



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

Financial Review of the Securities Industry

For the year ended 31 December 2013



Executive Summary

The total net profit of all securities dealers and securities margin financiers¹ for 2013 was \$16.7 billion², up 119% from 2012. The net profit growth was mainly attributable to an increase in net securities commission income, which was led by increase in transaction volume, and other income.

In 2013, the total value of transactions of all securities dealers and securities margin financiers increased by 13%. During the year, the average daily turnover on The Stock Exchange of Hong Kong Ltd (SEHK) stood at \$62.6 billion³, up 16% from 2012. The Hang Seng Index closed at 23,306 on 31 December 2013, 3% higher than its close at 22,656 at the end of December 2012.

In respect of SEHK participants, Category A brokerages reported a net profit of \$3.2 billion, and Category B and C brokerages reported net profits of \$4.0 billion and \$1.8 billion respectively.

At the end of 2013, the total outstanding margin loan was \$85.8 billion, up 46% from the end of 2012. The increase was attributable mainly to the 20 largest securities margin financing providers which collectively accounted for 77% of the industry's total outstanding margin loan. Average collateral coverage^{1c} at the end of 2013 decreased to 3.9 times from 4.2 times in 2012.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the year ended 31 December 2013.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^{1a}		
	31/12/2013	31/12/2012
Total number of securities dealers & securities margin financiers	927	907
Total number of active cash clients ^{1b}	1,079,550	1,045,751
Total number of active margin clients ^{1b}	150,545	139,375
Balance sheet (\$ mn)		
Cash in hand and at bank ^{1d}	286,388	269,912
Amounts receivable from margin clients	85,794	58,812
Amounts receivable from clients and other dealers arising from dealing in securities	146,898	149,865
Proprietary positions	189,300	175,191
Other assets	176,858	169,357
Total assets	885,238	823,137

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, figures given in the report are denominated in Hong Kong dollars.

³ Source of information: Hong Kong Exchanges and Clearing Ltd.



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

	31/12/2013	31/12/2012
Balance sheet (\$ mn) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	366,299	349,854
Total borrowings from financial institutions	67,358	85,348
Short positions held for own account	101,044	64,444
Other liabilities	109,737	97,878
Total shareholders' funds	240,800	225,613
Total liabilities and shareholders' funds (+8%)	885,238	823,137
	2013	2012
Profit and loss (\$ mn)		
Total value of transactions ^{1e}	53,538,483	47,658,360
Net securities commission income	20,096	18,331
Gross interest income	7,666	7,213
Other income ^{1f}	86,107	76,829
Net profit on proprietary trading	8,579	8,050
Total income (+11%)	122,448	110,423
Total overheads and interest expense	105,746	102,783
Net profit for the period (+119%)	16,702	7,640

Remarks:

1a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office are excluded.

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

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

<u>As at 31/12/2013</u>	<u>As at 31/12/2012</u>
3.9 times	4.2 times

1d Cash in hand and at bank include \$144,068 million in trust monies held on behalf of clients (31/12/2012: \$127,378 million).

1e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

1f Other income comprises inter-company management fee income, advisory fees, asset management fees, underwriting fees and corporate finance income.

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.



Table 2 Financial performance of each of the categories^{2a} of SEHK participants for the year ended 31 December 2013 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	2013	2012	2013	2012	2013	2012	2013	2012
Total value of transactions ^{2b}	19,649,116	18,340,487	13,176,278	10,581,107	6,315,052	4,819,012	39,140,446	33,740,606
Net securities commission income	4,281	4,974	6,623	5,830	4,251	3,306	15,155	14,110
Gross interest income	746	765	2,928	2,178	2,531	2,327	6,205	5,270
Other income	11,249	12,164	6,591	4,090	6,307	4,280	24,147	20,534
Net profit on proprietary trading	167	222	173	142	914	936	1,254	1,300
Total income	16,443	18,125	16,315	12,240	14,003	10,849	46,761	41,214
Salary and staff benefits	(6,061)	(6,459)	(4,683)	(5,066)	(5,887)	(4,362)	(16,631)	(15,887)
Other overheads and interest expense	(7,150)	(8,289)	(7,601)	(6,712)	(6,358)	(6,132)	(21,109)	(21,133)
Net profit for the period	3,232	3,377	4,031	462	1,758	355	9,021	4,194

Remarks:

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

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

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

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