability Board

In his role as IOSCO Board Chair, Mr Alder participated in Financial Stability Board (FSB) meetings including those of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation. The discussions focused on financial stability, climate-related initiatives, asset management and issues arising from COVID-19. We are also actively involved in the work of the FSB Standing Committee on Standards Implementation.

## Green and sustainable finance

In July, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group<sup>2</sup>, co-chaired by the SFC and the Hong Kong Monetary Authority, announced the next steps to advance its collaborative strategy to bolster Hong Kong's position as a leader in green and sustainable finance and help transition the financial ecosystem towards carbon neutrality. As priorities, the steering group will focus on climate change reporting, carbon market opportunities, data and capacity building.

We participate in the International Platform on Sustainable Finance, which aims to harmonise taxonomies<sup>3</sup> adopted by mainland China and the EU, as well as the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

## Mainland China

During the quarter, we proactively advanced mutual market access cooperation initiatives with Mainland authorities and held regular discussions with the China Securities Regulatory Commission to enhance cross-boundary regulatory cooperation.

We worked closely with Mainland authorities to prepare for initiatives set out in the Greater Bay Area Development Plan, including Wealth Management Connect and Hong Kong-based financial institutions' business access to the Greater Bay Area. In September, we attended the first Guangdong-Hong Kong Financial Cooperation Seminar co-chaired by the Vice-Governor of Guangdong Province, Mr Zhang Xin, and the Financial Secretary, Mr Paul Chan.

1 Committee on Payments and Market Infrastructures.

2 Other members of the steering group include the Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and Mandatory Provident Fund Schemes Authority.

3 Taxonomies provide a common reference point for the definition of investments which are considered to be environmentally sustainable.

# Stakeholders

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

In November, we hosted the fourth SFC Regulatory Forum, a one-day event to facilitate the exchange of views amongst local and international senior policymakers, professionals and industry participants on Hong Kong's future development as China's international financial centre and other regulatory and topical issues. Over 1,100 senior representatives from the financial services industry, listed companies, industry organisations and regulatory bodies attended the forum.

At the Hong Kong Fintech Week 2021 in November, which we co-organised, our Deputy Chief Executive Officer and Executive Director of Intermediaries Ms Julia Leung delivered a speech on regulation and the development of financial technology. She also discussed the SFC's recent climate-related regulatory initiatives in interviews with local media.

During the quarter, our senior executives spoke at 14 local and international events including the Hong Kong Institute of Certified Public Accountants' "COP26: Race to Zero" webinars, ASIFMA<sup>1</sup> Compliance Week 2021 and the Green Way Forum hosted by the European Chamber of Commerce in Hong Kong. In an interview with the Hong Kong Securities Association's *Participants* publication, our Chief Executive Officer Mr Ashley Alder discussed the SFC's work priorities, including fostering closer cross-border collaboration with Mainland authorities and promoting Hong Kong's green and sustainable finance strategy.

We released the following publications in the quarter:

- The *Asset and Wealth Management Activities Survey 2020* provided a comprehensive overview of Hong Kong's asset and wealth management industry<sup>2</sup>.
- The *Financial Review of the Securities Industry* provided statistics on the financial positions of securities dealers and securities margin financiers as well as the financial performance of SEHK<sup>3</sup> participants in the first half of 2021.
- The *Half-yearly Review of the Global and Local Securities Markets* discussed the performance of major stock markets as well as risks and uncertainties facing Hong Kong and international markets in the first half of 2021.
- The September issue of the *Takeovers Bulletin* highlighted the public censure of BIT Mining Limited for breaching the rules on special deals.

We issued statements about Next Digital Limited and unregulated virtual asset platforms in the quarter. We also published 12 circulars providing guidance on a wide range of matters, including the implementation of the Hong Kong investor identification regime and over-the-counter securities transactions reporting regime, the management and disclosure of climate-related risks by fund managers and updates on anti-money laundering and counter-terrorist financing.

