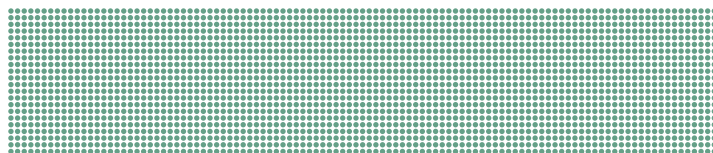
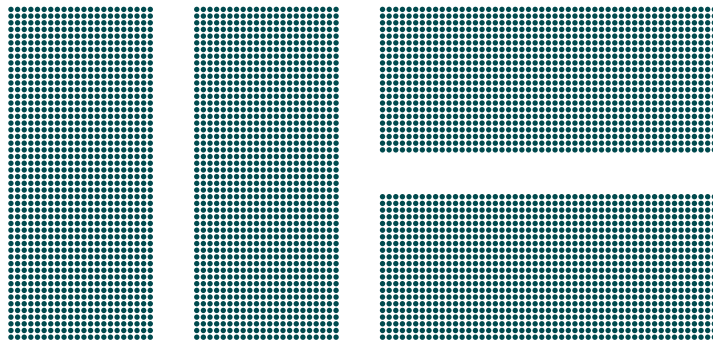
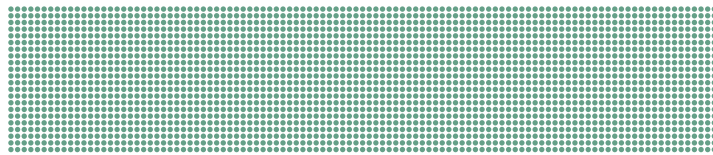




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Regulation for Quality Markets

Annual Report
2015-16

Our logo

The SFC logo symbolises our mission of creating a fair and level playing field. Lines between the blocks form the Chinese character “正”, which means fairness and justice. The square signifies a solid legal framework and the parallel bars represent equal treatment.

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Message from Chairman and CEO



It is more critical than ever for Hong Kong to have a strong regulatory regime to uphold investor protection and quality markets.

Carlson Tong
Chairman

Our overriding commitment is to promote the soundness and competitiveness of our financial markets. Core to this objective is the recognition that regulation is a cornerstone of Hong Kong's position as a leading international financial centre.

We must also recognise that Hong Kong's role is being transformed by greater market connectivity with mainland China as well as the globalisation of the financial services industry. More than ever, Hong Kong is a major hub for two-way capital flows between the Mainland and global capital markets, and further capital market integration is clearly the future.

These developments have major implications for the SFC. We will nevertheless stay focused on upholding high standards of regulation throughout, ensuring that we maintain our core advantage notwithstanding rapidly changing market conditions.

Connectivity and cooperation

Closer international and regional cooperation is essential in the context of today's globally-connected markets. Increasingly, what happens in other jurisdictions will have an impact on Hong Kong. The coming year will see the SFC entering into more collaborative agreements with counterparts in other jurisdictions covering a wide spectrum of our regulatory work.

New cross-boundary schemes such as Stock Connect and Mainland-Hong Kong Mutual Recognition of Funds (MRF) are positive for market development, but bring with them challenges as well as opportunities. From the beginning, we made our position absolutely clear that greater market connectivity must be accompanied by a matching degree of regulatory collaboration between the two jurisdictions. So far, the new cooperative arrangements put in place to support these schemes have functioned well. We therefore feel confident about expanding the breadth and depth of cross-border arrangements.

Message from Chairman and CEO

An important agenda for the SFC is to ensure greater market connectivity is accompanied by a matching degree of regulatory collaboration.

Ashley Alder
CEO



Looking to the future, greater market integration lays the groundwork for Hong Kong to further develop as a centre for the management of the more complex China risks, for example by developing derivatives, futures and other instruments which help manage direct and indirect financial or market exposure to Mainland investments. This is a natural evolution of Hong Kong's traditional role as a place where the world interacts with a rapidly changing China, and is symbiotic with the development of the Mainland's own financial markets.

Hong Kong's unique status

Hong Kong occupies a unique position compared to other international financial centres and our regulation must reflect this reality. In our view, recent market volatility provided an opportunity to demonstrate the resilience and maturity of our markets and equally the need to make sure our regulatory regime can operate well in an unpredictable market environment.

Acknowledging the rapid pace of change and innovation in the financial markets, we keep an open mind to new proposals and reforms that promote market development provided that they are consistent with the protection of investor interests. For example, we recently introduced a new initiative to foster closer communication with financial technology businesses to keep abreast of this rapidly developing sector, and in this context we consider both market development and investor protection issues when evaluating innovative products and services.

Understandably, the need to maintain world-class regulatory standards can at times conflict with short-term business ambitions. At the SFC, our priority is to ensure that market development is sustainable in the longer run and rests on sound regulatory principles. It is more important than ever to ensure that the SFC carries out its work in an objective, fair and independent manner, working without fear or favour, to maintain investor protection and quality markets.

Message from Chairman and CEO

Our priorities

The right regulation

The listing regulatory regime has attracted increasing attention. We take our functions under the current regime very seriously and we are now undertaking a joint review with Hong Kong Exchanges and Clearing Limited (HKEX) to enhance the way in which listing regulation is carried out by HKEX and the SFC.

Specifically, we are seeking ways to simplify and streamline the listing regulatory structure, establish clear accountability for decisions made under the Listing Rules and ensure that policy development is proactive, responding quickly to rapidly changing markets and risks.

Separately, in order to keep on top of potential risks in other areas of HKEX's operations, we will work with HKEX on in-depth regular on-site reviews of its markets and clearing businesses.

Promoting Hong Kong as a premier global asset management centre is another key area and we have major initiatives in train to achieve this. Most significantly, we are developing a comprehensive asset management strategy for Hong Kong. To foster market development, we plan to expand mutual recognition of fund authorizations to other jurisdictions to expand cross-border access and, in the longer term, to develop a joint fund standard with the Mainland. Following the recent improvement to the fund authorization process, we will explore measures to diversify the narrow fund distribution channels via better market infrastructure, including different types of distribution platforms.

Our asset management strategy will also incorporate regulatory enhancements starting with a review of the conduct expectations of asset managers. This seeks to ensure that potential conflicts of interest are handled appropriately, that fund assets are kept safely and that adequate liquidity risk management practices are in place. We also continue to work actively to develop new products, and as part of this we have been closely involved in the introduction of the legislative framework for open-ended fund companies.

In our joint message last year we highlighted the need for comprehensive oversight of intermediaries. Achieving a proper corporate culture is a top-down process and we intend to further articulate our requirements about senior management responsibility. In the near term, we will also be conducting a major exercise to give detailed guidance about the way in which suitability and know-your-client requirements operate in different contexts, including in the automated delivery of products and advice via the internet.

At the same time, we are also proceeding with a number of other important regulatory enhancements, including the implementation of the new over-the-counter derivatives regime and a paperless securities market.

Message from Chairman and CEO

The right approach

Increasing global integration has made markets far larger, broader and more complex. We remain vigilant in monitoring markets to keep on top of risks and vulnerabilities. We continue to build on our risk assessment initiatives to detect systemic risks and to target our work in the right areas.

Twenty-first century markets demand better reciprocal enforcement and surveillance arrangements. We are stepping up our efforts to properly track and deal with suspected misconduct by intensifying appropriate information sharing and cooperation in investigations with our Mainland and overseas counterparts. Locally, we will explore the feasibility of identifying market orders directly at a client level rather than at a broker level to better detect potential wrongdoing.

We will continue to be unrelenting in the pursuit of remedial as well as punitive outcomes in our enforcement work and to seek more effective means to protect investors. We regularly review the effectiveness of our market surveillance capability to ensure that it captures shifting risks in rapidly moving markets. We remain dedicated to maintaining our solid track record of impartial and uncompromising enforcement work.

We should be explicit that while we look at developments abroad when introducing new proposals, it would be irresponsible to import blindly overseas regulatory approaches to Hong Kong without proper consideration. Correspondingly, we will further intensify our participation in global regulatory initiatives through the International Organization of Securities Commissions, the Financial Stability Board and other organisations to ensure the views of Hong Kong and the region are taken into account in international policy making.

The way forward

Market conditions over the past year have been fast-moving, dynamic and challenging. The issues we deal with as a regulator are complex, and there are no simple solutions. Having said that, the bottom line is that a healthy financial system and world-class regulatory standards provide a solid foundation for maintaining Hong Kong's status as a leading international financial hub.

We are, as ever, grateful to have the support of the Board and our dedicated staff who continue to demonstrate high levels of commitment, hard work and professionalism.

Carlson Tong
Chairman

Ashley Alder
CEO

SFC at a Glance

Mission statement

As a financial regulator in an international financial centre, the Securities and Futures Commission (SFC) strives to strengthen and protect the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry.

The SFC was established in May 1989 following the enactment of the Securities and Futures Commission Ordinance, which created a regulatory framework to address local market needs. The Securities and Futures Ordinance (SFO) came into effect on 1 April 2003, consolidating and modernising the 10 ordinances which previously regulated Hong Kong's securities and futures markets.

Mandates

Our work is defined and governed by the SFO, which sets out our powers, roles and responsibilities. We have six statutory objectives:

- Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry
- Help the public understand the workings of the industry
- Provide protection for the investing public
- Minimise crime and misconduct in the industry
- Reduce systemic risks in the industry
- Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. As a result of this change, we delegated our education function to a wholly-owned subsidiary, the Investor Education Centre, which has a broad mandate to provide financial consumer education and information. Another wholly-owned subsidiary, the Investor Compensation Company Limited, was established in 2003 to manage and administer claims against the Investor Compensation Fund.

Regulatory functions

Our work can be divided into five areas:

Intermediaries – Our licensing regime sets standards for industry practitioners seeking to be, and to remain, licensed. We supervise licensed corporations, including investment banks, stock brokers, futures dealers, leveraged forex traders, fund managers, investment advisers and credit rating agencies, with a focus on both business conduct and financial soundness.

Investment products – We perform gate-keeping functions in authorizing investment products offered to the public and monitoring compliance with disclosure and other requirements. We also work to facilitate market growth and product innovation, particularly in supporting the development of Hong Kong as an asset management hub and a premier offshore renminbi centre.

Listings and takeovers – We oversee the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK) as well as public companies' mergers, takeovers and share buy-backs. We monitor corporate disclosures under the statutory inside information disclosure regime and vet listing applications alongside SEHK under the dual filing regime. We also grant approval for the creation of new listed products and enhance listing rules. In addition, we perform risk-based reviews of particular companies and broader thematic reviews of activities which may signal corporate misconduct.

Market infrastructure and trading – We conduct day-to-day supervision and monitoring of exchanges and clearing houses, share registrars and authorized automated trading services providers. In addition, we formulate policies to facilitate the development of market infrastructure and to build links with cross-border and international markets. We also collect quantitative information about the financial markets as a means to help reduce systemic risks.

Enforcement – Through our surveillance, investigative and disciplinary work, we combat misconduct and malpractice in the securities and futures markets. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders. We work with other law enforcement agencies and overseas regulatory bodies on investigations where required.

Key figures for 2015-16

41,415
SFC licensees as of 31 March 2016

2,704
authorized collective investment
schemes as of 31 March 2016

Reviewed **218** listing
applications under the
dual filing regime

Raised **142** enquiries with
listed companies

Handled **435** takeovers
and share buy-backs transactions

Conducted **306** risk-based
on-site inspections

Made **7,997** requests for
trading records from intermediaries

Commenced **515**
investigations

Disciplined **41** licensees

Imposed fines of
\$87.1 million

38 authorized automated
trading services as of 31 March 2016

Handled **2,056**
complaints against intermediaries
and market activities

Direction and Outlook

Our principal objective in exercising our powers under the Securities and Futures Ordinance (SFO) is to ensure quality markets which are safe, fair and efficient. We undertake regulatory enhancements to foster market development without compromising investor protection. In our day-to-day operations, we aim to promote efficiency and make optimal use of our resources as we adapt to the increasing complexity of a rapidly changing marketplace.

Variable market conditions

In periods of economic uncertainty and fluctuating market conditions, it is vital that we pay close attention to the external environment and be proactive in addressing any risks and challenges which may arise. During the past year, dramatic volatility in Mainland markets, coupled with the regulatory response to the market turmoil, triggered a series of debates about policy priorities in the region and around the globe.

At the same time, the opportunities presented by market connectivity are now far broader. Hong Kong's role as a major hub for two-way capital flows between the Mainland and global markets was further strengthened by the launch of Stock Connect and Mainland-Hong Kong Mutual Recognition of Funds (MRF). As a regulator, we worked hard to ensure that these link-ups were matched by the right level and intensity of mutual regulatory cooperation and information flow.

We have also established additional arrangements with authorities in other jurisdictions which provide for closer cooperation and exchange of information. And we remain committed to taking an active part in ensuring the views of Hong Kong and of the Asian region are effectively pursued in the main global regulatory decision-making bodies.

The year saw much discussion about Hong Kong's market for publicly listed companies, including weighted voting rights, shell companies, backdoor listings and the role of the Growth Enterprise Market (GEM). One response has been a recognition of the need for a review of the way listing regulation is carried out to ensure that the listing rules and their administration are responsive to changing risks and opportunities and that lines of accountability are clear.

To navigate a turbulent world, we must remain vigilant in our surveillance and monitoring work while upholding three principles: protecting investors, maintaining a fair and orderly market and reducing systemic risk. Above all, we recognise that one unique advantage which is critical to Hong Kong's success is centred on our strong system of rule of law and financial regulation. It is more important than ever to cultivate and protect Hong Kong's competitive edge by maintaining a robust and resilient regulatory system.

Looking forward

Our current initiatives focus on protecting the integrity of our markets and the interests of investors, ensuring healthy market development while addressing emerging threats and risks.

Listing matters

We are vigilant in promoting a fair and orderly market when overseeing listings and takeovers matters in Hong Kong. We facilitate fair treatment of investors in takeovers, mergers, privatisations and share buy-backs and we promote regulatory changes which encourage market development and provide for market efficiency, competitiveness and orderliness.

We are working closely with The Stock Exchange of Hong Kong Limited on a holistic review of major areas of listing policy concerning corporate conduct. As part of this exercise we are also conducting an overall review of GEM. We are in the process of gathering statistics and information to ascertain relevant trends in these areas. Based on the findings of the review we will assess whether enhancements need to be made to the listing regulatory regime.



Direction and Outlook

We monitor announcements issued by Hong Kong-listed companies on a daily basis to ensure their compliance with the SFO, which provides that inside information must be disclosed in a manner that provides for equal, timely and effective access by the public. We raise enquiries with listed companies to explore potential disclosure and corporate governance failures. In particular, we concentrate on circumstances suggesting events that may be detrimental to shareholders, including late, inadequate or false disclosures, overvalued acquisitions, misstatements in company financials, or misappropriation of funds. We also closely monitor events relating to highly dilutive fund-raising transactions. Our regular *Corporate Regulation Newsletter* is an important platform to communicate with the industry about specific issues related to announcements and disclosure of information for investors.

The new Principles of Responsible Ownership aim to provide guidance on how investors should fulfil their ownership responsibilities for investments in Hong Kong-listed companies. By encouraging institutional investors to adopt them on a voluntary basis, we hope to further strengthen the corporate governance culture in Hong Kong.

Asset management

The MRF scheme forms a core part of the strategy to enhance Hong Kong as an international asset management centre and preferred domicile of both public and private funds. We worked closely with the China Securities Regulatory Commission (CSRC) on the implementation of the scheme and to ensure its smooth operation. We will further explore cooperation arrangements in asset management with other overseas authorities.

To keep pace with international regulatory developments, we are preparing a public consultation on enhancements to the regulation of the asset management industry, including the conduct of asset managers and intermediaries. Topics under review include commissions and independent advice, safe custody of fund assets and liquidity management. We are also reviewing the existing regulatory requirements under the Code on Unit Trusts and Mutual Funds.



Widening Hong Kong's fund distribution channels is another priority. We are in discussions with the Government and Hong Kong Exchanges and Clearing Limited (HKEX) on creating an exchange-based platform for fund distribution. We will also review the suitability requirement, including in the context of exchange-based and online fund distribution platforms, and provide further guidance to the industry. These initiatives aim at lowering costs and broadening choice for investors.

In light of the increasing focus internationally on safe custody of fund assets, we are collaborating with the Hong Kong Monetary Authority on supervising trustees and custodians of SFC-authorized funds which are banks or their subsidiaries in Hong Kong.

Products

We regulate and authorize investment products offered to the public and monitor their compliance with a view to protecting investors' interests. In a fast-moving marketplace, we facilitate market growth and product innovation by promoting and supporting policy initiatives which encourage a broader range of investment options.

The introduction of the open-ended fund company regulatory framework in Hong Kong will provide an alternative legal structure for public and private funds. We are also monitoring the operation of leveraged and inverse products listed in Hong Kong and are working with the Mandatory Provident Fund Schemes Authority on matters related to the introduction of a default investment strategy.

Direction and Outlook

Markets

In collaboration with HKEX, we are addressing regulatory issues arising from its new strategic plan and are proceeding with the implementation of our enhanced supervisory approach to HKEX, including conducting regular on-site inspections of HKEX's non-listing related operations and agreeing financial resources requirements for HKEX's regulated subsidiaries in Hong Kong.

In parallel, we are working with HKEX on a review of the current clearing and settlement arrangements. One objective is to identify changes that may be needed to implement an uncertificated securities market, where legal title to securities may be held and transferred electronically. A formal consultation on the proposed changes will be conducted if necessary.

The operation of Shanghai-Hong Kong Stock Connect remained smooth more than one year after its launch. We closely monitor the programme for conduct and operational risks and to ensure market orderliness. We are also working with the CSRC to prepare for the upcoming launch of Shenzhen-Hong Kong Stock Connect.

The global financial crisis in 2008 exposed the weaknesses of the largely unregulated and essentially opaque over-the-counter (OTC) derivatives market with its highly complex products. A new OTC derivatives regulatory framework is being implemented in phases in Hong Kong to fulfil international commitments to reform the market. We are working with the industry to introduce mandatory clearing, which requires certain standardised products be cleared through designated central counterparties with effect from 1 September 2016.

In support of the new OTC derivatives regime, we proposed rule changes relating to capital and other prudential requirements for licensed corporations engaging in OTC derivatives activities. We are now reviewing the comments received with a view to concluding later this year.

We are also closely following the development of emerging technologies and their associated opportunities and risks. Specifically, we communicate with the financial technology (Fintech) community through the new Fintech Contact Point and other initiatives.

Intermediaries

The number of corporate and individual licensees has grown steadily in recent years. Licensed firms and individuals now engage in more regulated activities and the number of licensed corporations are now in excess of 2,200.

Increasingly complex markets require us to remain focused on our role as the gatekeeper and standard setter for individuals and corporations seeking to participate in Hong Kong's securities and futures markets. Our approach to supervising intermediaries aims at early detection, containment and management of risks with an emphasis on business conduct and financial soundness concerns. Our supervisory actions combine onsite reviews and offsite monitoring.

