



**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 2018

Executive Summary

The total net profits of all securities dealers and securities margin financiers¹ for 2018 was \$38.3 billion², up 9% from 2017. The growth was mainly attributable to increases in gross interest income, net profit on proprietary trading and other income.

In 2018, the total value of transactions of all securities dealers and securities margin financiers increased by 21%. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$107.4 billion³, up 22% from 2017. As of the end of 2018, the Hang Seng Index closed at 25,845, 14% lower than its close at the end of the previous year.

In respect of SEHK participants, brokerages in Categories A, B and C reported total net profits of \$5.6 billion, \$7.9 billion and \$4 billion respectively.

At the end of 2018, outstanding margin loans totalled \$180.8 billion, 12% lower than at the end of 2017. The 20 largest providers of securities margin financing collectively accounted for 75% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1a in Table 1) was 3.7 times at the end of 2018.

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 2018.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	31/12/2018	31/12/2017
Total number of securities dealers and securities margin financiers	1,312	1,222
Total number of active cash clients ^{1b}	1,410,319	1,320,332
Total number of active margin clients ^{1b}	463,970	337,599
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	515,715	515,547
Amounts receivable from margin clients	180,800	205,977
Amounts receivable from clients and other dealers arising from dealing in securities	158,495	164,226
Proprietary positions	89,096	139,502
Other assets	282,426	312,152
Total assets	1,226,532	1,337,404

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 provided in this report are denominated in Hong Kong dollars.

³ Source: Hong Kong Exchanges and Clearing Limited.

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

	31/12/2018	31/12/2017
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	531,638	568,641
Total borrowings from financial institutions	111,396	170,411
Short positions held for own account	38,285	62,161
Other liabilities	148,483	164,033
Total shareholders' funds	396,730	372,158
Total liabilities and shareholders' funds	1,226,532	1,337,404
	2018	2017
Profit and loss (\$ million)		
Total value of transactions ^{1d} (+21%)	89,678,389	73,901,390
Net securities commission income	24,197	23,079
Gross interest income	22,471	17,259
Other income ^{1e}	114,637	106,863 ^{1f}
Net profit on proprietary trading	14,783	12,273 ^{1f}
Total income (+10%)	176,088	159,474^{1f}
Total overheads and interest expense	(137,757)	(124,268) ^{1f}
Net profit (+9%)	38,331	35,206

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 31/12/2018</u>	<u>As at 31/12/2017</u>
3.7 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.

1c. Cash in hand and at bank includes \$285,686 million in trust monies held on behalf of clients (31/12/2017: \$286,461 million).

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

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

1f. 2017 figures are restated due to a revision of the figures for some licensed corporations.

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 SEHK participants^{2a} by category for the year ended 31 December 2018 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	2018	2017	2018	2017	2018	2017	2018	2017
Total value of transactions ^{2b}	30,470,389	23,406,408	30,564,717	24,813,061	13,524,561	11,720,402 ^{2c}	74,559,667	59,939,871 ^{2c}
Net securities commission income	4,793	4,249	8,883	7,864	5,967	5,822	19,643	17,935
Gross interest income	2,380	2,323	7,462	5,582	9,107	7,560	18,949	15,465
Other income	11,964	7,709	9,742	10,750	10,436	10,364 ^{2c}	32,142	28,823 ^{2c}
Net profit/(loss) on proprietary trading	495	647 ^{2c}	491	327	(346)	1,281 ^{2c}	640	2,255 ^{2c}
Total income	19,632	14,928^{2c}	26,578	24,523	25,164	25,027	71,374	64,478^{2c}
Salary and staff benefits	(4,303)	(3,542)	(5,550)	(6,191)	(9,166)	(8,223)	(19,019)	(17,956)
Other overheads and interest expense	(9,689)	(7,957) ^{2c}	(13,133)	(10,957)	(12,011)	(10,913)	(34,833)	(29,827) ^{2c}
Net profit	5,640	3,429	7,895	7,375	3,987	5,891	17,522	16,695

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.
- 2c. 2017 figures are restated due to a revision of the figures for some licensed corporations.

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: 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.