In September, we introduced a new "Suspected Unauthorised CIS Alert List" on our website to draw attention to suspected unauthorised CIS arrangements<sup>4</sup>. Investors are urged to be extremely careful if they plan to invest in an unauthorised investment scheme.

<sup>1</sup> The Asia Securities Industry & Financial Markets Association.

<sup>2</sup> See Products on page 8.

<sup>3</sup> The Stock Exchange of Hong Kong Limited.

<sup>4</sup> A collective investment scheme (CIS) may not be offered to the public in Hong Kong without the SFC's authorisation.

## Stakeholders

### Publications and other communications

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY Change (%)
Press releases	23	53	64	-17.2
Policy statements and announcements	2	3	7	-57.1
Consultation papers	0	1	3	-66.7
Consultation conclusions	3	4	4	0
Industry-related publications	4	5	7	-28.6
Codes and guidelines <sup>a</sup>	0	0	4	N/A
Circulars to industry	12	25	32	-21.9
Corporate website average daily page views <sup>b</sup>	27,681	27,688	40,456	-31.6
General enquiries	751	3,034	3,589	-15.5

a Includes updates to previous versions.

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



# Corporate Developments

## Board

Mr Clement Chan Kam-wing stepped down as a Non-Executive Director effective from 27 July. Mr Brian Ho Yin-tung served as an Executive Director until 27 August.

## Finance

Our income for the quarter was \$618 million, 1% higher than the previous quarter and 16% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$170 billion, 7% higher than the \$159 billion recorded in the previous quarter. Our expenditure for the quarter was \$463 million, 1% lower than last quarter and 12% lower than the same quarter last year. We recorded a surplus of \$155 million for the quarter.

After setting aside \$3.1 billion for the possible acquisition of office premises, our reserves stood at \$4.8 billion as of 30 September.

## Finance

(\$ million)	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
Income	618	1,228	1,358	-9.6
Expenses including depreciation	463	930	1,047	-11.2
Surplus	155	298	311	-4.2

## Staffing

As of 30 September, we had 901 staff members, down from 932 a year ago.

## Information technology

During the quarter, we added a new artificial intelligence-assisted capability which allows more extensive web searches of background information for our risk assessments of firms.

Our internal workflow systems were also upgraded with new features to boost day-to-day operational efficiency.

# Activity Data

**Table 1 Takeovers activities**

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under Code on Takeovers and Mergers	9	23	15	53.3
Privatisations	7	12	16	-25
Whitewash waiver applications	3	11	18	-38.9
Other applications under Code on Takeovers and Mergers <sup>1</sup>	71	153	173	-11.6
Off-market and general offer share buy-backs	1	2	2	0
Other applications under Code on Share Buy-backs <sup>1</sup>	1	1	1	0
<b>Total</b>	<b>92</b>	<b>202</b>	<b>225</b>	<b>-10.2</b>
<b>Executive Statements</b>				
Sanctions imposed with parties' agreement <sup>2</sup>	1	1	2	-50
<b>Takeovers and Mergers Panel</b>				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	1	1	0	N/A

1 Including stand-alone applications and those made during the course of a code-related transaction.

2 Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

## Activity Data

**Table 2 Breaches noted during on-site inspections<sup>1</sup>**

	Quarter ended 30.9.2021	Six months ended 30.9.2021 <sup>5</sup>	Six months ended 30.9.2020	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	4	0	N/A
Failure to safekeep client securities	7	10	5	100
Failure to maintain proper books and records	6	11	8	37.5
Failure to safekeep client money	11	14	10	40
Unlicensed dealing and other registration issues	4	7	4	75
Breach of requirements of contract notes/statements of account/receipts	17	21	6	250
Failure to make filing/notification	1	1	0	N/A
Breach of margin requirements	3	4	1	300
Marketing malpractices	3	3	0	N/A
Dealing malpractices	3	3	2	50
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>2</sup>	62	107	97	10.3
Breach of Corporate Finance Adviser Code of Conduct	0	4	5	-20
Breach of Fund Manager Code of Conduct	21	52	68	-23.5
Breach of regulation of on-line trading	2	5	0	N/A
Non-compliance with anti-money laundering guidelines	78	140	74	89.2
Breach of other rules and regulations of the Exchanges <sup>3</sup>	0	2	3	-33.3
Internal control weaknesses <sup>4</sup>	120	185	221	-16.3
Others	26	44	32	37.5
<b>Total</b>	<b>366</b>	<b>617</b>	<b>536</b>	<b>15.1</b>