To allow for better supervision of globally-active firms, we work closely with Hong Kong and international regulatory counterparts on enhancing cooperation and coordination in supervising firms regulated by multiple authorities. A 2015 legislative amendment improved our ability to interact with foreign regulators on a reciprocal basis as we can now obtain information from licensed corporations for the purpose of providing supervisory assistance to regulators outside Hong Kong upon request, subject to certain safeguards and conditions. In addition, we are seeking closer regulatory collaboration with a number of our overseas counterparts through the establishment of memoranda of understanding for supervisory cooperation.



Direction and Outlook

Enforcement

We use the full spectrum of sanctions and remedies to combat financial crime and protect investors' interests. Through criminal prosecutions, proceedings in the Market Misconduct Tribunal (MMT), civil proceedings in the Court of First Instance and disciplinary actions against intermediaries, we aim to punish wrongdoers, deter them from reoffending, warn market participants against imitating similar misbehaviour and ensure the consequences of wrongdoing are remedied.

The cases we are investigating are now more complex and the trend of complicated cases in the High Court, the MMT and the Securities and Futures Appeals Tribunal is also likely to continue. More cases involve international cooperation – this year we saw a significant increase in the number of inquiries and investigations – and we expect this trend to continue as well.

In a major step forward, we formalised our cooperation with the Department of Justice through a memorandum of understanding signed in March 2016 which recognised the need for full collaboration and proper communication in the prosecution of corporate and financial services misconduct.

We are also exploring the feasibility of identifying orders in the stock and futures markets directly at a client level rather than at a broker level to enhance our market surveillance efforts and help detect potential misconduct more efficiently. We plan to launch a public consultation on the proposals later this year.

Investor education

Extensive investor education is essential to foster a healthy financial market. The Investor Education Centre (IEC), an SFC-funded subsidiary, provides comprehensive financial information, tools and education resources to help individuals manage their money wisely. Through the Chin Family, a new educational platform launched in April 2016, the IEC aims to help the public plan and manage their finances by making financial learning simple and enjoyable.

Regulatory collaboration

As the Hong Kong and Mainland markets continue to integrate, we will seek closer and more effective communication with our Mainland counterparts and regular high-level engagement with Mainland authorities and government agencies. Our newly-formed Mainland Affairs unit has already strengthened this vital relationship. We are also working to establish more effective channels for working-level cooperation.

We seek to strengthen our influence on global policy making and reinforce Hong Kong's profile as an international financial centre. We play an active role in the International Organization of Securities Commissions (IOSCO). In May 2016, Mr Ashley Alder, our Chief Executive Officer, was appointed as the Chairman of the IOSCO Board, the organisation's governing and standard-setting body, after serving as the Vice-Chairman since December 2015.

Mr Alder also leads the IOSCO Task Force on Market Conduct which is developing a toolkit aimed at preventing market misconduct in wholesale markets (where the Libor and foreign exchange scandals took place), enhancing adherence to standards of conduct and helping regulators enhance market conduct regimes. We will host the IOSCO Board Meeting in October 2016 and the meeting of the Committee on Enforcement and the Exchange of Information in November 2016.

We also take part in the work of the Financial Stability Board (FSB), working closely with the Government, the Hong Kong Monetary Authority and the Office of the Commissioner of Insurance. We are a member of the FSB's Standing Committee on Standards Implementation and Regional Consultative Group for Asia, contributing to the monitoring of global financial reforms and providing policy feedback from the Hong Kong perspective, as well as of FSB working groups including the OTC Derivatives Working Group and its workstream on other shadow banking entities. As the Chairman of the IOSCO Board, Mr Alder sits on the FSB's Plenary and Steering Committee.

Corporate Governance

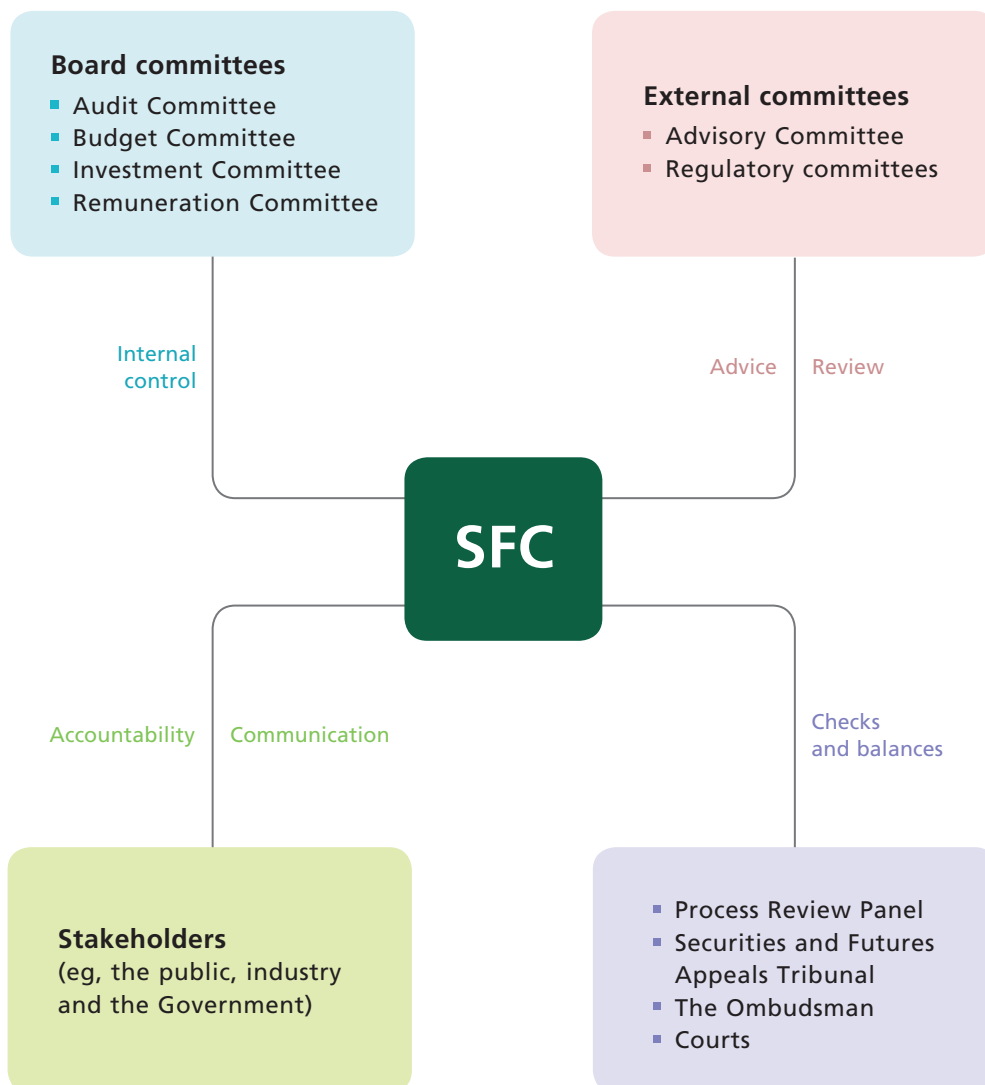


We strive to promote transparency, accountability and integrity. Sound corporate governance is essential to ensure the proper and effective discharge of our regulatory functions.

Corporate Governance

Our corporate governance framework incorporates a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances. This framework is also consistent with best governance practices for public bodies such as those set out in *Corporate Governance for Public Bodies – A Basic Framework*, published by the Hong Kong Institute of Certified Public Accountants.

Governance framework



Board members



Carlson Tong
Chairman



Albert Au
Non-Executive Director



Ashley Alder
Chief Executive Officer



Leonard Cheng
Non-Executive Director



Brian Ho
Executive Director,
Corporate Finance



Teresa Ko
Non-Executive Director



Lester Huang
Non-Executive Director



Julia Leung
Executive Director,
Investment Products



Keith Lui
Executive Director,
Supervision of Markets



James Shipton
Executive Director,
Intermediaries



Mary Ma
Non-Executive Director



Kelvin Wong
Non-Executive Director



William Wong, SC
Non-Executive Director

Note: During the year, Mr Lawrence Lee served on the Board as Non-Executive Director until 14 November 2015; Mr Wong Kai Man served on the Board as Non-Executive Director until 25 May 2015; and Mr Mark Steward served on the Board as Executive Director until 24 September 2015.

Board

By supervising and directing our work, the Board plays an important role in ensuring that we perform our regulatory functions effectively. The Board sets the SFC's overall direction and policies and provides strategic guidance to senior management. It also oversees the work of the Executive Committee (ExCo).

Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of the Board. Board members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority. The terms and conditions of Board members' appointments are determined by the Government. Their emoluments for the year are disclosed on page 94.

As of 31 March 2016, the Board comprised five¹ Executive Directors (EDs), including the Chief Executive Officer (CEO); and eight Non-Executive Directors (NEDs), including the Chairman.

Coming from various professional backgrounds including accounting, business, law and academia, NEDs bring to the Board a wide range of experience and expertise as well as a variety of perspectives and independent points of view.

See pages 25-29 for the full list of Board members and their biographies.

Chairman and CEO

The major responsibilities of the Chairman and CEO include:

Chairman

- Leading the Board in setting the SFC's policies, strategy and overall direction
- Monitoring the executive team's performance
- Counselling the CEO on how the organisation is run

CEO

- Assuming executive responsibility for day-to-day operations of the SFC
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board
- Assigning responsibilities to senior management and supervising their work
- Reporting regularly to the Board

Executive Directors and Non-Executive Directors

EDs and NEDs play different but complementary roles. EDs are responsible for the daily operations of the SFC and each has executive duties in specific areas including corporate finance, enforcement, intermediaries, market operators, and investment products. NEDs provide guidance on and monitor the performance of the organisation's functions.

Governance practices

We endeavour to maintain clear and proper processes to facilitate the working of the Board and uphold high standards of corporate governance. We have the following practices in place to achieve this:

- Arrange for the Board to hold monthly meetings and quarterly policy meetings as well as special and off-site meetings
- Provide Board members with relevant information before meetings to enable thorough consideration of agenda items
- Circulate draft minutes of the Board meetings to members for comment
- Furnish Board members with information regarding our operations and financial condition on a monthly basis
- Keep the Board apprised of our policies and operations as appropriate
- Require Board members to observe conflicts policies

¹ Mr Mark Steward stepped down as ED, Enforcement, in September 2015.

Corporate Governance

In addition, the Board conducts a self-assessment exercise from time to time to improve its effectiveness. The exercise assesses basic board responsibilities and the performance of individual members. Assessment results are reported to the Board on an anonymous basis.

The Commission Secretariat is tasked with supporting the Board and senior management, assisting them in

dealing with organisation-wide policies and initiatives and ensuring that board proceedings follow relevant policies and procedures. The Secretariat also liaises with Board members, organises their meetings, and handles communications with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies.

New Non-Executive Directors

Two NEDs joined our Board during the year. Mr Albert Au, a veteran accountant, was appointed to the Board in May 2015, while Mr Lester Huang, a solicitor and mediator, was appointed in November 2015. They offered some thoughts about their new roles.

Speaking up for stakeholders

Both Mr Au and Mr Huang previously led membership organisations for their respective professions.

Mr Au, who was formerly President of the Hong Kong Institute of Certified Public Accountants, noted that a background in auditing is very useful in his new role at the SFC, helping him flag areas of concern where listed companies and licensed corporations may get into trouble, including account manipulation, internal control deficiencies and corporate misgovernance.

I try to see things from the perspective of the licensed corporations and listed companies regulated by the SFC and to understand how regulation will affect them.

Albert Au



Mr Huang, the former President of the Law Society of Hong Kong, has dealt with the SFC on a range of issues during his career. Having a legal background is an advantage when serving as an NED, he emphasised, and helps him understand the facts at hand.

We need greater cooperation, deeper knowledge and mutual understanding to better appreciate the many common interests we have with the Mainland.

Lester Huang



Serving the public interest

Mr Au stressed that the most important functions of the Board are to serve the public and protect the interests of investors as well as to ensure orderly markets and reduce systemic risks. Ensuring that the Board considers the impact of regulation on stakeholders is particularly important.

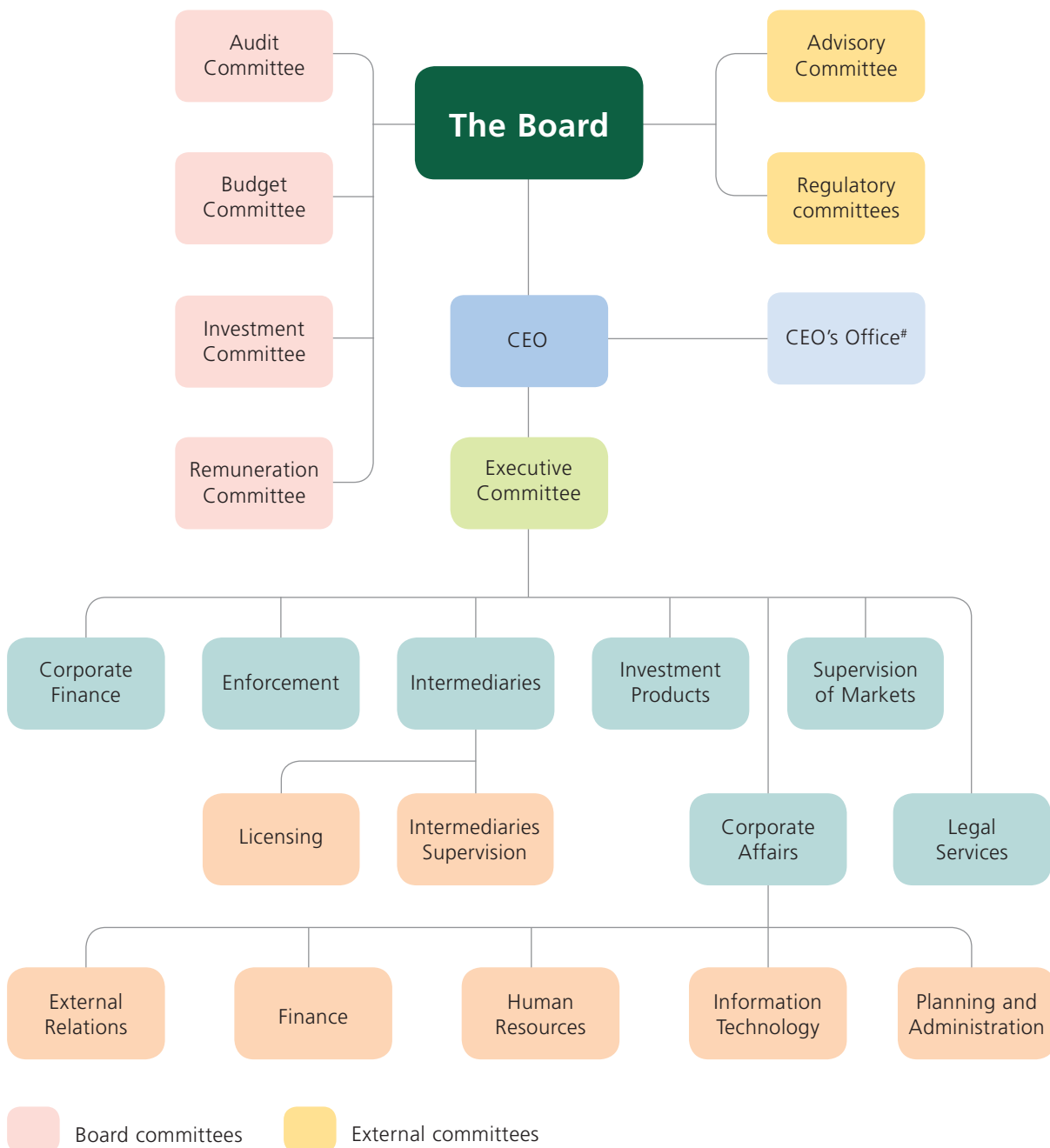
Mr Huang agreed, adding that he hopes to contribute a holistic view that takes into account what is in Hong Kong's best interest. The challenge facing the SFC is to maintain and enhance Hong Kong's competitive edge as an international financial centre. Two particular areas to focus on are diversifying into new products and integrating further with Mainland markets, he concluded.

Corporate Governance

Organisational structure

To allow for greater specialisation and a more proactive supervisory focus around key segments of the market, the licensing and supervisory functions of the Intermediaries Division were reorganised during the second half of 2015. As a result, specific licensing and supervisory teams now work together more closely to cover largely the same firms, businesses and industry segments.

Separately, we established a dedicated Mainland Affairs Unit in July 2015 to strengthen our interaction and engagement with Mainland authorities and to coordinate and consolidate the resources of different divisions on strategic and operational matters relating to the Mainland.



CEO's Office includes five units, namely the Commission Secretariat, International Affairs, Mainland Affairs, Press Office and Risk and Strategy.

Corporate Governance

Board appointments

During the year, Mr Carlson Tong, SBS, JP, was re-appointed as Chairman for a three-year term effective 20 October 2015.

Mr Brian Ho, ED, Corporate Finance, and Mr Keith Lui, ED, Supervision of Markets, were each reappointed for a three-year term effective from 28 August 2015.

Mr Thomas Atkinson was appointed as ED, Enforcement for a three-year term effective from 3 May 2016.

Two NEDs were appointed for two-year terms: Mr Albert Au Siu-cheung, BBS (from 26 May 2015) and Mr Lester Huang, JP (from 15 November 2015). Ms Mary Ma was re-appointed as NED for a two-year term effective from 15 November 2015.

Mr Mark Steward stepped down as ED². Mr Wong Kai Man and Mr Lawrence Lee stepped down as NEDs.

SFC committees

Board committees

We have four board committees. Each is chaired by an NED and focuses on clearly-defined areas of the SFC's operations. They help to ensure that the SFC is accountable and transparent.

Committee	Membership	Responsibilities	Number of meetings
Audit Committee	Five NEDs	<ul style="list-style-type: none"> Reviews annual financial statements Recommends the appointment of external auditors Coordinates the scope of the external audit and reviews audit findings Examines management procedures to ensure effective financial and internal controls 	Two
Budget Committee	Four NEDs and two EDs [#]	<ul style="list-style-type: none"> Examines and approves the parameters and bases used in the annual budget Conducts the mid-year budget review Reviews the annual budget and makes recommendations to the Board 	One
Investment Committee	Four NEDs, three EDs and a Senior Director [#]	<ul style="list-style-type: none"> Advises on the SFC's fund management policies, strategies and investment guidelines Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines Advises on investment risk management and asset allocation and monitors the performance of investments 	Four
Remuneration Committee	Eight NEDs	<ul style="list-style-type: none"> Reviews the structure and level of staff remuneration Reviews trends in remuneration packages and recommends adjustments Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment 	One

[#] In a non-voting capacity.

² Ms Maureen Garrett was appointed as Interim Head, Enforcement during the interim period until Mr Atkinson's appointment took effect.

External committees

Set up under the SFO, external committees are made up of a large number of outside members who reflect the diverse interests and concerns of market participants. They play an important role in the governance of the SFC.

The Advisory Committee offers insight and advice on policy matters related to the performance of the SFC's functions. The majority of members are external representatives appointed by the Financial Secretary under authority delegated by the HKSAR Chief Executive. The Committee is headed by the Chairman and includes the CEO and not more than two other EDs.

Each regulatory committee specialises in a particular area such as market supervision, investment products, shareholders' rights and interests, listings, takeovers and mergers, or the compensation fund. Appointed by the Board, members include NEDs, EDs and representatives largely from the industry. There were 15 regulatory committees as at the end of March 2016.

