



Financial Review of the Securities Industry

For the half year ended 30 June 2024



Executive Summary

In the first half of 2024, total net profits of all securities dealers and securities margin financiers¹ in Hong Kong rose 50% to \$19 billion² from \$12.7 billion in the second half of 2023.

Broad-based growth compared to the previous six-month period was recorded across the following income categories:

- net securities commission income (up 14% from \$8 billion to \$9.1 billion);
- net commission income arising from futures and options (F&O) dealing, leveraged foreign exchange trading (LFET) and virtual assets (VA)³ dealing (up 11% from \$1.52 billion to \$1.69 billion);
- income from underwriting and placing of securities (up 55% from \$2.61 billion to \$4.05 billion); and
- net profit on proprietary trading, including securities, F&O contracts, LFET, VA³ and other instruments (up 212% from \$732 million to \$2.29 billion).

The growth was partly offset by a drop in their asset management income (down 14% from \$18.2 billion to \$15.7 billion) and income from advising on corporate finance (down 29% from \$2.4 billion to \$1.7 billion).

The total net profits were bolstered by a reduction in the non-interest overheads (down 9% from \$82.5 billion to \$75.4 billion).

Average daily turnover on the Stock Exchange of Hong Kong Limited (SEHK) increased to \$110.4 billion⁴ during the first half of 2024, up 17% from \$94.7 billion in the previous six months. As of 30 June 2024, the Hang Seng Index closed at 17,719, up 4% from its close at end-2023.

In respect of SEHK participants, brokerages in Categories A, B and C (please see remark 2a in Table 2) reported total net profits of \$3.4 billion, \$4.6 billion and \$2.2 billion respectively. The net profits of all SEHK participants totalled \$10.2 billion, up 68% from the previous six months.

As of 30 June 2024, outstanding margin loans totalled \$167.7 billion, up 13% from 31 December 2023. The 20 largest providers of securities margin financing collectively accounted for 85% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1a in Table 1) was 4 times.

Table 1 below summarises the statistical information and financial position of securities dealers and securities margin financiers. Table 2 summarises the financial performance of the three categories of SEHK participants for the half year ended 30 June 2024.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	30/6/2024	31/12/2023
Total number of securities dealers and securities margin financiers	1,382	1,406
Total number of active cash clients ^{1b}	2,200,818	2,193,229
Total number of active margin clients ^{1b}	2,669,783	2,563,883

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

² Unless otherwise stated, the figures provided in this report are denominated in Hong Kong dollars.

³ Licensed corporations are required to specifically report their commission income and trading profit and loss arising from VA dealing under the new version of financial returns form with effect from 1 December 2023. The total reported commission income and trading profit from VA trading platform operators and brokers dealing in VA was \$77 million for the first half of 2024.

⁴ Source: Hong Kong Exchanges and Clearing Limited.

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

	30/6/2024	31/12/2023
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	571,389	564,507
Amounts receivable from margin clients	167,702	148,038
Amounts receivable from clients and other dealers arising from dealing in securities	240,326	183,166
Proprietary positions	63,347	69,444
Other assets	379,922	366,674
Total assets	1,422,686	1,331,829
Amounts payable to clients and other dealers arising from dealing in securities	712,140	624,749
Total borrowings from financial institutions	24,915	28,753
Short positions held for own account	5,601	2,571
Other liabilities	192,434	194,380
Total shareholders' funds	487,596	481,376
Total liabilities and shareholders' funds	1,422,686	1,331,829
	Six months to 30/6/2024	Six months to 31/12/2023
Profit and loss (\$ million)		
Total value of transactions ^{1d} (+18%)	63,005,061	53,488,398
Net securities commission income (+14%)	9,112	7,995
Net commission income arising from F&O dealing, LFET and VA dealing (+11%)	1,691	1,518
Gross interest income	20,344	20,755
Income from advising on securities and/or futures	4,429	4,435
Income from underwriting and placing of securities (+55%)	4,051	2,605
Income from advising on corporate finance (-29%)	1,691	2,365
Asset management income (-14%)	15,694	18,175
Management fees charged on group companies	26,667	27,937
Other income	15,470	15,460
Net profit on proprietary trading (+212%)	2,285	732
Total income (-1%)	101,434	101,977
Total overheads and interest expense	(82,406)	(89,279)
Net profit (+50%)	19,028	12,698

Remarks:

1a. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis:

<u>As at 30/6/2024</u>	<u>As at 31/12/2023</u>
4 times	4.1 times

1b. Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Cap. 571Q).

1c. Cash in hand and at bank includes \$345,218 million in trust monies held on behalf of clients (31/12/2023: \$340,373 million).

1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Source: Monthly Financial Returns submitted to the Securities and Futures Commission by licensed corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules (Cap. 571N).

Table 2 Financial performance of SEHK participants^{2a} by category for the half year ended 30 June 2024 (\$ million)

	Category A		Category B		Category C		All SEHK participants	
	1H 2024	2H 2023	1H 2024	2H 2023	1H 2024	2H 2023	1H 2024	2H 2023
Total value of transactions ^{2b}	29,482,557	24,392,392	16,553,892	14,466,702	7,349,648	5,798,690	53,386,097	44,657,784
Net securities commission income	1,573	1,490	3,512	2,913	1,980	1,778	7,065	6,181
Net commission income arising from F&O dealing, LFET and VA dealing	707	600	274	281	433	423	1,414	1,304
Gross interest income	3,286	3,358	10,191	10,545	4,499	4,605	17,976	18,508
Income from advising on securities and/or futures	-	-	841	759	251	239	1,092	998
Income from underwriting and placing of securities	7	47	961	815	1,269	732	2,237	1,594
Income from advising on corporate finance	16	94	276	370	108	167	400	631
Asset management income	23	104	82	11	249	292	354	407
Management fees charged on group companies	3,575	3,682	3,069	2,689	1,418	1,611	8,062	7,982
Other income	2,210	1,792	714	743	1,767	1,579	4,691	4,114
Net profit/(loss) on proprietary trading	69	(30)	659	940	100	157	828	1,067
Total income	11,466	11,137	20,579	20,066	12,074	11,583	44,119	42,786
Salary and staff benefits	(2,057)	(2,029)	(3,903)	(3,493)	(3,501)	(3,676)	(9,461)	(9,198)
Other overheads and interest expense	(6,006)	(6,637)	(12,087)	(13,377)	(6,342)	(7,501)	(24,435)	(27,515)
Net profit	3,403	2,471	4,589	3,196	2,231	406	10,223	6,073

Remarks:

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

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

Source: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules (Cap. 571N).

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