1 Including inspections conducted remotely in light of the COVID-19 pandemic.

2 Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and information for or about clients and reasonable advice.

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

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

5 Figures have been adjusted for the period.

## Activity Data

**Table 3 Hong Kong-domiciled authorised funds**

a) Number of funds by type	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Bond	171	162	5.6	144	18.8
Equity	191	193	-1	188	1.6
Mixed	72	71	1.4	65	10.8
Money market	36	33	9.1	29	24.1
Fund of funds	88	86	2.3	85	3.5
Index <sup>1</sup>	147	142	3.5	142	3.5
Guaranteed	1	1	0	3	-66.7
Sub-total	706	688	2.6	656	7.6
Umbrella structures	146	147	-0.7	144	1.4
<b>Total</b>	<b>852</b>	<b>835</b>	<b>2</b>	<b>800</b>	<b>6.5</b>

b) Assets under management by type	Total NAV (US\$ million) as at 30.9.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.9.2020	YoY change (%)
Bond	37,976	39,004	-2.6	34,913	8.8
Equity	59,917	61,839	-3.1	49,398	21.3
Mixed	21,429	18,881	13.5	15,935	34.5
Money market	9,091	8,424	7.9	7,624	19.2
Fund of funds <sup>2</sup>	16,555	16,982	-2.5	15,395	7.5
Index <sup>1</sup>	45,846	45,727	0.3	38,587	18.8
Guaranteed	48	52	-7.7	59	-18.6
<b>Total<sup>2</sup></b>	<b>190,861<sup>3</sup></b>	<b>190,909</b>	<b>0</b>	<b>161,911</b>	<b>17.9</b>

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

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

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 30 September 2020.

3 Figures may not add up to total due to rounding.

## Activity Data

**Table 4 Non-Hong Kong-domiciled authorised funds**

a) Number of funds by origin	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Luxembourg	1,037	1,035	0.2	1,033	0.4
Ireland	234	238	-1.7	230	1.7
United Kingdom	29	30	-3.3	34	-14.7
Mainland China	50	51	-2	50	0
Bermuda	1	1	0	1	0
Cayman Islands	22	22	0	22	0
Others	5	5	0	5	0
<b>Total</b>	<b>1,378</b>	<b>1,382</b>	<b>-0.3</b>	<b>1,375</b>	<b>0.2</b>

b) Assets under management by origin	Total NAV (US\$ million) as at 30.9.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.9.2020	YoY change (%)
Luxembourg	1,463,111	1,399,343	4.6	1,155,740	26.6
Ireland <sup>1</sup>	280,939	275,782	1.9	254,594	10.3
United Kingdom	79,399	75,015	5.8	68,980	15.1
Mainland China	30,473	25,234	20.8	22,087	38
Bermuda	125	128	-2.3	123	1.6
Cayman Islands <sup>1</sup>	3,251	4,358	-25.4	4,847	-32.9
Others	60,235	61,049	-1.3	81,629	-26.2
<b>Total<sup>1</sup></b>	<b>1,917,531<sup>2</sup></b>	<b>1,840,909</b>	<b>4.2</b>	<b>1,588,000</b>	<b>20.8</b>

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

<sup>1</sup> Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 30 September 2020.

<sup>2</sup> Figures may not add up to total due to rounding.