The roles and functions of the external committees are detailed on pages 146-154.

Executive Committee

As the highest executive body within the organisation, ExCo performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. The CEO-chaired ExCo includes the other EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director (Corporate Affairs).

ExCo meets weekly to discuss topical issues and bi-weekly to consider proposals and funding requests from different divisions of the organisation. During the year, 18 ExCo meetings were held with an average attendance rate of 90%.

Standards of conduct

We require a high standard of integrity and conduct from our staff to promote and maintain public confidence. Besides complying with relevant legal obligations, staff have to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code. Failure to comply with the code may result in disciplinary action.

In 2015, ExCo reviewed the code to ensure that it operates appropriately to enable our staff to identify and manage conflicts of interest and related conduct issues. This exercise resulted in some amendments to the code which were designed to ensure that our staff are able to carry out their work impartially and free from any suggestion of improper influence.

Accountability and transparency

We put in place stringent policies and procedures to ensure that we act with credibility, fairness and transparency.

Delegation of authority

We have a system of delegation of authority to clearly delineate the authority of the Board and different levels of the executive management. The Board delegates certain regulatory powers and functions to EDs, with power to sub-delegate to staff in their respective divisions, as permitted under the SFO, to facilitate the discharge of their duties in day-to-day operations.

Leadership and operational efficiency

The aim of our organisational structure is to enable us to achieve our statutory objectives while maintaining a high level of performance in all of our regulatory work and operations. The CEO and the five operational divisions, each led by an ED, are supported by the CEO's Office, and the Legal Services and Corporate Affairs divisions.

EDs have responsibility for strategic planning and resource allocation within the division's area of responsibility, and also take the lead in engaging with stakeholders to explain our regulatory priorities and consult on policy initiatives.

As members of ExCo, the CEO and all division heads participate in collective policy and decision making. They are in turn supported by directors who lead functional teams with specific areas of responsibilities.

The markets we regulate are complex. We set up cross-divisional teams to work on individual policies or initiatives which relate to the work of multiple divisions. This allows us to coordinate the work of different parts of the organisation and manage our resources effectively.

Financial reporting

We adopt the appropriate financial reporting standards and voluntarily observe the requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports. We adopt Hong Kong Financial Reporting Standards for preparing and disclosing financial statements and follow market practice to ensure that our financial reports are transparent and informative.

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of the quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Submitting the annual budget to the Financial Secretary for approval and tabling it before LegCo after consideration by the Budget Committee and the Board
- Providing regular reports to the Government
- Attending meetings at LegCo to present the annual budget and explain policy initiatives and other issues of public interest, including meetings of the Panel on Financial Affairs

Statement on responsible ownership

The SFC has delegated responsibility for the selection, retention and management of the investments of the Reserve Fund and the Investor Compensation Fund to appointed external managers who have confirmed that they adopt the Principles of Responsible Ownership in their undertakings to manage these investments.

Handling complaints and grievances

We extend our principles of accountability and transparency to our complaints handling procedures. Reports of improper practices of the SFC or our staff can be made under our procedures for handling complaints against the SFC or its employees. These cover dissatisfaction with the manner in which the SFC or our staff carried out or failed to carry out our duties. Detailed procedures for the public to lodge a complaint with us are available on our website.

In October 2015, a staff member from the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received the 2015 Ombudsman's Awards for Officers of Public Organisations.

Engagement and communication with stakeholders

We actively engage with key stakeholders including the Government, the financial services industry, regulatory counterparts and the general investing public through various channels. (See Stakeholder communication on pages 64-67.)

We respond to public enquiries orally and in writing while striving to meet the timelines set out in our performance pledges. We conduct public consultations and announce consultation conclusions before implementing a regulatory change. Annual and quarterly reports keep the public informed of our key regulatory work and finances. We use industry-related publications, reports and surveys to address more specialised topics and issue press releases to communicate our latest regulatory actions and other SFC news.

We explain and clarify our policies and procedures to the industry, legislators and others as needed. Our executives speak on specific regulatory areas at seminars for industry practitioners or other events.

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Our corporate website (www.sfc.hk) provides up-to-date, easily accessible public information including all SFC publications, press releases, codes and guidelines, consultation documents and conclusions. The information on our website is constantly updated and enriched.

Effective internal communication within the organisation is also important. In addition to utilising the intranet and internal circulars, we organise regular CEO Sharing Sessions and briefings by senior executives on the work of various divisions to keep all staff abreast of the latest developments and our current regulatory priorities.

Risks

In a dynamic market environment, it is crucial for us to identify, assess and manage external and internal risks in a timely and systematic manner in order to perform our regulatory functions effectively.

External risks

Our market contingency plan sets out measures for dealing with different emergency situations which may affect Hong Kong's securities and futures markets. Rehearsing the plan on a regular basis helps us react promptly, appropriately and in a coordinated manner when a crisis situation arises.

While each division closely monitors and manages regulatory risk in its respective area, the Risk and Strategy Unit introduces centralisation to our risk identification and strategy-setting efforts. We maintain an internal risk register to provide ExCo and the Board with an overview of risks relevant to our operations as well as our strategies for responding to them. We are also conducting an internal Regulatory Technology (Regtech) project to enhance risk data analysis. (See Risk assessment on page 60).

Internal risks and control

We are subject to possible internal risks associated with our operations, including financial risks and threats to our information and office security. Internal control measures are in place to address these risks.

Our financial control policies and procedures define the scope and responsibility of the administrative, financial and management functions, including but not limited to appointment of consultants, fee collection, investments, expenditures and budgeting. They are designed to ensure accountability and transparency and to conform to rigorous controls on the use of public funds.

Corporate Governance

Each year, an external consultancy firm conducts a review of our internal controls to assess our adherence to them and to evaluate and enhance their adequacy. The scope of each review is approved by the Audit Committee. This year, the review focused on specific areas including procurement assessment, payroll procedures and fixed assets acquisition, and it led to subsequent revisions to relevant policies and procedures.

The following measures are in place to provide for safe and smooth operations:

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services.

- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with technology changes.
- Access controls protect our information and systems from unauthorized access, use or modification.
- Office access controls safeguard against unauthorized entry to our office premises.

Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process and proper use of regulatory powers. In addition to scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled
Process Review Panel <ul style="list-style-type: none"> ▪ An independent panel established by the HKSAR Chief Executive in 2000 ▪ Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice 	<ul style="list-style-type: none"> ▪ Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints, licensing applications, inspection of intermediaries, product authorization, exercise of investigation and disciplinary powers, and corporate finance transactions (including administration of Listing Rules) 	<ul style="list-style-type: none"> ▪ Reviewed 58 selected cases and published its annual report in October 2015
Securities and Futures Appeals Tribunal <ul style="list-style-type: none"> ▪ Chaired by current or former judges appointed by the HKSAR Chief Executive ▪ Two other members drawn from a panel appointed by the Financial Secretary under delegated authority 	<ul style="list-style-type: none"> ▪ Reviews specified decisions made by the SFC ▪ Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions 	<ul style="list-style-type: none"> ▪ Received requests to review four cases of SFC decisions ▪ Decided on four cases (all applied for review during 2014-15)
The Ombudsman	<ul style="list-style-type: none"> ▪ Handles public complaints against the SFC and its staff for alleged maladministration 	<ul style="list-style-type: none"> ▪ Commenced eight preliminary inquiries
Courts	<ul style="list-style-type: none"> ▪ Handles judicial reviews of SFC decisions 	<ul style="list-style-type: none"> ▪ Handled one application for judicial review

Board meetings

Regular Board meetings are held at least once a month. In addition, the Board meets quarterly to conduct in-depth discussions of policy issues and also convenes special meetings on an ad hoc basis. The Board also holds an off-site meeting once a year to discuss strategic objectives and management priorities.

Last year, 16 Board meetings were held with an average attendance rate of 84%.

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Carlson Tong	14/16	–	–	4/4	1/1	–
Executive Directors						
Ashley Alder	15/16	–	1/1	3/4	–	15/18
Brian Ho	14/16	–	–	–	–	16/18
Julia Leung	16/16	–	0/1 ¹	–	–	14/18
Keith Lui	16/16	–	–	4/4	–	18/18
James Shipton	14/16	–	–	3/4	–	18/18
Mark Steward ²	5/8	–	–	–	–	7/10
Non-Executive Directors						
Albert Au ³	11/13	1/1	1/1	1/3	1/1	–
Leonard Cheng	10/16	–	1/1	–	0/1	–
Lester Huang ⁴	5/6	–	–	–	1/1	–
Teresa Ko	15/16	1/2	0/1	–	0/1	–
Lawrence Lee ⁵	8/10	1/1	–	–	–	–
Mary Ma	11/16	0/1 ⁶	–	2/4	1/1	–
Wong Kai Man ⁷	2/3	1/1	–	1/1	–	–
Kelvin Wong	13/16	1/2	1/1	3/4 ⁸	0/1	–
William Wong, SC	13/16	1/2	–	–	1/1 ⁹	–
Senior Director and Chief Counsel						
Andrew Wan	–	–	–	4/4	–	17/18
Andrew Young	–	–	–	–	–	16/18
Interim Head, Enforcement						
Maureen Garrett ¹⁰	–	–	–	–	–	8/8

¹ Appointed as a member of the Budget Committee effective 15 November 2015.

² Appointment expired on 24 September 2015.

³ Appointed as a member of the Board, Budget Committee, Investment Committee and Remuneration Committee and Chairman of the Audit Committee effective 26 May 2015.

⁴ Appointed as a member of the Board and Remuneration Committee effective 15 November 2015.

⁵ Appointment expired on 14 November 2015.

⁶ Appointed as a member of the Audit Committee effective 15 November 2015.

⁷ Appointment expired on 25 May 2015.

⁸ Appointed as Deputy Chairman of the Investment Committee effective 26 May 2015.

⁹ Appointed as Chairman of the Remuneration Committee effective 15 November 2015.

¹⁰ Appointed as Interim Head, Enforcement and a member of the Executive Committee effective 24 August 2015.

Performance pledges

In fulfilling our regulatory roles, we pledge to be responsive to the public, market participants and intermediaries under our supervision.

		Cases meeting the pledge		
		2015/16	2014/15	2013/14
Applications for subordinated loan or modification/waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	95% ¹	99%	100%
Authorization of investment products²				
Take-up of applications upon receipt	5/2 business days	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes (ILAS) and paper gold schemes	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
Enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications³				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	100%	100%	100%
Representatives (normal licences)	8 weeks	100%	100%	100%
Representatives (responsible officers)	10 weeks	99% ⁴	99%	97%
Transfer of accreditation	7 business days	98% ⁴	98%	98%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.9% ⁵	99.9%	99.9%

¹ Four cases failed to meet the pledge.

² We fully complied with the performance pledges which were applicable before 9 November 2015:

Take-up of applications upon receipt	2 business days
Preliminary response to applications after take-up for unit trusts, mutual funds, ILAS and MPF pooled investment funds	7/14 business days
For unit trusts and mutual funds, the target of 14 business days is applicable for new umbrella funds, schemes with new management company, specialised schemes under Chapter 8 of the Code on Unit Trusts and Mutual Funds, UCITS (undertakings for collective investment in transferable securities) funds that use expanded investment powers, or schemes with policy implications	
Preliminary response to applications after take-up for other products	

Effective from 9 November 2015, the pledge of five business days is applicable to:

- Unit trusts and mutual funds (except for eligible Mainland funds seeking authorization under the Mutual Recognition of Funds (MRF) arrangement between the Mainland and Hong Kong)
- MPF products (including pooled investment funds)
- Pooled retirement funds

The pledge of two business days is applicable to other products including MRF funds, ILAS, paper gold schemes and real estate investment trusts.

³ During the year, we processed 15,338 applications that were subject to performance pledges, 13,362 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,976 applications was delayed for reasons beyond our control (eg, unresolved fitness and propriety issues, outstanding vetting requests, applicants failing to provide essential information, requests by applicants that we delay finalising their applications). To more accurately reflect our performance, these applications are not included in the percentages stated.

⁴ For cases in these categories in respect of which we did not meet our performance pledges, usually the delay was short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

⁵ Two cases failed to meet the pledge.

Corporate Governance

Carlson TONG SBS, JP

Chairman

From 20 October 2012

Current appointment expires on 19 October 2018

Other SFC-related positions

- Chairman: Investment Committee and Advisory Committee
- Member, Remuneration Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee
- Member, Process Review Panel for the SFC

Current offices and public service

- Chairman, University Grants Committee
- Chairman, Hong Kong Sports Institute Limited
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, HKEX Listing Nominating Committee

Past offices and public service

- Chairman, English Schools Foundation (2011-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2007-2013)
- KPMG: Chairman, KPMG China (2007-2011); Chairman, KPMG Asia Pacific and Member, KPMG Global Board (2009-2011)
- Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2006-2008), Member (2002-2006)

Ashley ALDER JP

Chief Executive Officer

From 1 October 2011

Current appointment expires on 30 September 2017

Other SFC-related positions

- Chairman, Nominations Committee
- Member: Budget Committee and Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

Public service

- Board of International Organization of Securities Commissions: Chairman (since May 2016); Vice-Chairman (Dec 2015 - May 2016)
- Member, HKEX Listing Nominating Committee
- Council member, Treasury Markets Association
- Vice President, The Hong Kong Institute of Bankers

Past SFC position

- Executive Director, Corporate Finance (2001-2004)

Past offices

- Herbert Smith: Partner and Head of Asia (2004-2011); Partner (1994-2001); Associate (1986-1994)

Albert AU BBS

Non-Executive Director

From 26 May 2015

Current appointment expires on 25 May 2017

Other SFC-related positions

- Chairman, Audit Committee
- Member: Budget Committee, Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Chairman, BDO Limited
- Independent Commission Against Corruption: Chairman, Corruption Prevention Advisory Committee, and Member, Advisory Committee on Corruption
- Chairman, Professional Services Advisory Committee, Hong Kong Trade Development Council
- Vice Chairman, Hong Kong Coalition of Professional Services Limited
- Member, Hong Kong Housing Authority
- Café de Coral Holdings Limited: Independent Non-executive Director and Chairman of Audit Committee
- Independent Non-executive Director, Hong Kong International Theme Parks Limited

Past public service

- Hong Kong Productivity Council: Council member and Chairman of Audit Committee (2010-2015)
- Member, Air Transport Licensing Authority (2007-2013)
- Member, General Committee, Federation of Hong Kong Industries (2007-2013)
- President, Hong Kong Institute of Certified Public Accountants (2008)

Notes:

Except for the Chairman and CEO, other Board members are listed in alphabetical order.

During the year, Mr Lawrence Lee served on the Board as Non-Executive Director until 14 November 2015; Mr Wong Kai Man served on the Board as Non-Executive Director until 25 May 2015; and Mr Mark Steward served on the Board as Executive Director until 24 September 2015.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 146-154 for information about SFC external committees.

Corporate Governance

Prof Leonard CHENG JP

Non-Executive Director

From 1 January 2011

Current appointment expires on 31 December 2016

Other SFC-related positions

- Deputy Chairman: Budget Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee
- Chairman, Investor Education Centre

Current offices and public service

- President and Chair Professor, Economics, Lingnan University
- Member, Competition Commission
- Member, Economic Development Commission
- Member, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region

Past offices and public service

- Dean of Business and Management, The Hong Kong University of Science and Technology (2009-2013)
- Director, Hong Kong Institute for Monetary Research (2010-2013)
- Member, Statistics Advisory Board (2010-2013)
- Member, Hong Kong Port Development Council (2011-2012)
- Member, Provisional Minimum Wage Commission (2009-2010)
- Member, Broadcasting Authority (2003-2009)
- Member, Manpower Development Committee (2002-2006)
- Member, Hong Kong Committee for Pacific Economic Cooperation (1998-2004)
- Member, Monitoring Group on Trials and Studies for the Harbour Area Treatment Scheme (2001-2003)
- Member, Shanghai-Hong Kong Council for the Promotion and Development of Yangtze (1998-2002)
- Member, Investment Promotion Strategy Group (2000-2001)
- Member, Advisory Committee on New Broad-based Taxes (2000-2001)

Brian HO

Executive Director, Corporate Finance

From 28 August 2006

Current appointment expires on 27 August 2018

Other SFC-related positions

- Chairman, Public Shareholders Group
- Member: Advisory Committee, Committee on Real Estate Investment Trusts and Nominations Committee

Public service

- Member, HKEX Listing Nominating Committee

Past SFC position

- Senior Director, Corporate Finance (2000-2006)

Lester HUANG JP

Non-Executive Director

From 15 November 2015

Current appointment expires on 14 November 2017

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- PC Woo & Co: Managing Partner and Co-Chairman
- Chairman, Board of Advisors of Radio Television Hong Kong
- Director, The Hong Kong Mortgage Corporation Limited
- Member, Hospital Authority
- Non-Executive Director, Urban Renewal Authority Board
- President, The Hong Kong Federation of Youth Groups
- Fellow, Hong Kong Institute of Directors

Past public service

- President, The Law Society of Hong Kong (2007-2009)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)

Corporate Governance

Teresa KO JP

Non-Executive Director

From 1 August 2012

Current appointment expires on 31 July 2016

Other SFC-related positions

- Deputy Chairman, Takeovers and Mergers Panel
- Member: Audit Committee, Budget Committee and Remuneration Committee
- Member: Investor Compensation Fund Committee, Nominations Committee, Securities Compensation Fund Committee, SFC (HKEC Listing) Appeals Committee and Takeovers Appeal Committee

Current offices and public service

- Freshfields Bruckhaus Deringer: China Chairman and Partner
- Chairman, Standing Committee on Disciplined Services Salaries and Conditions of Service
- Member, Expert Advisory Committee for Mergers and Acquisitions, China Securities Regulatory Commission
- Council Member, The Hong Kong University of Science and Technology

Past offices and public service

- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Disciplined Services Salaries and Conditions of Services (2011-2013)
- Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2009-2012); Deputy Chairman (2006-2009)
- Member, Standing Committee on Company Law Reform (2005-2011)
- Independent Director, Travel Industry Council of Hong Kong (2005-2010)

Julia LEUNG SBS

Executive Director, Investment Products

From 2 March 2015

Current appointment expires on 1 March 2018

Other SFC-related positions

- Chairman: Committee on Real Estate Investment Trusts and Products Advisory Committee
- Member, Budget Committee
- Member, SFC (HKEC Listing) Committee

Public service

- Member, Hong Kong Trade Development Council Financial Services Advisory Committee
- Member, Hong Kong Trade Development Council Asian Financial Forum Steering Committee

Past offices and public service

- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, Hong Kong Special Administrative Region Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

Publications

- *The Tides of Capital* (London: OMFIF Press, 2015)

Keith LUI

Executive Director, Supervision of Markets

From 28 August 2006

Current appointment expires on 27 August 2018

Other SFC-related positions

- Chairman: Investor Compensation Fund Committee and Securities Compensation Fund Committee
- Member, Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee
- Director, Investor Compensation Company Limited

Public service

- Member, HKEX Risk Management Committee

Past SFC positions

- Senior Director, Supervision of Markets (2004-2006)
- Senior Director, Corporate Affairs (2002-2004)
- Commission Secretary (2001-2004)

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Mary MA

Non-Executive Director

From 15 November 2013

Current appointment expires on 14 November 2017

Other SFC-related positions

- Member: Audit Committee, Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices

- Chairman, Boyu Capital
- Independent Non-Executive Director, Lenovo Group Limited
- Non-Executive Director: Unilever PLC, Unilever N.V. and Stelux Holdings International Limited

Past offices and public service

- Non-Executive Director, Wumart Stores (2010-2014)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2009-2013)
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited (2004-2013)
- Non-Executive Director, Daphne International Holdings Limited (2009-2011)
- Partner, TPG Capital and Co-Chairman, TPG China (2007-2011)
- Director, Shenzhen Development Bank (2007-2010)
- Member, Dean's Council of the Kennedy School of Harvard University (2002-2007)
- Senior Vice President and Chief Financial Officer, Lenovo Group Limited (1990-2007)
- Director, Bureau of International Co-operation, Chinese Academy of Sciences (1978-1990)

James SHIPTON

Executive Director, Intermediaries

From 19 June 2013

Current appointment expires on 18 June 2016

Other SFC-related positions

- Chairman, Academic and Accreditation Advisory Committee
- Member, Investment Committee
- Member, SFC (HKEC Listing) Committee

Public service

- Fellow, Program on International Financial Systems, Harvard Law School

Past offices and public service

- Goldman Sachs (Hong Kong): Managing Director & Asia Pacific Head of Government & Regulatory Affairs (2011-2013); Managing Director & Executive Director, Securities Division (2004-2010)
- Member, the Business Advisory Council of the United Nations Economic & Social Commission for Asia & the Pacific (2011-2013)
- Board Member, Treasury Markets Association (2011-2013)
- Vice Chairman, Asian Securities Industry & Financial Markets Association (2011-2012)
- Deputy Chairman, Alternative Investment Management Association (2008-2012)
- Director, Hedge Fund Consulting, EurekaHedge & ComplianceAsia (Singapore) (2002-2004)
- Vice President, Equity Capital Markets, Dresdner Kleinwort Wasserstein (Hong Kong & London) (2000-2002)
- Solicitor, Linklaters (Hong Kong & Bangkok) (1997-2000)

Corporate Governance

Dr Kelvin WONG JP

Non-Executive Director

From 20 October 2012

Current appointment expires on 19 October 2016

Other SFC-related positions

- Chairman, Budget Committee
- Deputy Chairman: Audit Committee and Investment Committee
- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Executive Director and Deputy Managing Director, COSCO Pacific Limited
- Member, Financial Reporting Council
- Convenor-cum-Member, Financial Reporting Review Panel
- Member, Standing Committee on Company Law Reform
- Member, Corruption Prevention Advisory Committee, Independent Commission Against Corruption
- Board Director, Hong Kong Sports Institute Limited
- Council Member, The Hong Kong Management Association
- Member, OECD/World Bank Asian Corporate Governance Roundtable
- Council Advisor, Hong Kong Chinese Orchestra Limited

Past offices and public service

- Council Chairman, The Hong Kong Institute of Directors (2009-2014)
- Chairman, Hong Kong Chinese Orchestra Limited (2006-2008)
- Member, Appeal Board Panel (Town Planning) (2009-2015)
- Member, Advisory Committee on Human Resources Development in the Financial Services Sector (2011-2013)
- Member, The Board of Review (Inland Revenue Ordinance) (2008-2013)
- Member, Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited (2007-2013)
- Board Director, Business Environment Council (2008-2012)
- Member, China Trade Advisory Committee, Hong Kong Trade Development Council (2005-2009)
- Member, Auditing and Assurance Standards Committee, Hong Kong Institute of Certified Public Accountants (2006-2008)

Dr William WONG SC

Non-Executive Director

From 1 August 2014

Current appointment expires on 31 July 2016

Other SFC-related positions

- Chairman, Remuneration Committee
- Member, Audit Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Member, The Board of Review (Inland Revenue Ordinance)
- Member, Bar Council of the Hong Kong Bar Association
- Chairman, Hong Kong Bar Association Special Committee on China Practice Development
- Member, Hong Kong Bar Association Special Committee on Barristers Qualification Examination
- Member, Hong Kong Bar Association Special Committee on Greater China Affairs
- Trustee, Board of Trustees, United College, the Chinese University of Hong Kong
- Director, The Hong Kong Middle Temple Society

Past offices and public service

- Member, Hong Kong Bar Association Special Committee on Solicitors' Rights of Audience (1998-2000)

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Our People

People are the key factor in our ability to carry out our regulatory mandate and achieve our statutory objectives. As such, efforts to attract and retain qualified staff with a high degree of expertise and commitment are an essential part of our work. Our annual Employee Awards recognise those who make exceptional contributions to our success. Staff members also receive recognition from outside the organisation, such as from Hong Kong's Ombudsman, from time to time.

Inaugural leadership award

The SFC People Leadership Award, a new Employee Award introduced in 2015, recognises staff who demonstrate excellence in leadership. The first one was awarded to Vickie Ng, Associate Director of Enforcement.



Ng's award acknowledged her work leading large teams involved in complex investigations. Specifically, the award credited her ability to understand and empathise with the needs and difficulties of her staff. This helps her communicate effectively with the team and identify the right people for each task.

Ng, who trained as an accountant, has more than 18 years' experience at the SFC. After joining the organisation, she initially focused on investigations relating to securities trading and market misconduct.

Since 2003, she started to handle forensic accounting. Over the past decade, she has taken on more complex, large-scale investigations of listed companies.

"Investigation is all about teamwork," Ng emphasised. For instance, one investigation involved cooperation with regulatory counterparts in Canada and across 12 Mainland provinces. On another occasion, Ng led her division's largest-ever search operation deploying more than 50 SFC staff to 16 locations.

Ng credits her previous experience as an accounting lecturer at different institutes and as a treasury accountant with the Commercial Crime Bureau for providing her with opportunities to make the most of team discussions, give frank feedback and be open-minded. "Becoming a leader is a great experience, and I'm still learning," says Ng.

Commitment to public service

Steve Ang, General Manager of the Investor Compensation Company Limited¹ (ICC), received the 2015 Ombudsman's Awards for Officers of Public Organisations for his outstanding performance in providing quality customer service.



Founded in 2003, the ICC serves as a one-stop shop for investors' claims against the Investor Compensation Fund in cases of defaults of licensed intermediaries. Ang joined the ICC in 2005 after working in a listed company and deciding on a career in public service.

¹ The ICC is a wholly-owned SFC subsidiary which administers the Investor Compensation Fund under the Securities and Futures Ordinance.

Our People

Ang described his motivation, saying: "I hope to serve the community by helping the claimants receive compensation and resolve problems, and the ICC is the right place to be." In recent years, the volume of work has grown as greater public awareness of the ICC spurred an increasing number of claims.

What Ang described as the "most challenging case ever" began in 2015 when the ICC received more than 450 claims for compensation after a broker defaulted. Ang found himself facing a number of distressed claimants, incomplete records issued by the defaulting company, and the need to ascertain each claimant's loss without the help of administrators or liquidators.

Despite the difficulties, nearly all claims were processed by February 2016. "It is our responsibility to provide a certain level of security to retail investors," Ang observed at the time, adding: "This is an interesting job that keeps me engaged and motivated."

Laying the groundwork

The collective effort of the Takeovers Panel² Secretary (TPS) team was recognised with a team Employee Award during the year.

The five members of the TPS team provide administrative and secretarial support to both the

Takeovers Panel and the Takeovers Appeal Committee³, such as setting up hearing venues and liaising with external service providers. These are additional responsibilities on top of team members' regular day-to-day work.

David Kwok, Director of Corporate Finance, supervises the TPS team. He said the team deserved recognition for its efforts to ensure the smooth running of Panel hearings and meetings, albeit under great pressure and tight timelines.

"Whilst the Takeovers Panel proceedings always take centre stage and get all the attention, the TPS team lays the groundwork behind the scenes," Kwok said.

He recounted one instance when a particularly difficult hearing was carried over to a Saturday. On very short notice, the team needed to liaise with service providers to ensure that the interpreter, transcriber, venue and technical support would all be available on the day.

In this instance, as in many others, the TPS team successfully dealt with an unforeseen development while at the same time displaying a high level of commitment and accountability. "If we do not find a way to say thank you to these unsung heroes, we are not doing them justice," concluded Kwok.



² The Takeovers and Mergers Panel hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive (ie, the Executive Director of the Corporate Finance Division or his delegate) at the request of any party dissatisfied with such a ruling, and also considers novel, important or difficult cases referred by the Takeovers Executive.

³ This committee reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party to determine whether any sanction imposed by the panel is unfair or excessive.

Highlights of the Year

May 2015

The SFC recovers \$191 million in assets from a hedge fund for about 340 overseas investors.

June 2015

The SFC Board states that it does not support The Stock Exchange of Hong Kong Limited's draft proposal on weighted voting rights.

July 2015

The launch of Mainland-Hong Kong Mutual Recognition of Funds (MRF) allows eligible Mainland and Hong Kong funds to be distributed in the other market.

Implementation of the new over-the-counter derivatives regulatory regime begins with mandatory reporting and related record-keeping obligations.

August 2015

Debut of "SFC in Action 3", the third series of the SFC's law-enforcement television drama.

November 2015

Amendments to the Securities and Futures Ordinance for providing supervisory assistance to regulators outside Hong Kong in certain situations come into force.

The SFC obtains court orders to freeze \$23.5 million assets of an unlicensed firm, Maxim Capital Limited.

Implementation of a pilot streamlined fund authorization process for new fund applications.

The SFC signs a memorandum of understanding (MoU) with the European Securities and Markets Authority.

Issuance of printed licences to SFC individual licensees ceases.

The SFC Women's Network is established to enhance the professional development of female staff.



Source: Hong Kong Economic Journal

\$191 million recovered



MRF Symposium



SFC in Action 3 poster



Launch of the SFC Women's Network

Highlights of the Year



SFC Regulatory Forum 2016



Source: Hong Kong Economic Journal

\$23.5 million assets frozen



SFC-DoJ MoU



Printed licences

December 2015

The SFC reprimands and fines three J.P. Morgan companies \$30 million for regulatory breaches or internal control failings.

The SFC concludes a further consultation on a new mandatory term in client agreements and changes to prevent intermediaries from misdescribing services.

The SFC enters into an MoU with the US Commodity Futures Trading Commission.

The enhanced regulatory regime for alternative liquidity pools¹ comes into effect.

February 2016

The SFC publishes consultation conclusions on proposals to expand the scope of short position reporting.

An SFC circular sets out the requirements for authorizing leveraged and inverse products for public offering in Hong Kong.

The second SFC Regulatory Forum takes place.

The SFC signs an MoU with the Bank of England on the supervision of financial market infrastructures.

March 2016

The SFC reprimands Moody's Investors Service Hong Kong Limited and fines it \$11 million for failures over preparation of a "red flags" report.

Release of consultation conclusions on proposed amendments to the Guidelines for the Regulation of Automated Trading Services and on the Principles of Responsible Ownership.

The SFC and the Department of Justice (DoJ) sign an MoU on handling criminal cases.

The SFC establishes a Fintech Contact Point and a Fintech Advisory Group.

The SFC hosts meetings of the IOSCO² Asia-Pacific Regional Committee in Hong Kong. Our CEO, Mr Ashley Alder, was the Chair of the Committee.

¹ Also known as alternative trading systems or dark pools.

² International Organization of Securities Commissions.

Message from Chairman and CEO

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Operational Review



We strive to maintain stability, competitiveness and orderliness in the financial markets through our five principal areas of work – intermediaries, investment products, listings and takeovers, market infrastructure and trading, and enforcement.

Overview

The following tables highlight our work during 2015-16. More details are provided in subsequent chapters.

Regulation	
OTC derivatives	Implemented the first phase of the new over-the-counter (OTC) derivatives regulatory regime beginning with mandatory reporting and related record-keeping obligations in July 2015
	Prepared for the second phase of the new regime, which introduces mandatory clearing and related record-keeping obligations and expands mandatory reporting, publishing related consultation conclusions in February 2016
Alternative liquidity pools	The enhanced regulatory regime for alternative liquidity pools came into force on 1 December 2015
Supervisory assistance	Amendments to the Securities and Futures Ordinance (SFO) for providing supervisory assistance to regulators outside Hong Kong in certain situations came into effect in November 2015 following the release of related consultation conclusions in June 2015
Client agreement requirements	Concluded a further consultation which proposed a new mandatory term in client agreements and changes to prevent intermediaries from misdescribing services
Automated trading services	Concluded a consultation on proposed amendments to the Guidelines for the Regulation of Automated Trading Services
Short position reporting	Published consultation conclusions on proposals to expand the scope of short position reporting
Ownership responsibilities	Published consultation conclusions on the proposed Principles of Responsible Ownership
Financial resources rules	Launched a public consultation on proposed changes relating to capital and other prudential requirements for licensed corporations engaging in OTC derivatives activities together with certain changes related to other areas of the rules
HKEX	Enhanced our supervisory approach to Hong Kong Exchanges and Clearing Limited (HKEX), establishing financial resources requirements for HKEX and its Hong Kong subsidiary exchanges and clearing houses, and conducting regular on-site inspections
Open-ended fund companies	Assisted the Government on the January 2016 publication of consultation conclusions on a new framework for open-ended fund companies and the introduction of enabling legislation

Listings, takeovers and corporate conduct	
Weighted voting rights	The SFC Board stated in June 2015 that it did not support The Stock Exchange of Hong Kong Limited's (SEHK) draft proposal on weighted voting rights
Listing applications	Reviewed 218 listing applications received via SEHK. Three listing applications were returned and an eight-week moratorium ¹ was imposed as the application proofs or related documents were not substantially complete
Takeovers matters	Supervised 435 takeovers-related transactions and applications and referred two novel, important or difficult matters to the Takeovers Panel
	Publicly censured Goldman Sachs for breaches of the Takeovers Code when acting as a bank's financial advisor during a voluntary general offer
Corporate regulation	In monitoring company announcements, commenced 137 section 179 ² inquiries to gather additional information

¹ The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

² 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.

Overview

Enforcement	
Surveillance	Made 7,997 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
Disciplinary actions	Took disciplinary action against 41 licensed corporations and individuals with total fines amounting to \$87.1 million, imposed bans on 20 individuals, and suspended and revoked the licences of four persons for various wrongdoing
Key cases	Reprimanded Moody's Investors Service Hong Kong Limited and fined it \$11 million for failures over preparation of a "red flags" report published in 2011, following the Securities and Futures Appeals Tribunal's affirmation of our decision
	In a landmark ruling on the interpretation of section 300 ³ of the SFO, the court found that three individuals engaged in insider dealing in the shares of a Hong Kong listed company and in fraudulent transactions involving securities listed in Taiwan
	Obtained court orders to freeze \$23.5 million assets of Maxim Capital Limited, an unlicensed firm, and restrain it from advertising an unauthorized collective investment scheme
	Commenced proceedings under the Market Misconduct Tribunal for breach of listed companies' obligations to announce inside information as soon as reasonably practicable
	Recovered \$191 million in assets from the Descartes Athena Fund SPC for about 340 overseas investors
	Obtained interim injunctions to freeze about \$600,000 in bank accounts suspected of receiving monies from investors of alleged frauds known as boiler rooms ⁴
	Reprimanded and fined three J.P. Morgan companies a total sum of \$30 million for various regulatory breaches or internal control failings

Regulatory collaboration	
IOSCO	Mr Ashley Alder, our Chief Executive Officer, was appointed as Vice-Chairman of the Board of the International Organization of Securities Commissions (IOSCO) in December 2015 and subsequently Chairman in May 2016. He was also appointed Chair of the IOSCO Task Force on Market Conduct in November 2015
	Organised meetings of IOSCO's Asia-Pacific Regional Committee in Hong Kong including its inaugural Supervisory Meeting, an Enforcement Meeting as well as training webinars on cross-border enforcement cooperation and managing risks in securities markets
	Hosted an IOSCO's Committee on Issuer Accounting, Audit and Disclosure meeting in Hong Kong
MoUs	Signed a memorandum of understanding (MoU) with the Department of Justice on handling criminal cases
	Entered into an MoU with the European Securities and Markets Authority on the exchange of information on derivatives contracts held in trade repositories
	Signed an MoU with the US Commodity Futures Trading Commission on cooperation and the exchange of information regarding regulated firms that operate on a cross-border basis
	Entered into an MoU with the Bank of England on cooperation and the exchange of information for the supervision of financial market infrastructures

³ Section 300 of the SFO prohibits the use of fraudulent or deceptive schemes in transactions involving securities.

⁴ Boiler rooms usually falsely claim to be licensed for regulated securities or futures business or to operate in a particular jurisdiction.

Overview

Market development	
Stock Connect	Worked with HKEX to launch Special Segregated Accounts which enable institutional investors to fulfil the pre-trade checking requirement for northbound trading
Funds	<p>The Mainland-Hong Kong Mutual Recognition of Funds scheme was launched on 1 July 2015 following a memorandum on regulatory cooperation entered into in May 2015 between the SFC and the China Securities Regulatory Commission. Authorized 27 Mainland funds under the scheme as of 31 March 2016</p> <p>Implemented a pilot revamped fund authorization process in November 2015 with a view to shortening the overall processing time for new fund applications</p> <p>Extended the six-month application lapse policy in November 2015 to applications for new mandatory provident fund and pooled retirement fund products seeking SFC authorization</p>
ETFs	Authorized the first physical A-share exchange-traded fund (ETF) that invests directly in A-shares using a Renminbi Qualified Foreign Institutional Investor (RQFII) quota of the fund manager's UK affiliate and via Shanghai-Hong Kong Stock Connect
Leveraged and inverse products	Issued a circular setting out the requirements for authorizing leveraged and inverse products for public offering in Hong Kong
Futures contracts	Approved HKEX's proposals to introduce stock index futures contracts for seven sectors and to expand the number of metal mini futures contracts from three to six
Financial technology	Established a Fintech Contact Point and a Fintech Advisory Group to facilitate the development of financial technology

Intermediary licensing, conduct and practices	
Industry meetings and workshop	<p>Conducted a series of non-supervisory industry meetings with global financial institutions focusing on risk data that they collect and analyse, as well as regulatory and financial technologies</p> <p>Hosted a workshop on the licensing process for in-house compliance professionals of licensed firms</p>
Licensing	<p>Handled 7,975 licence applications. The total number of licensees and registrants in Hong Kong reached 41,534</p> <p>Ceased issuing printed licences to licensed individuals as of 13 November 2015</p>
On-site inspections	Conducted 306 risk-based on-site inspections of licensed corporations
Anti-money laundering	Launched a money laundering risk assessment of Hong Kong's securities sector

Stakeholder communication	
Forums	<p>The second SFC Regulatory Forum, held in February 2016, focused on the opportunities and challenges arising from increasing market connectivity</p> <p>Organised the Mainland-Hong Kong Mutual Recognition of Funds Symposium to provide guidance to the industry on the scheme</p>
"SFC in Action 3"	Produced "SFC in Action 3", a law-enforcement television drama, together with Radio Television Hong Kong

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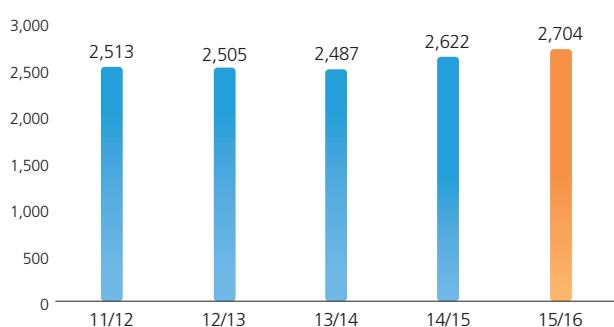
Financial
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SFC activity data

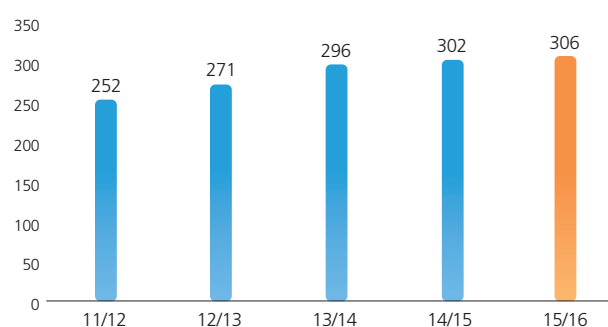
These charts are intended to show at a glance some top-line data on our activities. See Breakdown of SFC activity data on pages 138-145 for more details.