## Activity Data

c) Number of funds by type	As at 30.9.2021	As at 31.3.2021	Change (%)	As at 30.9.2020	YoY change (%)
Bond	354	345	2.6	336	5.4
Equity	739	746	-0.9	752	-1.7
Mixed	127	128	-0.8	127	0
Money market	15	16	-6.3	16	-6.3
Fund of funds	23	23	0	23	0
Index <sup>1</sup>	37	42	-11.9	41	-9.8
Hedge	1	1	0	1	0
Sub-total	1,296	1,301	-0.4	1,296	0
Umbrella structures	82	81	1.2	79	3.8
<b>Total</b>	<b>1,378</b>	<b>1,382</b>	<b>-0.3</b>	<b>1,375</b>	<b>0.2</b>

d) Assets under management by type	Total NAV (US\$ million) as at 30.9.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.9.2020	YoY change (%)
Bond	612,843	609,557	0.5	584,311	4.9
Equity	1,003,489	941,176	6.6	718,664	39.6
Mixed	179,403	161,923	10.8	145,034	23.7
Money market	11,809	11,375	3.8	13,234	-10.8
Fund of funds <sup>2</sup>	1,239	1,212	2.2	1,042	18.9
Index <sup>1</sup>	108,623	115,538	-6	125,591	-13.5
Hedge	125	128	-2.3	123	1.6
<b>Total<sup>2</sup></b>	<b>1,917,531</b>	<b>1,840,909</b>	<b>4.2</b>	<b>1,588,000<sup>3</sup></b>	<b>20.8</b>

1 Including exchange-traded funds.

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 30 September 2020.

3 Figures may not add up to total due to rounding.

## Activity Data

**Table 5 Complaints against intermediaries and market activities**

	Quarter ended 30.9.2021	Six months ended 30.9.2021	Six months ended 30.9.2020	YoY change (%)
Conduct of licensees	149	346	392	-11.7
Conduct of registered institutions	4	10	9	11.1
Listed companies and disclosure of interests	306	1,250	1,470	-15
Market misconduct <sup>1</sup>	149	330	451	-26.8
Product disclosure	3	4	81	-95.1
Unlicensed activities	26	65	63	3.2
Breach of offers of investments	8	14	67	-79.1
Boiler rooms and suspicious websites	96	214	318	-32.7
Scams and frauds <sup>2</sup>	90	195	255	-23.5
Other financial activities not regulated by the SFC <sup>3</sup>	68	124	163	-23.9
<b>Total</b>	<b>899</b>	<b>2,552</b>	<b>3,269</b>	<b>-21.9</b>

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking services.

# Securities and Futures Commission

## Report on review of interim financial information To the Securities and Futures Commission

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

### Introduction

We have reviewed the interim financial information set out on pages 27 to 34, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2021 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 29 November 2021

## Securities and Futures Commission

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

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>		
Levies	619,799	550,849
Fees and charges	41,603	55,481
Net investment (loss)/income		
Investment (loss)/income	(53,578)	127,137
Less: custody and advisory expenses	(2,927)	(2,481)
Recoveries from the Investor Compensation Fund	1,428	1,447
Exchange gain/(loss)	11,771	(381)
Other income	82	86
	618,178	732,138
<b>Expenses</b>		
Staff costs and directors' emoluments	348,442	386,063
Depreciation		
Fixed assets	22,690	22,817
Right-of-use assets	35,635	71,175
Other premises expenses	8,334	15,364
Finance costs	2,000	2,306
Other expenses	46,221	28,293
	463,322	526,018
<b>Surplus and total comprehensive income for the quarter</b>	<b>154,856</b>	<b>206,120</b>

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

## Securities and Futures Commission

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

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>			
Levies		1,153,923	964,960
Fees and charges		91,360	108,504
Net investment (loss)/income			
Investment (loss)/income		(20,876)	286,840
Less: custody and advisory expenses		(5,911)	(4,501)
Recoveries from the Investor Compensation Fund	6(a)	2,852	3,006
Exchange gain/(loss)		6,304	(624)
Other income		227	229
		1,227,879	1,358,414
<b>Expenses</b>			
Staff costs and directors' emoluments	6(b)	707,674	746,503
Depreciation			
Fixed assets		45,429	39,545
Right-of-use assets		71,271	158,980
Other premises expenses		16,529	34,838
Finance costs		4,074	4,788
Other expenses		84,980	62,632
		929,957	1,047,286
<b>Surplus and total comprehensive income for the period</b>		<b>297,922</b>	<b>311,128</b>

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of financial position

As at 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
<b>Non-current assets</b>			
Fixed assets		261,292	291,496
Right-of-use assets		906,990	978,261
Deposits for leases		37,800	37,656
Financial assets at amortised costs – debt securities		3,025,065	3,023,857
		4,231,147	4,331,270
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		142,290	107,673
Financial assets at fair value through profit or loss			
Debt securities		424,765	425,610
Pooled funds		958,111	1,018,610
Debtors, deposits and prepayments		291,948	336,704
Fixed deposits with banks		3,118,415	2,641,008
Cash held for Grant Scheme	3	81,513	–
Cash at bank and in hand		48,632	65,287
		5,065,674	4,594,892
<b>Current liabilities</b>			
Fees received in advance		7,377	8,198
Creditors and accrued charges		328,645	186,408
Lease liabilities		137,726	137,461
Provisions for reinstatement cost		574	574
		474,322	332,641
<b>Net current assets</b>		4,591,352	4,262,251
<b>Total assets less current liabilities</b>		8,822,499	8,593,521
<b>Non-current liabilities</b>			
Lease liabilities		761,943	830,887
Provisions for reinstatement cost		88,346	88,346
		850,289	919,233
<b>Net assets</b>		7,972,210	7,674,288
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,125,000	3,125,000
Accumulated surplus		4,804,370	4,506,448
		7,972,210	7,674,288

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited			Total \$'000
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the period	–	–	311,128	311,128
Balance at 30 September 2020	42,840	3,000,000	3,963,208	7,006,048
Balance at 1 April 2021	<b>42,840</b>	<b>3,125,000</b>	<b>4,506,448</b>	<b>7,674,288</b>
Surplus and total comprehensive income for the period	–	–	297,922	297,922
Balance at 30 September 2021	<b>42,840</b>	<b>3,125,000</b>	<b>4,804,370</b>	<b>7,972,210</b>

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.



## Securities and Futures Commission

### Condensed consolidated statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		297,922	311,128
Adjustments for:			
Depreciation – Fixed assets		45,429	39,545
Depreciation – Right-of-use assets		71,271	158,980
Provisions for reinstatement cost		–	(12,196)
Finance costs		4,074	4,788
Interest income on deposits for leases		(143)	(141)
Investment loss/(income)		20,876	(286,840)
Exchange (gain)/loss		(6,338)	476
(Gain)/loss on disposal of fixed assets		(58)	4,889
		433,033	220,629
Increase in right-of-use assets		–	(40)
Decrease/(increase) in debtors, deposits and prepayments		44,601	(13,431)
Increase in cash held for Grant Scheme		(81,513)	–
Decrease in fees received in advance		(821)	(30,613)
Increase in creditors and accrued charges		150,859	68,714
Decrease in provisions for reinstatement		–	(28,426)
Net cash generated from operating activities		546,159	216,833
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		193,875	911,731
Interest received		51,612	67,363
Debt securities at fair value through profit or loss purchased		(344,879)	(122,672)
Debt securities at fair value through profit or loss sold or redeemed		346,978	116,259
Pooled funds sold		3,190	2,183
Debt securities at amortised cost purchased		(68,643)	(793,213)
Debt securities at amortised cost redeemed at maturity		22,530	604,613
Fixed assets purchased		(23,847)	(131,389)
Proceeds from fixed assets disposal		58	1
Net cash generated from investing activities		180,874	654,876
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(68,679)	(80,833)
Interest element of lease payments		(4,074)	(4,788)
Net cash used in financing activities		(72,753)	(85,621)
<b>Net increase in cash and cash equivalents</b>		654,280	786,088
Cash and cash equivalents at the beginning of the six-month period		855,099	753,406
<b>Cash and cash equivalents at the end of the six-month period</b>	2	1,509,379	1,539,494