Authorized collective investment schemes

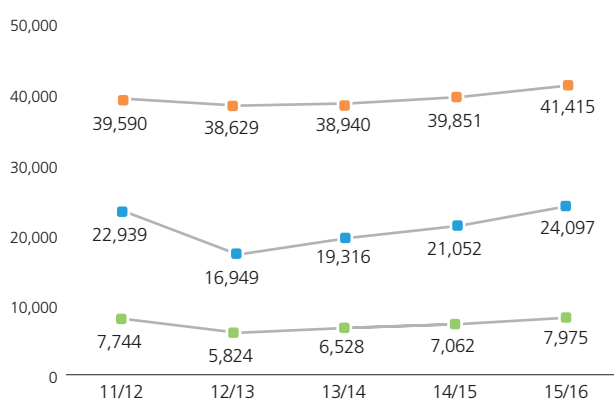


Note: Figures represent a snapshot view as at each financial year-end.

Risk-based on-site inspections

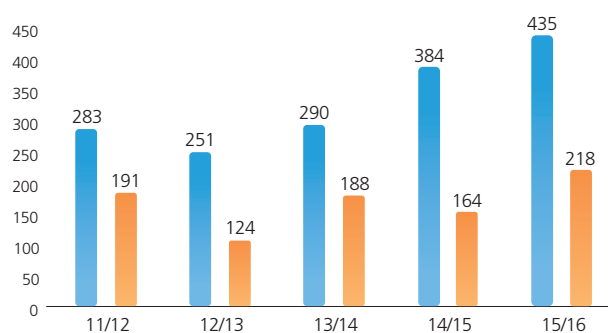


Licensing



■ Total number of SFC licensees as at each financial year-end
■ Applications to conduct new regulated activity
■ Applications for SFC licences

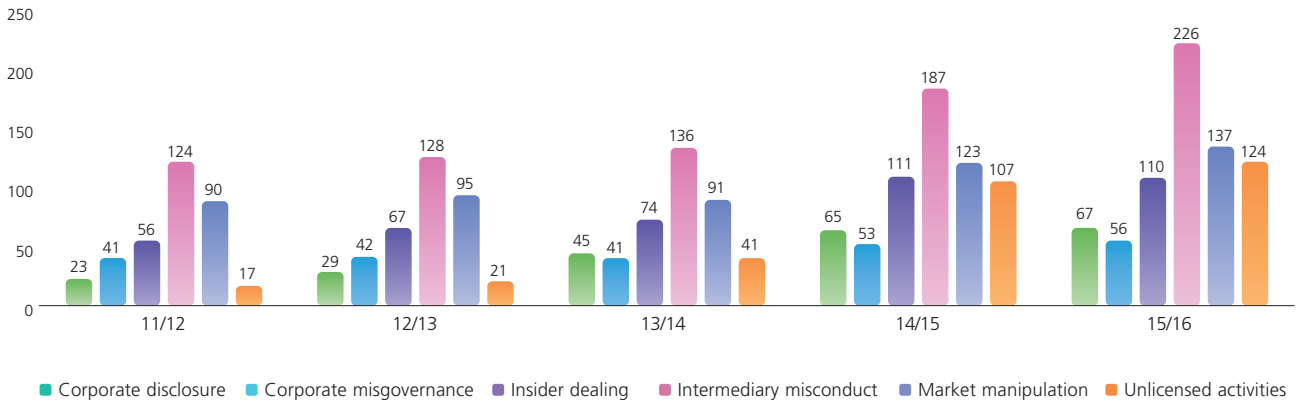
Market-related transactions



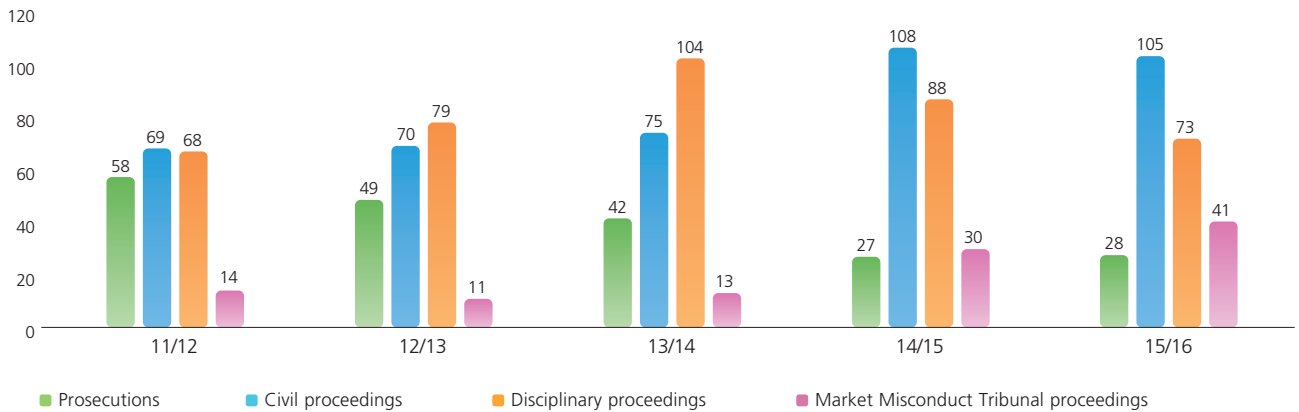
■ Takeovers and share buy-backs transactions handled
■ Listing applications reviewed under the dual filing regime

SFC activity data

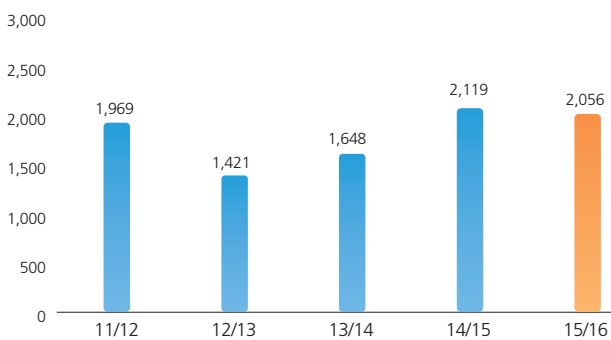
Investigations



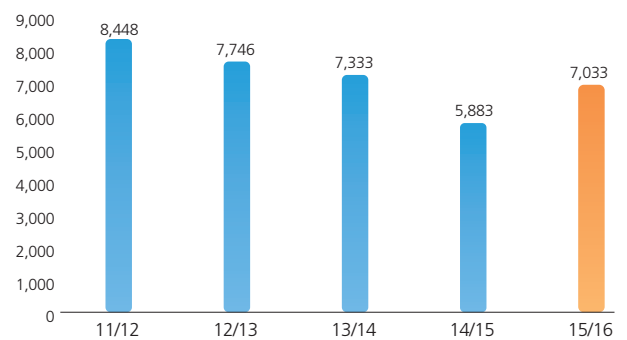
Persons/corporations subject to enforcement action



Complaints against intermediaries and market activities



General enquiries



Intermediaries

We license qualified corporations and individuals to operate in our markets under the Securities and Futures Ordinance (SFO). We conduct on-site inspections and off-site monitoring to review the financial soundness of licensed corporations¹ and their compliance with relevant laws and regulatory requirements.

Licence applications

During the year, the number of corporate and individual licensees continued to increase. We received 7,975 licence applications², up 13% from the previous year. The number of licensed corporations surpassed 2,200 in March 2016. The total number of licensees and registrants in Hong Kong reached 41,534 as of 31 March 2016, a 4% rise compared to a year earlier.

Enhancing regulatory standards

Financial resources rules

In a public consultation launched on 17 July 2015, we proposed changes to the Securities and Futures (Financial Resources) Rules (FRR) relating to capital and other prudential requirements for licensed

corporations engaging in over-the-counter (OTC) derivatives activities. The proposals aim to ensure that licensed corporations maintain their capital and liquidity at levels which are commensurate with the risks they undertake pertaining to derivatives business and to encourage them to adopt more advanced risk management standards. We also proposed a number of FRR changes applicable to licensed corporations which do not engage in OTC derivatives activity. We are considering the comments received.

Alternative liquidity pools

The new regime for alternative liquidity pools (ALPs, sometimes referred to as "dark pools") came into effect on 1 December 2015. The regime enhances and standardises the regulatory obligations imposed on ALP operators by obliging them, along with licensed or registered persons who route orders to ALPs, to comply with new requirements included in the Code of Conduct³. In May, we concluded our consultation on proposals for the new regime which we developed in light of practices in major international markets and principles published by the International Organization of Securities Commissions.

Licensees

	Corporations [#]		Representatives		Responsible Officers		Total [#]		Change
	As at 31.3.2016	As at 31.3.2015	As at 31.3.2016	As at 31.3.2015	As at 31.3.2016	As at 31.3.2015	As at 31.3.2016	As at 31.3.2015	
Stock exchange participants	470	449	11,183	10,874	1,652	1,580	13,305	12,903	3.1%
Futures exchange participants	111	112	944	877	165	156	1,220	1,145	6.6%
Stock exchange and futures exchange participants	67	67	4,797	4,764	498	470	5,362	5,301	1.2%
Non-stock/non-futures exchange participants	1,560	1,440	15,772	15,189	4,196	3,873	21,528	20,502	5%
Total	2,208	2,068	32,696	31,704	6,511	6,079	41,415	39,851	3.9%

[#] These figures exclude 119 registered institutions as at 31 March 2016 and 118 as at 31 March 2015.

¹ Broadly, licensed corporations include investment banks, stock brokers, futures dealers, leveraged forex traders, fund managers, investment advisers and credit rating agencies.

² The figure does not include applications for provisional licences and registered institutions. During the year, we received 4,378 provisional licence applications compared with 4,006 in the previous year.

³ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Client agreement requirements

We concluded our further consultation on the client agreement requirements on 8 December 2015 announcing that all intermediaries must comply with new Code of Conduct requirements, including incorporating a new clause enabling an investor to claim for damages in the event of mis-selling by an intermediary and observing the new paragraph 6.5⁴ of the Code of Conduct, on or before 9 June 2017. These changes will result in fairer business terms for investors and prevent intermediaries from misdescribing the actual services provided to them.

Financial resolution regime

On 9 October 2015, the SFC, the Government, the Hong Kong Monetary Authority and the Insurance Authority jointly published the response to the second

Reorganisation of Intermediaries Division

The Intermediaries Division was reorganised during the second half of 2015 to provide for greater specialisation and a more proactive supervisory focus around four key segments of the market: asset management, global institutions, Greater China institutions and Asian institutions.

The reorganisation is a strategic response to rapidly changing and increasingly complex financial markets which call for an outcomes-based supervisory approach. It will help us enhance our knowledge of specific industry segments as well as our ability to identify, assess and tackle risks.

For the industry, the most important change is that the alignment of supervisory and licensing teams in their coverage of licensed firms enables them to work together more closely and provide more coordinated and effective communication with firms.

We notified all licensed corporations and registered institutions of the reorganisation. Contact details of designated case officers in both our licensing and supervision teams are also available on the SFC Online Portal.



stage of public consultation on proposals to establish an effective cross-sector resolution regime for financial institutions in Hong Kong, including financial market infrastructure. The proposals are in line with the latest international standards set by the Financial Stability Board. Enabling legislation, the Financial Institutions (Resolution) Bill, was introduced into the Legislative Council in December.

Supervisory assistance to regulators outside Hong Kong

On 5 June 2015, we concluded a consultation on proposed amendments to the SFO which enable the SFC, subject to a number of conditions and safeguards, to obtain certain records and documents from licensed corporations or their related corporations in order to provide supervisory assistance to regulators outside Hong Kong upon request. The amendments were included in the Securities and Futures (Amendment) Ordinance 2015 and came into effect on 13 November.

CFTC exemption for licensed futures dealers

In August 2015, we provided corporations licensed for Type 2 regulated activity (dealing in futures contracts) with information about seeking exemptions under a March 2015 Commodity Futures Trading Commission (CFTC) order permitting SFC-licensed corporations to deal directly with US customers without having to register as futures brokers in the US. Four corporations have now been exempted pursuant to the order.

⁴ This paragraph disallows contractual terms in client agreements which are inconsistent with Code of Conduct obligations or misdescribe the actual services to a client.

Intermediaries

Intermediary inspections

Last year, our 306 risk-based on-site inspections of licensed corporations included focus on five areas:

Algorithmic trading systems and cybersecurity

During our thematic inspections of the algorithmic trading systems of selected firms, we identified pre-trade control weaknesses for algorithmic orders and inadequacy in contingency plans. We also noted deficiencies in cybersecurity risk assessments and overall incident management processes. Following the review, we issued a circular on cybersecurity to share key observations and suggested controls.

Anti-money laundering (AML)

We began thematic AML inspections of major licensed firms, including investment banks, brokers and asset managers. At some firms we found deficiencies in the evaluation and reporting of suspicious transactions to the Joint Financial Intelligence Unit. We also found failures to conduct enhanced customer due diligence and the appropriate level of transaction monitoring for high-risk customers.

Broker activities

Protection of client assets remained a key area of our inspections. Among brokers, we noted internal control deficiencies, such as in the segregation of key duties and functions, controls over client accounts with third-party authorizations and change of client particulars, which could increase the risk of

misappropriation. We shared relevant deficiencies and preventive measures with industry participants through a training session and a circular.

Selling practices

During our inspections of licensed corporations engaged in the sale of investment products, we found regulatory compliance deficiencies regarding the distribution of debt securities listed under Chapter 37^a of the Listing Rules and unlisted local private placement bonds. We issued a circular to the industry on the deficiencies noted, including the provision of potentially misleading or inaccurate information to clients, insufficient due diligence and failure to draw clients' attention to liquidity risks.

Investment banking and sponsor activities

Our inspections of selected investment banking group companies revealed control deficiencies and instances of non-compliance including breaches of the Securities and Futures (Short Position Reporting) Rules, client facilitation trades without the client's consent and undue involvement of research analysts in pitching an initial public offering (IPO) deal.

During our inspections of IPO sponsors, we noted varying degrees of substandard due diligence on material issues as well as insufficient or non-disclosure of material information^b in prospectuses which cast doubt on the quality of the sponsor work.

^a Chapter 37 pertains to debt issues targeting at professional investors only, setting out the qualifications for listing, application procedures, contents of listing documents and post-listing obligations.

^b Material issues and information include certain side arrangements and major third parties involved in the listing applicants' businesses.

Breaches noted during on-site inspections

	2015/16	2014/15	2013/14
Breach of requirements of contract notes/statements of account/receipts	69	79	47
Breach of Code of Conduct ^a	388	236	226
Breach of regulation of on-line trading	14	97	88
Non-compliance with anti-money laundering guidelines	223	117	88
Internal control weaknesses ^b	571	307	342
Total	1,265	836	791

^a Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

^b 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.

Note: Also see Table 4 in Breakdown of SFC activity data on page 140 for more details.

Intermediaries

Promoting compliance

We issued circulars to licensees and registrants on a wide range of topics, including transitional arrangements for OTC derivatives activities under the new regulatory regime; full compliance with Know Your Client requirements and account opening procedures; brokers' internal controls for safeguarding client accounts against IT security vulnerabilities and internal misconduct, as well as the latest developments in AML and counter-terrorist financing (CTF).

As many firms operate on a group or cross-border basis and may be affected by events concerning their group entities, we reminded intermediaries and their substantial shareholders about notification requirements under the SFO, the Securities and Futures (Licensing and Registration) (Information) Rules and the Code of Conduct.

During the year, we launched an assessment of the securities sector as part of Hong Kong's money laundering and terrorist financing risk assessment exercise in accordance with the Financial Action Task Force Recommendations⁵. A survey of selected licensed corporations was conducted and focus group meetings were held with various industry stakeholders to collect information for the assessment.

We conducted briefings on the new ALP regime for the Commercial Crime Bureau of the Hong Kong Police Force in June 2015 and for members of the Hong Kong Institute of Certified Public Accountants in October.

In November 2015, we hosted a workshop for about 120 in-house compliance professionals of licensed firms to strengthen our communication with market participants and to increase their understanding of certain aspects of the licensing process.

Statistical information and financial position of the Hong Kong securities industry^a

	As at 31.12.2015	As at 31.12.2014	As at 31.12.2013
Securities dealers and securities margin financiers	1,002	951	927
Active clients (+12%)	1,501,816	1,339,192	1,230,095
Total assets (+1%) (\$ million)	1,089,976	1,080,545	885,238

	12 months to 31.12.2015	12 months to 31.12.2014	12 months to 31.12.2013
Total value of transactions ^b (\$ million)	84,787,467	57,970,022	53,538,483
Total operating profit (+72%) (\$ million)	26,404	15,390	8,123

^a Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. 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 were excluded.

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

Note: Also see Table 8 in Breakdown of SFC activity data on page 145 for more details.

⁵ The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. The FATF Recommendations are recognised as the global AML and CTF standard.

Intermediaries

Supervisory cooperation

To enhance information sharing among regulators and develop a better understanding of the risk profile of an investment banking group operating in Hong Kong, we co-hosted the first Asia-Pacific Regional Supervisory College in February 2016. Regulators from the US, UK and across the region shared their supervisory observations and discussed the business operations, risk management practices, and major legal and compliance focuses of the group.

Paperless individual licences

In November 2015, we ceased issuing printed licences⁶ to licensed individuals in accordance with the Securities and Futures (Amendment) Ordinance 2015. This change reduces the industry's compliance burden and helps protect the environment. The public can refer to our online Public Register of Licensed Persons and

Registered Institutions for the licensing status of individuals as well as corporations and registered institutions.

Fee waiver

In March 2016, we announced that we will again waive all annual licensing fees for another two years to 31 March 2018. Annual licensing fees were waived in 2009 and since 2012.

Investor Compensation Fund

The Investor Compensation Company Limited (ICC), a wholly-owned SFC subsidiary, received 39 claims during the year, including 31 against a defaulting broker on which we issued a Restriction Notice in January 2015. ICC also processed 450 claims, of which 19 claims were rejected, compensation payments were made in respect of 413, four claims were withdrawn by the claimants, and 14 disputed claims are to be reconsidered.

Net asset value of compensation funds

	As at 31.3.2016 (\$ million)	Change	As at 31.3.2015 (\$ million)	Change	As at 31.3.2014 (\$ million)
Unified Exchange Compensation Fund ^a	71.4	2%	70	11.3%	62.9
Investor Compensation Fund ^b	2,210.9	-0.2%	2,214.8	0.6%	2,201
Total	2,282.3	-0.1%	2,284.8	0.9%	2,263.9

^a See pages 125-137 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the SFO on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

^b See pages 107-124 for the financial statements of the ICF.

⁶ We will continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.

Investment products

We authorize investment products offered to the public and monitor their compliance with disclosure and other regulatory requirements. We also seek to facilitate market growth and product innovation while protecting investors' interests.

Authorizations

As of 31 March 2016, there were 2,704 SFC-authorized collective investment schemes (CIS) on offer to the public. During the year, we authorized 158 CIS, comprising 143 unit trusts and mutual funds, 11 investment-linked assurance schemes (ILAS), two mandatory provident fund (MPF) pooled investment funds and two paper gold schemes.

For the 12 months ended 31 March 2016, we authorized 94 unlisted structured investment products for public offering.

Authorized CIS

	As at 31.3.2016	As at 31.3.2015	As at 31.3.2014
Unit trusts and mutual funds	2,133	2,045	1,935
ILAS	301	294	264
Pooled retirement funds	34	35	35
MPF schemes	37	37	40
MPF pooled investment funds	173	185	186
Others	26 [#]	26	27
Total	2,704	2,622	2,487

[#] Comprising 15 paper gold schemes and 11 real estate investment trusts.

Unlisted structured investment products

	2015/16	2014/15	2013/14
Unlisted structured investment products ^a	94	108	119
Authorizations granted under section 105 of the SFO ^b	85	94	94

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorized during the period, most of which were equity-linked investments and deposits.
^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Mainland-Hong Kong Mutual Recognition of Funds

Launched on 1 July 2015, the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme enables, for the first time, eligible Mainland and Hong Kong funds to be offered to the public in the other market subject to a streamlined vetting process. The launch followed a memorandum of regulatory cooperation on MRF which we entered into with the China Securities Regulatory Commission (CSRC) in May 2015.

To help the industry prepare for the MRF scheme, we held a joint SFC-CSRC technical briefing in Shenzhen and a symposium in Hong Kong. We also issued a circular and published frequently asked questions (FAQs) to provide guidance on specific requirements and application procedures.

In December 2015, we granted authorization for the first batch of four Mainland funds under the MRF scheme for public offering in Hong Kong whilst the CSRC approved the first batch of three Hong Kong funds for sale to the public in the Mainland market. As of 31 March 2016, we authorized 27 Mainland funds and the CSRC approved six Hong Kong funds under the scheme.

Investment products

Revamped fund authorization process

We implemented a revamped fund authorization process on 9 November 2015 for a six-month pilot period and formally adopted it on 9 May 2016 (see details in sidebar on page 47). To facilitate preparation of new fund applications under the revamped process, we published a new Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds, introduced a streamlined Information Checklist and FAQs, and held two industry briefings.



Also on 9 November 2015, the six-month application lapse policy was extended to applications for new MPF and pooled retirement fund products seeking SFC authorization. We provided practical guidance on the extension of this policy through an industry briefing and a circular. Another circular was published for applicants seeking authorization of new constituent funds of MPF schemes and pooled investment funds related to a default investment strategy (DIS)¹ which are subject to concurrent review by the Mandatory Provident Fund Schemes Authority (MPFA) and the SFC.

More renminbi products

We played an active role over the past year in expanding the range, depth and variety of retail renminbi products with Mainland policy support, including through the MRF scheme.

During the year, we authorized four RQFII²/Stock Connect unlisted funds and five RQFII/Stock Connect exchange-traded funds (ETFs)³. The total number of authorized RQFII/Stock Connect unlisted funds and ETFs stood at 69 and 25 respectively, and the aggregate RQFII quota utilised by these funds amounted to RMB19.9 billion as of 31 March 2016.

In the past year, we authorized 80 unlisted structured investment products that can be denominated in renminbi, including a gold-linked deposit, or that can be linked to renminbi-denominated reference assets.

SFC-authorized renminbi investment products^a

	2015/16
RQFII/Stock Connect unlisted funds	69
RQFII/Stock Connect ETFs ^b	25
Renminbi offshore dim sum bonds/fixed income unlisted funds	17
Renminbi offshore dim sum bond ETFs	1
Recognised Mainland funds under MRF	27
Renminbi gold ETFs ^c	1
Renminbi real estate investment trusts	1
Paper gold schemes with renminbi features	1
Unlisted structured investment products with renminbi features ^d	80

^a This table represents a snapshot view as of 31 March 2016.

^b These ETFs adopt a dual-counter model, offering investors both a Hong Kong dollar counter and a renminbi counter for secondary trading purposes.

^c Only includes gold ETF denominated in renminbi.

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

¹ The DIS aims to be a highly standardised and fee-controlled MPF investment strategy designed to build up long-term retirement savings. If scheme members have not given any investment instructions, their accrued benefits will be invested according to the scheme's DIS.

² Renminbi Qualified Foreign Institutional Investor.

³ RQFII/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.

Investment products

Open-ended fund companies

We provided assistance to the Government on its January 2016 consultation conclusions on a new regulatory framework for open-ended fund companies and the subsequent introduction of the Securities and Futures (Amendment) Bill into the Legislative Council (LegCo).

Regulation

To improve the transparency of internal funds available under SFC-authorized ILAS, we introduced enhanced structural and disclosure requirements for internal funds in May 2015 and published an FAQ about them.

In view of global regulatory developments, we conducted a focused review of the liquidity risk

management practices of some asset managers of SFC-authorized funds and will issue further guidance as appropriate.

To strengthen Hong Kong's position as a leading asset management centre and to keep in step with international regulatory developments, we have been reviewing how the regulation of the asset management industry, including regulations governing the conduct of asset managers and intermediaries, could be enhanced. As part of this review, we are planning a formal public consultation on issues such as commissions and independent advice, safe custody of fund assets and liquidity management.

Streamlined fund authorization process

A new initiative which took effect on 9 November 2015 made the fund authorization process more streamlined, efficient and focused on key risks without compromising investor protection. It also aimed to promote fund providers' self-compliance and to reduce the "time to market" of funds for public offering.

The revamped process adopts a two-stream approach. New fund applications will be processed as standard applications and fast tracked if certain criteria are met. The six-month application lapse policy, which was first implemented in 2014 as part of our efforts to enhance process efficiency, continues to apply.

In formulating the revamped process, we consulted the industry through the establishment of a technical

working group comprising industry stakeholders to develop minimum disclosure requirements for offering documents and a new information checklist.

At the same time, we standardised our performance pledges for all new fund applications under the revamped process (see page 24 for details).

During the pilot period, the overall efficiency of the authorization process was enhanced and overall processing time was reduced in line with the target timeframe.

As always, applicants are expected to provide timely, proper and quality submissions throughout the application process.

Target processing timeframe

Standard application Authorization (if granted) will be given on average between one to two months from the take-up date of the application

Non-standard application Authorization (if granted) will be given on average within two to three months from the take-up date of the application

Investment products

Supervision and surveillance

We continue to monitor large redemptions, suspension of dealings or liquidity issues of authorized funds by maintaining dialogue with and requesting relevant data from asset managers. During the year, we issued a circular to provide guidance on fund valuation policies and procedures.

Safe custody of fund assets is central to investor protection and has received increasing attention internationally. In the year, we worked with the Hong Kong Monetary Authority on supervising SFC-authorized funds' trustees and custodians which are banks or their subsidiaries in Hong Kong.

MPF schemes

The Government and the MPFA propose to require MPF trustees to provide a DIS in each MPF scheme. In preparation for this requirement, the Mandatory Provident Fund Schemes (Amendment) Bill 2015 was introduced into LegCo and we are working with the MPFA to review and authorize related funds and offering documents.

Other investment products

During the year, 13 new ETFs were authorized and listed, of which five were RQFII/Stock Connect ETFs traded in both Hong Kong dollar and renminbi counters. We authorized the first physical A-share ETF that invests directly in A-shares using the RQFII quota of the fund manager's UK affiliate and via Shanghai-Hong Kong Stock Connect. We authorized the first futures-based crude oil ETF⁴, which was listed in April 2016.

The market capitalisation of all SFC-authorized real estate investment trusts stood at about US\$25.7 billion as of 31 March 2016.

In February 2016, we issued a circular setting out the requirements under which we would consider authorizing leveraged and inverse products for public offering in Hong Kong.

Fund Management Activities Survey

In July 2015, we released the 16th annual Fund Management Activities Survey. The findings showed that despite volatile global markets and a challenging investment climate, Hong Kong's combined fund management business recorded a year-on-year growth of 10.5% to reach a new record of \$17,682 billion as of 31 December 2014.

⁴ Tracking the S&P GSCI Crude Oil Index Excess Return.

Listings and takeovers

We oversee listing and takeover matters in Hong Kong, including takeover and merger activities, the dual filing regime for listing applicants, disclosure requirements, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK).

Listing policy review

We are working closely with SEHK on a holistic review of major areas of listed company misconduct including inflated prices for shell companies, extreme share-price volatility and the listing of questionable assets or businesses. As part of this exercise, we are also reviewing certain features of the Growth Enterprise Market (GEM).

Listing matters

Weighted voting rights

On 25 June 2015, we issued a statement that the SFC Board unanimously concluded that it did not support SEHK's draft proposal on weighted voting rights as set out in its consultation conclusions published on 19 June. In particular, the SFC is of the view that Hong Kong's securities markets and reputation would be harmed if such structures became commonplace.

Listing applications

Under the dual filing regime, we shared with SEHK our comments or concerns on 216 of the 218 listing applications received via SEHK during the year. Three

New listing applications

	2015/16	2014/15	2013/14
Total listing applications ^a	218	164	188
Cases lapsed/withdrawn/rejected during the year	26	13	24
Cases returned	3	6 ^b	8 ^c
New listings ^d	131	125	124

^a Including applications for transfer from GEM to the Main Board (2015/16: 12; 2014/15: 17; 2013/14: 13).

^b Including one listing application which was returned after 31 March 2015.

^c Including one listing application which was returned after 31 March 2014.

^d Including successful transfers from GEM to the Main Board.



Senior executives at 16th Annual Corporate and Regulatory Update

listing applications were returned by SEHK, and an eight-week moratorium¹ was imposed because the application proofs or related documents were not substantially complete.

Takeovers matters

In July 2015, the Takeovers Panel publicly censured the chairman of the Chevalier Group and two other persons for breach of the Takeovers Code. Following a public hearing, the Panel found that they had acted in concert with the late Nina Kung to obtain and consolidate control of ENM Holdings Limited through the acquisition of voting rights and failed to make a general offer as required. Cold shoulder orders were also imposed denying the chairman, Chow Yei Ching, direct or indirect access to the securities markets in Hong Kong for 10 years, and Oscar Chow and Joseph Leung for two years.

Message from Chairman and CEO

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¹ The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

Listings and takeovers

In October 2015, the Takeovers Panel upheld our decision to grant ArcelorMittal, a substantial shareholder of China Oriental Group Company Limited, a waiver from the mandatory general offer obligation under the Takeovers Code which arose upon the unwinding of certain put option arrangements with ING Bank and Macquarie Bank Limited. The Panel reviewed the decision at the request of two minority shareholders.

The Takeovers Panel ruled in December 2015 that a general offer obligation under the Takeovers Code would arise if Cheung Chung Kiu proceeded with the possible acquisition of a controlling shareholder interest in The Cross-Harbour (Holdings) Limited and agreed that a waiver of the general offer obligation should not be granted. In March 2016, we issued a new Practice Note 21 which gives market practitioners guidance on waivers from the mandatory offer obligation arising out of the acquisition of voting rights by members of a group acting in concert under the Takeovers Code.

In February 2016, we publicly censured Goldman Sachs for breaches of the Takeovers Code when, acting as Wing Hang Bank's financial advisor during a voluntary general offer, it executed trades in the bank's securities without making the requisite dealing disclosures and obtaining prior consent. It also failed to comply with restrictions on the issue and distribution of research reports. Goldman Sachs agreed to be disciplined for the breaches.

The number of takeovers-related transactions and applications increased significantly during the year. As in the past, many involved complex deal structures and difficult issues under the Codes on Takeovers and Mergers and Share Buy-backs (Codes), which are principally designed to ensure that shareholders are treated fairly and to maintain a fair and informed market.

In light of a number of breaches involving the issuance of announcements without our prior clearance as required under Rule 12.1² of the Takeovers Code, we stepped up our efforts to raise awareness about these requirements. In June 2015, we presented on this topic at the 16th Annual Regulatory and Corporate Update conference organised by the Hong Kong Institute of Chartered Secretaries and wrote to remind authorized representatives of listed companies and approved persons of real estate investment trusts. We also published a related article in the June 2015 issue of the *Takeovers Bulletin*.

We noted a high level of compliance since the March 2014 implementation of Practice Note 20, which is a guidance note on announcements and documents under the Codes. We made revisions in June 2015 in light of the positive feedback received and to address certain issues which have arisen.

Takeovers activities

	2015/16	2014/15	2013/14
General and partial offers under Code on Takeovers and Mergers	50	55	33
Privatisations	7	7	4
Whitewash waiver applications	51	31	39
Other applications under Code on Takeovers and Mergers [#]	323	279	203
Off-market and general offer share buy-backs	1	3	5
Other applications under Code on Share Buy-backs [#]	3	9	6
Total	435	384	290

[#] Including stand-alone applications and those made during the course of a Code-related transaction.
Note: Also see Table 3 in Breakdown of SFC activity data on page 139 for more details.

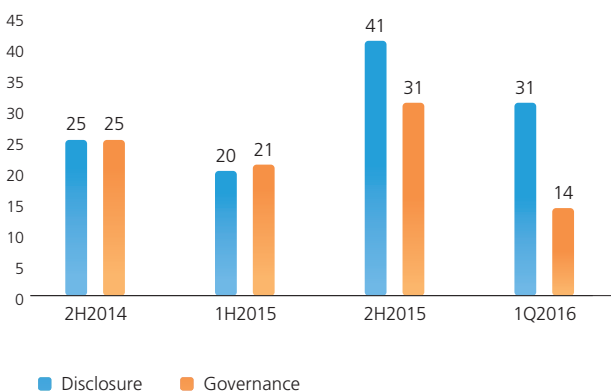
² Rule 12.1 provides that all documents must be filed with the Takeovers Executive (ie, the Executive Director of the SFC's Corporate Finance Division or his delegate) for comment prior to release or publication and must not be released or published until the Executive has confirmed that he has no further comments on them.

Improving corporate practices

Oversight of listed companies

We monitor company announcements on a daily basis to identify corporate misconduct and disclosure irregularities, including behaviour that is prejudicial to the interests of shareholders, non-disclosure of inside information in a timely manner and disclosure of false or misleading information. During the year, we raised 142 enquiries with listed companies. We used our information gathering power under section 179³ of the Securities and Futures Ordinance (SFO) on 137 occasions.

Cases with S179 direction

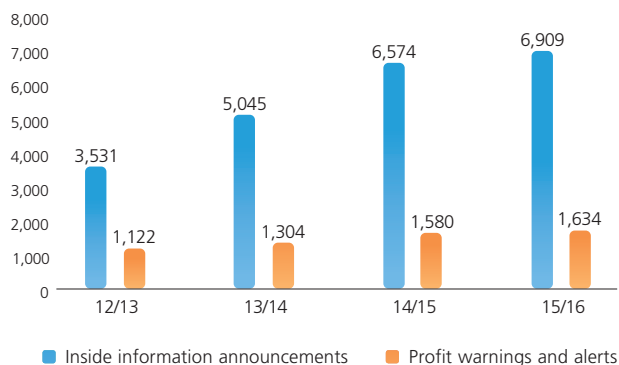


Note: Disclosure cases mainly involved late or inadequate disclosures, omission of material information or disclosure of false or misleading information. Governance cases were related to overvalued acquisitions, misstatements in company financials, misappropriation of funds and highly dilutive fund raising transactions.

We concentrated in particular on more significant issues related to listed companies during the year, including delayed disclosure or events detrimental to shareholders. Such cases tended to be more complex compared to previous years. Since the new disclosure regime came into effect in January 2013, there has been a notable increase in the total number of inside information announcements. In addition, there seemed to be fewer vague profit alerts and warnings and thus fewer enquiries were made in connection with such announcements.

³ 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.

Inside information announcements, profit warnings and alerts



Source: Hong Kong Exchanges and Clearing Limited

Principles of responsible ownership

Upon the conclusion of a public consultation, we introduced in March 2016 the Principles of Responsible Ownership which aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong-listed companies. The principles, which are voluntary, apply to investors who invest money or hold shares on behalf of clients or stakeholders to whom they are accountable. We will monitor the reception and development of the principles to determine whether further amendments may be necessary.

Corporate Regulation Newsletter

The second and third issues of our *Corporate Regulation Newsletter* were published in April 2015 and March 2016, respectively, as part of our initiative to enhance the quality of disclosures by listed companies and to improve corporate behaviour in general. The April 2015 issue highlighted the importance of proper disclosure of inside information, while the March 2016 issue reminded listed companies to disclose inside information in an appropriate manner which is accessible to the public.

Market infrastructure and trading

To ensure orderly markets, we supervise and monitor exchanges and clearing houses in Hong Kong. During the year, we worked on a number of initiatives to enhance the operations of the securities and futures markets.

Supervision of HKEX

We worked with Hong Kong Exchanges and Clearing Limited (HKEX) to implement our enhanced supervisory approach which includes regular on-site inspections of HKEX operations and establishing financial resources requirements for HKEX and its subsidiary exchanges and clearing houses in Hong Kong. This approach ensures HKEX complies with its statutory obligations in pursuing its business strategies.

In June 2015, we approved HKEX's introduction of stock index futures contracts for seven sectors including software, Mainland banks and properties.

We approved HKEX's metal mini futures contracts on nickel, tin and lead which commenced trading in December 2015¹. This initiative enriches the commodity product mix in Hong Kong and facilitates trading and hedging activities in the Asian time zone.

Shanghai-Hong Kong Stock Connect

We worked closely with HKEX to enhance the operation of Shanghai-Hong Kong Stock Connect. Special Segregated Accounts, introduced in April 2015, enable institutional investors to fulfil the Stock Connect pre-trade checking requirement without transferring stocks to their brokers before the market opens. We also strengthened our technical infrastructure to allow for real-time monitoring of northbound trading through Stock Connect.

Short position reporting rules

In February 2016, we published consultation conclusions on our proposal to extend the short position reporting requirements to all securities that can be short sold under the rules of The Stock Exchange of Hong Kong Limited. The new regime, which will improve our ability to monitor short selling and enhance market transparency, will become effective in March 2017.



¹ The first group of metal mini futures contracts, on aluminium, zinc and copper, was launched in December 2014.

Market infrastructure and trading

Automated trading services

Over the past year, we approved eight applications for authorizations to provide automated trading services (ATS) under Part III of the SFO² from overseas regulated exchanges, clearing houses and electronic trading facilities, and we withdrew two authorizations at the request of authorized Part III ATS providers.