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

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,460,747	1,417,264
Cash at bank and in hand	48,632	122,230
	1,509,379	1,539,494

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRS).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 September 2021. We eliminated all material intra-group balances and transactions in preparing the condensed consolidated financial statements.

We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Group for the six months ended 30 September 2021.

### 2. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank and in hand	48,632	65,287
Fixed deposits with banks	3,118,415	2,641,008
Amounts shown in the condensed consolidated statement of financial position	3,167,047	2,706,295
Less: Amounts with an original maturity beyond three months	(1,657,668)	(1,851,196)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,509,379	855,099

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

### 3. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in the creditors and accrued charges.

### 4. 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. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

### 5. Investments in subsidiaries

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

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

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

As at 30 September 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2021: \$0.2).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

#### 6. Related party transactions

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

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

During the period, \$2,852,000 was recovered from the ICF for the ICC’s expenses (30 September 2020: \$3,006,000). As at 30 September 2021, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$486,000 (as at 31 March 2021: \$242,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2021 \$’000	30 Sep 2020 \$’000
Directors’ fees and salaries, allowances and benefits in kind	16,742	17,109
Retirement scheme contributions	1,491	1,538
	18,233	18,647

The total remuneration is included in “staff costs and directors’ emoluments” on page 27. 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 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 had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$242,000 (30 September 2020: nil) for the period under normal commercial terms and conditions.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

### 7. Fair value measurement

#### (a) 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*, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>As at 30 September 2021 (Unaudited)</u>				
Debt securities	–	424,765	–	424,765
Pooled funds	958,111	–	–	958,111
	958,111	424,765	–	1,382,876
<u>As at 31 March 2021 (Audited)</u>				
Debt securities	–	425,610	–	425,610
Pooled funds	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220

During the six months ended 30 September 2021 and year ended 31 March 2021, 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.

#### (b) 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 30 September and 31 March 2021 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			Level 3 \$'000
		Total \$'000	Level 1 \$'000	Level 2 \$'000	
<u>As at 30 September 2021 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,167,355	3,208,851	–	3,208,851	–
<u>As at 31 March 2021 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–

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 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.

# Investor Compensation Fund

## 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 2021.

## Establishment of the Investor Compensation Fund

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

## Financial statements

The financial performance of the Fund for the reporting period ended 30 September 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 37 to 43.

## Members of the Committee

The members of the Committee during the six months ended 30 September 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)  
Mr Thomas Allan Atkinson  
Dr Lin, James C.  
Mr Kok Ka Keung Kenneth

## 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

**Rico Leung**  
Chairman

24 November 2021

# Investor Compensation Fund

## Report on review of interim financial information To the Securities and Futures Commission

### Introduction

We have reviewed the interim financial information set out on pages 38 to 43, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2021 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 24 November 2021



## Investor Compensation Fund

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

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>		
Interest income	1,357	5,306
Exchange gain/(loss)	3,278	(79)
	4,635	5,227
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,428	1,447
Auditor's remuneration	55	55
	1,483	1,502
<b>Surplus and total comprehensive income for the quarter</b>	<b>3,152</b>	<b>3,725</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

## Investor Compensation Fund

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

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>			
Interest income		3,031	15,479
Exchange gain/(loss)		1,780	(157)
		4,811	15,322
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	2,852	3,006
Auditor's remuneration		110	110
		2,962	3,116
<b>Surplus and total comprehensive income for the period</b>		<b>1,849</b>	<b>12,206</b>