OTC derivatives

The first phase of the new over-the-counter (OTC) derivatives regime was implemented in July 2015 with the introduction of mandatory reporting and related record-keeping obligations³. In February 2016, we published consultation conclusions on mandatory clearing as well as the expansion of mandatory reporting requirements to transactions in all five key asset classes⁴. Mandatory clearing will commence in September 2016 and expanded mandatory reporting in July 2017.

OTC Clearing Hong Kong Limited (OTC Clear) was recognised as a third-country central counterparty by

the European Securities and Markets Authority (ESMA) after the SFC and ESMA entered into a memorandum of understanding (MoU) in January 2015 on cooperation arrangements for central counterparties established in Hong Kong. In addition, Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited, and the Stock Exchange of Hong Kong Options Clearing House Limited were also recognised as third-country central counterparties by ESMA.

ATS guidelines

In November 2015, we launched a public consultation on proposed amendments to the SFC's Guidelines for the Regulation of ATS to align them with international standards and practices and introduce more specific requirements for central counterparties which provide clearing services for OTC derivative transactions. We published the consultation conclusions in March 2016, and the revised ATS Guidelines will take effect when mandatory clearing of OTC derivative transactions is implemented.

Automated trading services (ATS)

	As at 31.3.2016	As at 31.3.2015	As at 31.3.2014
ATS authorizations under Part III	38	32	30
Corporations provide ATS under Part V	24	25	25

² As a general principle under the SFC's Guidelines for the Regulation of ATS, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed under Part V of the Securities and Futures Ordinance (SFO), while those solely providing ATS are expected to be authorized under Part III of the SFO.

³ The current phase of mandatory reporting covers only certain interest rate swaps and non-deliverable forwards.

⁴ Interest rate, foreign exchange, equity, credit and commodity derivatives.

Enforcement

We pursue deterrent, punitive and restorative actions to combat crime and market misconduct, discourage future misbehaviour and remediate the consequences of wrongdoing, by using the full spectrum of functions and powers available in the Securities and Futures Ordinance (SFO). During the year we focused our efforts on five enforcement priorities: corporate misgovernance, market manipulation, insider dealing, intermediary misconduct and unlicensed activities.

We applied for disqualification and restorative orders against three persons and two corporations. Civil actions seeking financial redress and other remedial orders against 100 persons and corporations in 26 cases are pending before the court.

In addition, we commenced two proceedings in the Market Misconduct Tribunal (MMT) for the late disclosure of inside information by listed companies. We commenced a case in the MMT alleging insider dealing against two corporations and persons. We also took disciplinary action against 41 intermediaries.

We laid 107 criminal charges against 15 individuals and five corporations during the year. We secured convictions against 15 persons and three corporations, including a conviction for an offence of market manipulation. The number of investigations rose by 12% from the previous year.

Surveillance work

During the year, our surveillance of untoward price and turnover movements resulted in 7,997 requests for trading and account records from intermediaries. These requests produce vital information that enables us to monitor our markets and detect potential and suspected misconduct in real time.

Additionally, we received and assessed 119 notifications from intermediaries¹ regarding suspicious trading in equities and derivatives. We posted 15 announcements on our website to remind the investing public to

exercise caution when trading in shares in companies where a small number of shareholders hold a high concentration of shares.

The total number of market surveillance cases rose 9% year-on-year and this year's cases were characterised by increasing complexity, longer periods of suspicious transactions or order-placing activities and a significant rise in the number of targets outside Hong Kong.



Redress for investors

We take action to address the harm caused by market misconduct and seek redress for investors, including pursuing restorative and freezing orders under section 213² of the SFO.

- Alleging that Descartes Athena Fund SPC and its managers defrauded investors by sending them false account statements and subscription contracts, we recovered \$191 million and paved the way for about 340 overseas investors to recoup part of their investments.
- We obtained orders from the Court of First Instance (CFI) against Maxim Capital Limited and Maxim Trader to freeze \$23.5 million in Hong Kong, restrain them from advertising unauthorized collective investment schemes and suspend their websites. The unlicensed companies solicited over 130 investors to invest more than \$111 million since 2013. Our investigation continues.

¹ Intermediaries are required to report clients' suspected market misconduct to the SFC in accordance with paragraph 12.5 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

² Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for injunctions and other orders under specified conditions.

Enforcement

- We obtained interim injunctions in the CFI freezing about \$600,000 in bank accounts suspected of receiving monies from investors of alleged frauds known as boiler rooms³. The court also restrained those operating the boiler rooms from holding themselves out as carrying on regulated activities and suspended their websites. Our investigations into these cases are continuing.
- Court-appointed administrators completed the distribution of restoration payments to all but three of the 297 counterparties to the insider trades of

Du Jun, who was found guilty in the District Court of insider dealing. About \$23 million was paid out to investors⁴.

- We issued a notice to those counterparties of futures trader Tsoi Bun who had not yet come forward to inform them how to receive compensation under a court order⁵. Tsoi was convicted of price rigging on the futures market and ordered to pay over \$13 million to compensate affected investors.

Winding up a listed company to protect investor interests

What will be the consequences if a listed company committed fraud associated with its listing? One answer to this question was given by the CFI in February 2015 when it ordered that China Metal Recycling (Holdings) Limited be wound up. This was the first time we obtained a court order to wind up a listed company under section 212[#] of the SFO in the interest of the investing public.

Our investigation into China Metal commenced in late 2009. We discovered that the company inflated its performance, revenue and profits dating back to the time of its initial public offering prospectus and obtained its initial listing in 2009 by fraud. For the period from 2007 to 2009, aggregate revenue appeared to be overstated by around 46% (over \$8 billion) and its gross profit by 72% (over \$1 billion).

China Metal engaged in a highly complex and sophisticated scheme involving thousands of fake

[#] Section 212 of the SFO permits the SFC to initiate winding-up proceedings under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if it considers that it is desirable in the public interest to do so, and on the grounds that the making of a winding-up order would be just and equitable.

shipping documents, false accounts and circular flows of funds across multiple countries. We conducted an extensive investigation and gathered evidence from all corners of the world.

As the scope of the case expanded, we drew on a wide range of expertise in our enforcement and legal services divisions, as well as external professionals. We all worked closely together to tackle the difficulties and challenges presented by this unprecedented case under a tight timetable for the legal proceedings. Mainland and overseas regulators also assisted in our investigation.

Any wrongdoing which harms our markets and the interests of investors will not be tolerated. In this case, we were able to stop a large-scale, ongoing fraud by a listed company and winding up the company was the most appropriate action to maintain a fair, orderly market.

³ Boiler rooms usually falsely claim to be licensed for regulated securities or futures business and to operate in a particular jurisdiction, and typically offer investment opportunities that may turn out to be worthless or false.

⁴ As three investors could not be contacted, the remaining \$813,686 was returned to Du with the court's approval.

⁵ 288 investors were compensated and around \$9 million was claimed as of 31 March 2016.

Enforcement

Disqualification orders

We obtained orders in the CFI under section 214⁶ of the SFO against three former directors of First China Financial Network Holdings Limited disqualifying them from being a director or being involved in the management of any listed or unlisted company in Hong Kong without the court's permission for four to seven years. They dishonestly breached their duties to First China when they required the company to distribute a dividend of RMB18.7 million to a party connected with its chairman on the pretext of a non-existent oral agreement.

Compelling production of accounting information

During the year, Ernst & Young (EY) withdrew its appeal against the court orders compelling it to produce to the SFC the audit records from the proposed listing of Standard Water Limited. After the judgment was handed down, EY provided the records to the SFC. The landmark judgment confirmed the powers under section 185⁷ of the SFO to compel production of audit working papers relating to listed companies with Mainland businesses.

Civil proceedings

The CFI found that two solicitors, along with a family member, contravened section 300⁸ of the SFO in transactions involving shares listed on the Taiwan Stock Exchange and also committed insider dealing in the shares of Asia Satellite Telecommunications Holdings Limited. They made a total profit of approximately \$2.9 million from these transactions. The court's decision, a landmark ruling on the interpretation of section 300 of the SFO, confirmed that it applies to trades originating in Hong Kong and placed on overseas markets and that conduct akin to insider dealing can amount to section 300 fraud and deception in some circumstances.

Market manipulation

Wong Chun, a former licensee, was convicted of false trading in the shares of Sino-Tech International Holdings Limited between December 2010 and January 2011. He used matched and wash trades to inflate the shares' trading volume by more than 400%. As a result, Wong was able to offload 200 million shares and make a gross profit of more than \$2 million. The court sentenced Wong to the statutory maximum of 240 hours of community service and imposed a cold shoulder order⁹ against him for two years.

Market Misconduct Tribunal

- We started two proceedings in the MMT for breaches of listed companies' obligations to announce inside information as soon as reasonably practicable under Part XIVA¹⁰ of the SFO:
 - We alleged that AcrossAsia Limited and both its chairman and CEO failed to announce the commencement of insolvency-related proceedings in Indonesia against AcrossAsia in a timely manner.
 - We alleged that Mayer Holdings Limited delayed disclosing inside information and that the reckless or negligent conduct of 10 current and former senior executives caused the delay.
- We commenced proceedings in the MMT against Lo Hang Fong, former Company Secretary of Warderly International Holdings Limited, and Luu Hung Viet Derrick, a lender and potential investor in Warderly, for alleged insider dealing in Warderly shares.
- The MMT dismissed an application by Andrew Left of Citron Research for an order either for the production of Evergrande Real Estate Group Limited's financial records or for a stay¹¹ of the MMT proceedings commenced by the SFC regarding a research report Left published on Evergrande. The MMT proceedings against Left continued.

⁶ Under section 214 of the SFO, the CFI may make orders disqualifying a person from being a company director or being involved in the management of any corporation for up to 15 years. The court may also make a range of orders it considers appropriate, including ordering a company to bring proceedings in its own name against any person specified or for compensation to be paid to the company.

⁷ Under Section 185 of the SFO, the SFC may apply to the court for orders to comply with the SFC's requirements to produce information and documents.

⁸ Section 300 of the SFO prohibits the use of fraudulent or deceptive schemes in transactions involving securities listed in Hong Kong or overseas.

⁹ A cold shoulder order is a sanction which prevents a person from trading in SFC regulated financial products in Hong Kong for a period of up to five years.

¹⁰ Part XIVA of the SFO (Disclosure of Inside Information) requires listed corporations to disclose inside information in a timely manner.

¹¹ Not to take any further steps in court proceedings.

Enforcement

Criminal sanctions

- Lee Kwok Wah was convicted of providing false information to the SFC when he concealed his previous criminal conviction in two licence applications in 2014.
- The CFI dismissed an appeal by Lam Fai Man, a substantial shareholder of Victory Group Limited, against his convictions for failing to disclose to Victory changes in his interests in its shares as required by the SFO.
- The Eastern Magistrate's Court issued an arrest warrant for Tang Xian, a Mainland resident, who did not appear to answer three insider dealing charges laid by the SFC.



Unlicensed activities

We successfully prosecuted one corporation and two individuals for unlicensed activities:

- Hong Kong Game Theory Association Limited and its sole director and shareholder, Sze Ching Lok, who ran courses on trading in Hang Seng Index futures contracts and provided real-time investment advice, were convicted of advising on futures contracts without a licence.
- Lo Chun Lam was convicted of advising on futures contracts without an SFC licence. He gave advice to subscribers who paid to join private discussion groups.

Disciplinary action

We took disciplinary action against 41 licensed corporations and individuals. Total fines¹² amounted to \$87.1 million.

We imposed bans on 20 individuals and suspended or revoked the licences of four persons for various wrongdoing. See Table 6 on pages 142-143 for more details.

Key disciplinary actions included:

- Three J.P. Morgan companies¹³ were reprimanded and fined a total sum of \$30 million for failing to implement adequate systems and controls to comply with the rules and regulations applicable to short selling activities, client facilitation and principal trading businesses, and dark liquidity pool trading services.
- BNP Paribas Securities (Asia) Limited was fined twice in the sums of \$15 million and \$11 million for failures relating to its alternative liquidity pool trading services and failures to report cross trades to The Stock Exchange of Hong Kong Limited.
- Nomura International (Hong Kong) Limited was reprimanded and fined \$4.5 million for failing to report significant misconduct by a former trader in a timely manner.
- Okasan International (Asia) Limited and Phillip Securities (Hong Kong) Limited were reprimanded and fined \$4 million and \$1 million respectively for failures in selling investment products.
- Yuanta Securities (Hong Kong) Company Limited was reprimanded and fined \$4 million for failures relating to bond transactions.
- Yu Chun Chieh, a former licensed representative, was banned from re-entering the industry for life for misappropriating around \$3.9 million of an investor's money and misleading him with false account statements.

¹² Fines paid to or recovered by the SFC go into the general revenue of the Government.

¹³ J.P. Morgan Broking (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited and J.P. Morgan Securities (Far East) Limited.

Enforcement

- Unicorn Securities Company Limited and its former responsible officer were reprimanded and fined \$3 million and \$200,000, respectively, for failures in handling clients' money and securities.
- Merrill Lynch Far East Limited was reprimanded and fined \$2 million for regulatory breaches and internal control failings relating to position limits.
- Wong Wai Hong, former Chairman and CEO of Lyncean Securities Limited, was banned from re-entering the industry for six months for effecting transactions in a client's account on a discretionary basis without obtaining the client's written authorization.

Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal (SFAT) heard four appeals during the year:

- The SFAT upheld our decision to reprimand and fine¹⁴ Moody's Investors Service Hong Kong Limited for various failures relating to its publication in 2011 of a report, *Red Flags for Emerging-Market Companies: A Focus on China*, which purportedly identified risk factors of Mainland companies. In breach of the relevant requirements in the Code of Conduct¹⁵, Moody's painted an unfair, unclear and misleading picture of the companies and failed to ensure the accuracy of the report. In addition, it chose to list the red flags despite its analysts' assessment which showed no significant correlation between the number of red flags and the companies' credit risk. This was the first disciplinary case under the licensing regime for credit rating services which came into force in 2011. Moody's has lodged an appeal against the SFAT's decision.

- The SFAT affirmed our decision to reprimand and fine The Pride Fund Management Limited. The company failed to enter into mediation with an eligible claimant under the Financial Dispute Resolution Scheme¹⁶. This was the first time the SFC enforced intermediaries' Code of Conduct obligations to comply with this scheme.
- The SFAT affirmed our decision to revoke approval for Sham Sze Wai Miranda to act as a responsible officer. She was involved in serious internal control deficiencies at Ping An of China Securities (Hong Kong) Company Limited including failures in reporting suspicious transactions in a timely manner and not establishing anti-money laundering internal control procedures.
- The SFAT affirmed our decision to ban Sun Xiao from re-entering the industry for 13 months. Sun traded in a personal securities account without disclosing it to her former employer and failed to avoid potential conflicts of interest.

Enhanced cooperation with the Department of Justice

In March 2016, we entered into a memorandum of understanding (MoU) with the Department of Justice to formalise and further strengthen our cooperation in handling criminal cases under the SFO and other relevant legislation to better protect Hong Kong's financial markets. The MoU builds on existing arrangements between the two parties and reaffirms our commitment to work together closely to ensure that misconduct in the securities and futures markets is dealt with in a timely and effective manner.

¹⁴ The SFAT reduced the amount of fine from \$23 million to \$11 million after rejecting two of five of the SFC's findings.

¹⁵ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

¹⁶ Administered by the Financial Dispute Resolution Centre. See Glossary and abbreviations on page 155 for more details.

Enforcement

Enforcement activities

	2015/16	2014/15	2013/14
S179 ¹ inquiries commenced	24	21	23
S181 ² inquiries commenced (number of letters sent)	286 (7,997)	293 (9,752)	220 (5,711)
S182 ³ directions issued	507	553	346
Investigations started	515	553	352
Investigations completed	436	362	319
Investigations completed within seven months (%)	222 (51%)	252 (70%)	200 (63%)
Individuals/corporations charged in criminal proceedings	20	15	35
Criminal charges laid	107 ⁴	71	226
Notices of Proposed Disciplinary Action ⁵ issued	35	36	55
Notices of Decision ⁶ issued	42	46	51
Individuals/corporations subject to ongoing civil proceedings	100	93	69
Compliance advice letters issued	453	302	337
Cases with search warrants executed	31	53	59

¹ 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.

² Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

³ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

⁴ The SFC brought a total of 107 criminal charges against 15 individuals and five corporations.

⁵ 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.

⁶ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 144 for more details.

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Risk assessment

We adopt a holistic approach to risk assessment to help the industry identify and deal with a wide range of complex risks. Through active local and international dialogue, we keep pace with the changing market environment and the potential risks associated with technology development. We also maintain an internal risk register to provide our senior management with an overview of the risks relevant to our operations and our strategies for responding to them.

Industry meetings

We conducted a series of non-supervisory industry meetings with global financial institutions with a focus on the risk data they collect and analyse and the regulatory and financial technologies they utilise. These meetings, supplemented by our independent research and analysis, allow us to align our own intermediaries' data and reporting requirements with a rapidly changing marketplace.

Financial technology (Fintech)

During the year, we launched new initiatives to foster communication with the Fintech community (see sidebar for details).

In April 2015, Ms Bénédicte Nolens, Senior Director of Risk and Strategy, was appointed a member of the Financial Services and Treasury Bureau Steering Group on Financial Technologies, which issued a report in February 2016 presenting its recommendations for developing and promoting Hong Kong as a Fintech hub.



Risk data strategy and regulatory technology

To enhance risk data aggregation, visualisation and analysis as well as to assess the data collected from our licensed corporations, we are forming a risk data strategy and implementing an internal regulatory technology project.

Fintech Contact Point

In March 2016, we established a Fintech Contact Point as a dedicated channel to encourage businesses involved in the development and application of Fintech in Hong Kong to engage with the SFC.

We focus on how to best harness the value Fintech can provide the financial sector.

The purpose of the Fintech Contact Point is to act as a centralised point to receive enquiries and requests from the Fintech community through the portal on the SFC website and to enable the SFC to stay abreast of the development of Fintech in Hong Kong. Parties engaged in Fintech business which may be subject to current regulation can use this online platform to share relevant information with the SFC for further discussion.

A variety of Fintech activities may be relevant to the SFC's regulatory work. Among these are automated trading systems; financial product investment and distribution platforms, including robo-advisors; financing platforms, including peer-to-peer lending and equity crowdfunding; and distributed ledger technology, including the application of blockchain to licensed intermediaries, securities and capital markets.

We also established a Fintech Advisory Group to collect information about the latest Fintech trends and themes, and identify the opportunities, risks and regulatory implications of Fintech. The Fintech Advisory Group consists of representatives from the SFC and the Fintech community.

Global regulatory engagement

We actively participate in global regulatory policymaking and work closely with local, Mainland, regional and international regulators to keep Hong Kong's regulatory framework aligned with global standards.

International

IOSCO

We play an active role in the International Organization of Securities Commissions (IOSCO) which develops, implements, and promotes adherence to internationally recognised standards for securities regulation. The SFC is represented in IOSCO's key task forces, its Assessment Committee and all eight of its policy committees which cover investment products, enforcement, supervision, secondary markets, issuer regulation, credit rating agencies and retail investors.

- In May 2016, Mr Ashley Alder, Chief Executive Officer (CEO), was appointed as Chairman of the IOSCO Board, the organisation's governing and standard-setting body, after serving as Vice-Chairman since December 2015.
- Mr Alder continued to chair the IOSCO Asia-Pacific Regional Committee (APRC), a platform for strengthening cooperation and collaboration amongst regulators in the Asia-Pacific region. Under the APRC Roadmap, which sets out a strategic framework for making meaningful contributions to the region's development, working groups were established for coordinating regional responses to extraterritorial regulations, for supervisory and enforcement cooperation, and for mapping the regulation of collective investment schemes (CIS).