The notes on pages 42 and 43 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
<b>Current assets</b>			
Interest receivable		616	2,174
Due from Investor Compensation Company Limited		486	242
Fixed deposits with banks		2,447,843	2,444,671
Cash at bank		582	633
		2,449,527	2,447,720
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		232	274
		3,626	3,668
<b>Net current assets</b>		2,445,901	2,444,052
<b>Net assets</b>		2,445,901	2,444,052
Representing:			
<b>Compensation fund</b>		2,445,901	2,444,052

The notes on pages 42 and 43 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	12,206	12,206
Balance at 30 September 2020	994,718	108,923	1,336,829	2,440,470
Balance at 1 April 2021	<b>994,718</b>	<b>108,923</b>	<b>1,340,411</b>	<b>2,444,052</b>
Surplus and total comprehensive income for the period	–	–	1,849	1,849
Balance at 30 September 2021	<b>994,718</b>	<b>108,923</b>	<b>1,342,260</b>	<b>2,445,901</b>

The notes on pages 42 and 43 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		1,849	12,206
Adjustments for:			
Interest income		(3,031)	(15,479)
Exchange (gain)/loss		(1,780)	157
		(2,962)	(3,116)
Increase in amount due from Investor Compensation Company Limited		(244)	(317)
Decrease in creditors and accrued charges		(42)	(36)
Net cash used in operating activities		(3,248)	(3,469)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		527,376	641,554
Interest received		4,589	18,404
Net cash generated from investing activities		531,965	659,958
<b>Net increase in cash and cash equivalents</b>		528,717	656,489
Cash and cash equivalents at the beginning of the six-month period		647,514	1,086,662
<b>Cash and cash equivalents at the end of the six-month period</b>	3	1,176,231	1,743,151

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

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,175,649	1,742,714
Cash at bank	582	437
	1,176,231	1,743,151

The notes on pages 42 and 43 form part of these condensed financial statements.

# Investor Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2021.

### 2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2021, the ICC incurred costs of \$2,852,000 for its operation (for the six months ended 30 September 2020: \$3,006,000) which were reimbursed by the Fund.

### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	582	633
Fixed deposits with banks	2,447,843	2,444,671
Amounts shown in the condensed statement of financial position	2,448,425	2,445,304
Less: Amounts with an original maturity beyond three months	(1,272,194)	(1,797,790)
Cash and cash equivalents in the condensed statement of cash flows	1,176,231	647,514

## Investor Compensation Fund

### Notes to the condensed financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

#### 4. Provision for compensation

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

The provision of compensation as at 30 September 2021 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2021: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision was expected to be paid within one year.

#### 5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2021 and 2020.

#### 6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there are 12 outstanding claims as at the date of this report (10 outstanding claims as at the date of the report of 31 March 2021). The maximum liability in respect of these claims in aggregate is \$1,875,000 (31 March 2021: \$1,575,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

#### 7. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. As at 30 September 2021 and 31 March 2021, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the six months ended 30 September 2021 and 2020, the Fund's exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.



# Unified Exchange Compensation Fund

## 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 2021.

## Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 September 2021, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

## Financial statements

The financial performance of the Fund for the reporting period ended 30 September 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

## Members of the Committee

The members of the Committee during the six months ended 30 September 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)  
Mr Thomas Allan Atkinson  
Dr Lin, James C.  
Mr Yiu Ka Yan Wilfred  
Ms Kwok Hom Siu Sally

## 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

**Rico Leung**  
Chairman

11 November 2021

# Unified Exchange Compensation Fund

## Report on review of interim financial information To the Securities and Futures Commission

### Introduction

We have reviewed the interim financial information set out on pages 47 to 52, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2021 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of 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 interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 11 November 2021

## Unified Exchange Compensation Fund

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

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>		
Interest income	36	189
<b>Expense</b>		
Auditor's remuneration	27	27
<b>Surplus and total comprehensive income for the quarter</b>	<b>9</b>	<b>162</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

## Unified Exchange Compensation Fund

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

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Income</b>			
Interest income		80	571
Recoveries	2	–	3,626
		80	4,197
<b>Expense</b>			
Auditor's remuneration		54	54
<b>Surplus and total comprehensive income for the period</b>		26	4,143

The notes on pages 51 and 52 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

As at 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
<b>Current assets</b>			
Interest receivable		16	27
Fixed deposits with banks		97,579	97,518
Cash at bank		502	336
		98,097	97,881
<b>Current liabilities</b>			
Creditors and accrued charges		10,299	10,309
Relinquished trading rights payable to SEHK	4	1,500	1,500
		11,799	11,809
<b>Net current assets</b>		86,298	86,072
<b>Net assets</b>		86,298	86,072
Representing:			
<b>Compensation fund</b>		86,298	86,072

The notes on pages 51 and 52 form part of these condensed financial statements.

# Unified Exchange Compensation Fund

## Condensed statement of changes in equity

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000		
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045	
Net contributions to SEHK	(350)	-	-	-	-	-	(350)	
Surplus and total comprehensive income for the period	-	-	-	-	4,143	-	4,143	
Balance at 30 September 2020	55,100	353,787	630,000	6,502	35,167	(994,718)	85,838	
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions from SEHK	200	-	-	-	-	-	200	
Surplus and total comprehensive income for the period	-	-	-	-	26	-	26	
Balance at 30 September 2021	54,950	353,787	630,000	6,502	35,777	(994,718)	86,298	

The notes on pages 51 and 52 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		26	4,143
Adjustment for:			
Interest income		(80)	(571)
		(54)	3,572
Decrease in creditors and accrued charges		(10)	(7)
Increase in relinquished trading rights payable to SEHK		–	50
Net cash (used in)/generated from operating activities		(64)	3,615
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		23,877	53,055
Interest received		91	758
Net cash generated from investing activities		23,968	53,813
<b>Cash flows from financing activities</b>			
Net trading rights deposits received from/(refunded to) SEHK		200	(350)
Net cash generated from/(used in) financing activities		200	(350)
<b>Net increase in cash and cash equivalents</b>		<b>24,104</b>	<b>57,078</b>
Cash and cash equivalents at the beginning of the six-month period		52,905	31,999
<b>Cash and cash equivalents at the end of the six-month period</b>	3	<b>77,009</b>	<b>89,077</b>

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

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	76,507	88,807
Cash at bank	502	270
	<b>77,009</b>	<b>89,077</b>

The notes on pages 51 and 52 form part of these condensed financial statements.



# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the interim financial information on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2021.

### 2. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the six months ended 30 September 2021. For the six months ended 30 September 2020, the Fund recognised as recoveries the payment of \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd.

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

As at 30 September 2021, the equity securities received under subrogation amounted to \$130 (as at 31 March 2021: \$150). The balances as at 30 September 2021 and 31 March 2021 are too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

## Unified Exchange Compensation Fund

### Notes to the condensed financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	502	336
Fixed deposits with banks	97,579	97,518
Amounts shown in the condensed statement of financial position	98,081	97,854
Less: Amounts with an original maturity beyond three months	(21,072)	(44,949)
Cash and cash equivalents in the condensed statement of cash flows	77,009	52,905

#### 4. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the six-month period, deposits of \$700,000 in respect of 14 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK. As at 30 September 2021, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (as at 31 March 2021: 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the period was as follows:

	Unaudited Six months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Balance at the beginning of the six-month period	54,750	55,450
Add: new trading rights issued	700	300
Less: relinquished trading rights refunded	(500)	(600)
Adjustment for: net increase in relinquished trading rights payable to SEHK	-	(50)
Balance at the end of the six-month period	54,950	55,100

#### 5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the six months ended 30 September 2021 and 2020.