The APRC is working with the European Commission and the European Securities and Markets Authority (ESMA) to establish a regular forum to facilitate the implementation of European Union cross-border financial reforms in the Asia-Pacific region.

In March 2016, we hosted the APRC Meeting, the APRC Enforcement Meeting and the inaugural APRC Supervisory Meeting in Hong Kong. A roundtable with representatives of the World Bank, the Asian Infrastructure Investment Bank and the Asian Development Bank considered how securities regulators could work with development organisations and institutional investors to encourage infrastructure investment.

We hosted an APRC training webinar in January 2016 on Hong Kong's experience with cross-border enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding (MoU), and another in February which covered tools to manage risks in securities markets. Over 25 organisations from around the world were represented at each webinar.

- In November 2015, Mr Alder was appointed Chair of the IOSCO Task Force on Market Conduct which also focuses on individual behaviour and responsibility, particularly in fixed income and commodities markets.
- Mr Alder chaired the IOSCO Task Force on Cross-Border Regulation which published its final report in September 2015. A detailed resource, the report includes a toolkit of regulatory options, analysis and recommended next steps to facilitate cross-border regulation under the current global regulatory architecture. (See sidebar on page 63.)
- As a member of IOSCO's Committee on Investment Management, we participated in initiatives including the formulation of updated best practices on fees and expenses for CIS and also contributed to the survey for IOSCO's report on *Liquidity Management Tools in Collective Investment Schemes* issued in December 2015.
- Mr Stephen Po, Senior Director of Intermediaries Supervision, chairs IOSCO's Committee on Regulation of Market Intermediaries. As part of its ongoing work, the committee published three final reports: *Crowdfunding 2015 Survey Responses Report*, *Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings*, and *Market Intermediary Business Continuity and Recovery Planning*.
- In December 2015, Ms Bénédicte Nolens, Senior Director of Risk and Strategy, was appointed Vice-Chair of the IOSCO Committee on Emerging Risks (CER) where she leads the Workstream on Financial Technology (Fintech). She also leads the Workstream on the Risk Data Survey.
- In October 2015, we hosted a meeting for IOSCO's Committee on Issuer Accounting, Audit and Disclosure in Hong Kong to consider implementation and enforcement matters.

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Global regulatory engagement

Financial Stability Board

We collaborate with the Hong Kong Monetary Authority, the Office of the Commissioner of Insurance and the Government to support the work of the Financial Stability Board (FSB) in relation to the securities, banking and insurance sectors.

We are a member of the FSB's Standing Committee on Standards Implementation, which aims to ensure the implementation of financial reforms by national authorities under the G20 mandate. We participate in its annual exercise on global financial reforms as a member of the FSB Implementation Monitoring Network.

At the October 2015 meeting of the Regional Consultative Group for Asia, of which we are a member, Mr Alder spoke on market-based finance and asset management and on the supervision of market conduct in the wholesale fixed income, currencies and commodities markets.

We are a member of the FSB's Workstream on Other Shadow Banking Entities which has been tasked to identify structural vulnerabilities related to asset management activities and make policy recommendations. We also participate in various FSB working groups, including the FSB OTC Derivatives Working Group, to ensure that the views of securities market regulators are reflected.

Mainland China

We maintained close collaboration with the China Securities Regulatory Commission (CSRC), People's Bank of China, State Administration of Foreign Exchange and other Mainland authorities to deepen financial cooperation through various initiatives, including Stock Connect and the Mainland-Hong Kong Mutual Recognition of Funds (MRF). We communicated regularly with regional authorities in Guangdong, Fujian, Shanghai and Shenzhen. We also organised training programmes for senior executives from the CSRC and other Mainland authorities.

A new agreement on trade in services under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed between the Government and the Ministry of Commerce on 27 November 2015 and implemented on 1 June 2016. We participated in discussions with Mainland authorities to formulate new measures relating to the securities sector, including relaxing shareholding requirements for Hong Kong financial institutions establishing joint ventures on the Mainland, which facilitates their access to the Mainland capital market; and promoting the issuance of renminbi bonds on Mainland exchanges by qualified Hong Kong companies, which promotes Hong Kong's offshore renminbi business.

Other joint initiatives

We attended the seventh MoU Meeting with the Financial Supervisory Commission in Taipei on 24 November 2015 where we discussed various cooperation initiatives and shared Hong Kong's experience in regulating financial intermediaries.

In November 2015, we entered into an MoU with ESMA which allows the SFC and ESMA to have indirect access to information on derivatives contracts held in trade repositories. Separately, we signed an MoU with the US Commodity Futures Trading Commission in December 2015 on the supervision and oversight of regulated entities that operate on a cross-border basis and we entered into an MoU with the Bank of England in February 2016 on the supervision of financial market infrastructures.

In February 2016, we and the Australian Securities and Investments Commission jointly hosted the first Asia-Pacific Regional Supervisory College for regulators from the region as well as the US and UK. This provided a platform for developing a better understanding of the risk profile and activities of an investment banking group and sharing supervisory approaches.

In May 2016, we hosted the fourth Asia Pacific Takeovers Regulators Conference in Hong Kong where regulators from across the region shared views on promoting transparent and fair takeovers activities.

Requests for regulatory cooperation

	2015/16		2014/15		2013/14	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	92	160	94	111	107	113
Licensing-related requests for assistance	124	1,104	110	1,058	103	1,081

International and Mainland collaboration

Because Hong Kong is a net importer of financial services and an open market with increasing cross-border connections, events in other parts of the world can have significant effects on the markets we regulate. It is imperative that we work closely with our counterparts



APRC Enforcement Meeting

in other jurisdictions and take an active role in global regulatory initiatives. Two units within our CEO's Office are dedicated to helping us achieve these objectives.

Extraterritorial rules

Our International Affairs unit monitors and conducts analysis of global regulatory developments and works closely with overseas regulators, authorities and industry bodies to formulate and implement initiatives which help promote Hong Kong's status as an international financial centre.

During the year, the unit compiled the final report of the IOSCO Task Force on Cross-Border Regulation, which was chaired by our CEO. As a result of the task force's efforts, cross-border considerations are now incorporated into IOSCO's processes and its working groups must take into account whether recommendations or new standards will have any cross-border impact.

This is particularly important for Hong Kong, which hosts a large number of international financial firms with headquarters in the US or EU. After the financial crisis, a host of new and sometimes conflicting rules exported from overseas had an extraterritorial impact on Asia. Our International Affairs unit has taken the lead in resolving these conflicts as well as tackling the broader regulatory challenges stemming from greater global capital markets integration.

The International Affairs unit also supports the CEO and senior executives in interactions with international counterparts such as IOSCO and the FSB. Managing our participation in FSB meetings and workstreams is now particularly important because as the FSB's agenda expands to include market misconduct, asset management and similar issues, its members (including central banks) need to better understand and consider the perspectives of securities regulators.

Mainland integration

In July 2015, we established a dedicated Mainland Affairs unit to better coordinate our work relating to the Mainland and to strengthen our interaction and engagement with Mainland authorities.

The unit assists and advises the CEO, the Board and senior executives in developing strategies, priorities and long-term plans to facilitate Hong Kong's unique role in supporting the Mainland's financial reforms and market opening. The unit liaises and coordinates the SFC's cooperation with Mainland regulatory authorities. It also monitors and conducts research into regulatory trends and developments in Mainland capital markets and supports Mainland-Hong Kong financial cooperation initiatives led by the Government.

The work of the Mainland Affairs unit is crucial as Hong Kong and Mainland markets continue to integrate. In October 2014, the SFC signed a ground-breaking agreement with the CSRC on strengthening regulatory and enforcement cooperation ahead of the launch of Shanghai-Hong Kong Stock Connect. As a result, the two regulators are better able to assist each other when dealing with misconduct in the Hong Kong and Mainland markets. Close and effective cooperation was also essential in implementing the MRF scheme and preparing for the upcoming launch of Shenzhen-Hong Kong Stock Connect.

Stakeholder communication

We maintain an organisation-wide stakeholder engagement programme which aims to promote more concerted, timely and effective outreach, help stakeholders understand our work and the rationale behind it, and keep the public informed about our rules and the most up-to-date regulatory information. Our engagement efforts also seek to address stakeholders' concerns and enquiries.

Multiple stakeholder communication channels



Government

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to provide legislators with details of our policy initiatives, explain the rationale behind our work, and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies.

Through regular meetings and reports, we maintain close liaison with the Financial Services and the Treasury Bureau and provide updates on our regulatory initiatives. Furthermore, we provide assistance and information to other government bureaux and departments on various issues.

Regulatory counterparts

We play an active role in international regulatory cooperation through our participation in the International Organization of Securities Commissions and the Financial Stability Board (see Global regulatory engagement on pages 61-63).

To foster effective regulatory cooperation, we maintain close contact with our local, Mainland and overseas regulatory counterparts. With other authorities and exchanges, we signed seven memoranda of understanding (MoU) and held more than 50 MoU meetings during the year. We received visitors and delegates from Mainland and overseas authorities.

Publications and other communications

	2015/16	2014/15	2013/14
Press releases	114	137	117
Consultation papers	5	8	4
Consultation conclusions	9	6	1
Industry-related publications	11	15	11
Codes and guidelines	3	7	5
Circulars to industry	68	48	46
Corporate website average daily page views [#]	51,020	44,954	42,908
General enquiries	7,033	5,883	7,333

[#] The average number of web pages browsed per day during the reporting period.

Stakeholder communication

Industry participants

Keeping industry participants well-informed about regulatory developments and understanding their concerns are both crucial to our work.

We organised the Mainland-Hong Kong Mutual Recognition of Funds Symposium in July 2015 (see Investment products on page 45) and the second SFC Regulatory Forum in February 2016 (see sidebar on page 67). More than 1,200 participants from the financial industry, listed companies, regulatory and professional bodies and chambers of commerce attended these events.

We maintain an open and productive dialogue with industry associations, professional bodies and other market participants on a range of topics including intermediary supervision and licensing-related matters. During the year we organised a series of non-supervisory risk-focused industry meetings with global financial institutions.

When we propose rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation by consulting on both proposed and amended non-statutory codes and guidelines prior to their implementation. Over the past year, we published five consultations and nine consultation conclusions.

Complaints against intermediaries and market activities

	2015/16	2014/15	2013/14
Conduct of licensees	338	672	309
Conduct of registered institutions	34	30	33
Listing-related matters and disclosure of interests	631	532	403
Market misconduct [#]	265	277	311
Product disclosure	9	1	11
Unlicensed activities	128	80	89
Breach of offers of investments	21	40	9
Other financial activities	630	487	483
Total	2,056	2,119	1,648

[#] Primarily, alleged market manipulation and insider dealing.



SFC Executive Director Series hosted by the Hong Kong Securities and Investment Institute

Internal guidelines set out best practices for senior executives to handle speaking and media engagements. During the year, our senior executives took part in 78 speaking engagements to explain our regulatory objectives and approach, with topics ranging from corporate governance and regulation to asset management. We also supported eight seminars or events organised by industry bodies.

Our publications aim to provide updates on our regulatory work, topical issues and other developments. We published 11 thematic publications during the year, including periodic newsletters, market reviews and surveys.

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Stakeholder communication

Circulars and frequently-asked questions are posted on the SFC website to help the industry better understand regulatory issues. We issued 68 circulars during the year.

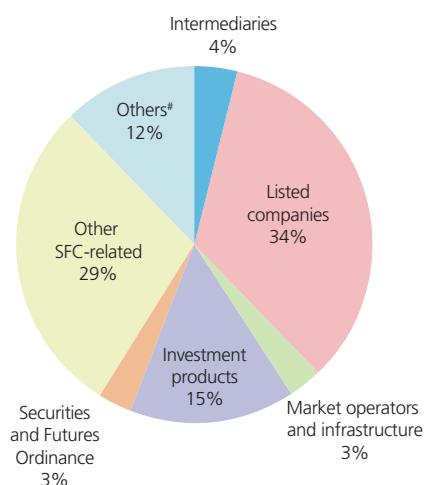
We also reconnect with former SFC staff by organising a yearly alumni event at our premises. Since 2009, this event has attracted more than 700 attendees.

The public

We seek to address public concerns and enquiries regarding the markets we regulate. During the year, we received a total of 7,033 general enquiries by phone or in writing. Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, comprising senior executives from across the organisation, and are then allocated to responsible divisions for assessment where appropriate.

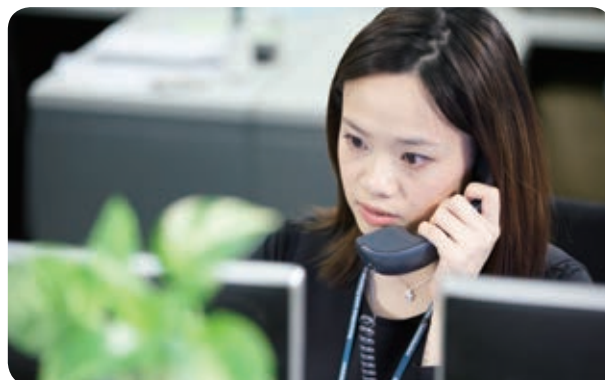
During the year, we handled 2,056 complaints. A total of 1,134 cases¹ were allocated for further review and 278 were referred to Hong Kong Exchanges and Clearing Limited or other financial regulators.

General enquiries



* Others include enquiries which are not related to the SFC.

¹ One case may comprise multiple complaints.



To increase public understanding of Hong Kong's financial regulatory framework and our own work, we received over 250 visitors from local and overseas institutions and our senior executives delivered key messages in media interviews.

The third series of "SFC in Action", a law-enforcement TV drama co-produced with Radio Television Hong Kong, was broadcast in 2015 to highlight the importance of vigorous enforcement for safeguarding the integrity of the market and protecting investors (see pages 68-69).

We published our *Annual Report 2014-15* and three quarterly reports and issued 114 press releases to inform the public of the latest regulatory actions and other SFC news. Our reporting efforts were recognised with a Gold prize in the Hong Kong Management Association's Best Annual Reports Awards 2015, and a Gold award, public sector category, in the Hong Kong Institute of Certified Public Accountants' 2015 Best Corporate Governance Disclosure Awards.

Our corporate website provides stakeholders with up-to-date information about our work. This year we added quick links to access lists of cold shoulder and disqualification orders as well as Facebook and Twitter sharing buttons on selected webpages. In support of the Government's Fintech initiative, we created a dedicated Fintech section on our website to allow the public to submit relevant enquiries or comments through an online form or email.

SFC Regulatory Forum 2016

The second SFC Regulatory Forum, held in Hong Kong on 23 February 2016, focused on the opportunities and challenges arising from increasing market connectivity and Hong Kong's evolving role as a global financial hub.

The full-day event opened with remarks from Mr Carlson Tong, the SFC's Chairman, who highlighted the need for our regulatory system to be prepared for the unexpected and to be able to withstand the most volatile market environment. Globally connected markets mean that the way of the future is closer international and regional cooperation, which is an important agenda for the SFC.



The Forum featured five discussions with panellists from major financial and law firms, listed companies and regulatory authorities. They shared perspectives and insights on issues arising from, and the global significance of, greater interaction with Mainland markets, as well as corporate conduct issues and the importance of promoting the right culture and senior

Strong enforcement can facilitate more competitive markets and attract investment.

Peter Kell, Australian Securities and Investments Commission

management responsibility at regulated financial institutions. They also addressed market appetite and strategies for cross-border investment products and the impact of enforcement actions on industry culture and market competitiveness.

In his closing remarks, Mr Ashley Alder, the SFC's Chief Executive Officer, stressed that the degree of regulatory cooperation must match the depth of our increased market connections, and that Hong Kong has a major opportunity to establish itself as a risk management centre for mainland China. On enforcement, he reiterated the importance of fast self-reporting by the industry to allow us to stop continuing harm from spreading too far, too quickly.



The event was attended by more than 700 senior regulators and leaders from the financial industry, listed companies and professional bodies. Videos of the proceedings and a summary of discussions are available on the SFC website.

Hong Kong is now being tested, but this is a tremendous opportunity to show how it can help manage risk, which is exactly its historic role.

Andrew Sheng, Asia Global Institute

SFC in Action

How does the SFC uncover wrongdoing in the financial markets? What is it like to be a member of the SFC's enforcement team? Viewers who watched the law-enforcement television drama "SFC in Action" had a chance to find out.

The SFC teamed up with Radio Television Hong Kong (RTHK) to produce three series of "SFC in Action" which aired in 2010, 2013 and 2015. Through action-filled dramatisations, the programme explained the SFC's regulatory role in enforcing the Securities and Futures Ordinance to safeguard the integrity of the market and protect investors.



Press conference kicks off the first series

Stories from real life

Each series consisted of six half-hour episodes in Cantonese. The whole of the first series recounted a single story involving wrongdoing in the securities and futures markets. The second and third series consisted of stand-alone episodes built around one of the SFC's key strategic enforcement priorities: insider dealing, market manipulation, unlicensed activities, corporate misgovernance, intermediary misconduct and misleading research reports.

All the stories in "SFC in Action" were based on real cases and featured recognisable characters from all walks of life, including retail investors, tycoons, housewives and professionals. To make the episodes more realistic, the SFC's offices were used as a location for some of the filming.

Popular and well received

All three series of "SFC in Action" attracted a large audience in Hong Kong when they were broadcast during prime time on TVB Jade and RTHK TV. Viewers who missed the original broadcasts could watch the programmes on the RTHK website during the 12 months after they were first shown.



Promotion

While the series aired, it was publicised through various channels including print media and advertisements on public transport and

the internet. The head of our Enforcement division took the opportunity to explain the SFC's regulatory approach in a magazine interview. To help the public get the most out of the series, feature magazine articles discussed the rules and regulations addressed in the storylines.

Broadcast schedule

Series 1 May – June 2010	Series 2 April – May 2013	Series 3 August – September 2015
<p>"For wrongdoers in our financial markets, the consequences will far outweigh the gains."</p>		

SFC in Action

Based on real enforcement cases

The Perfect Storm (Series 2)

A banker leading the due diligence work for a Mainland enterprise's listing application checks on one of the company's clients and becomes suspicious when she finds discrepancies. After her boss asks her to turn a blind eye, she lodges a complaint with the SFC, which revokes her boss's licence and fines the bank. The court orders the listed company to compensate its investors.

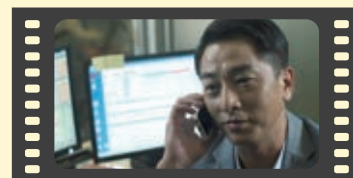


Insider Dealing (Series 2)

A listed company director tells his girlfriend about a deal he is working on. The share price surges, and when an SFC investigator looking into unusual price movements interviews the woman, she denies knowing the director. But a picture taken by paparazzi leads the investigator to the truth. The pair are fined and sentenced to imprisonment for insider dealing.

Market Manipulation (Series 3)

An aspiring teacher is convinced by his broker that making money in the market is easy. Push up the stock price bit by bit by placing a large number of small orders, and then sell at a higher price. But the broker does not explain that creating a false market for a stock is an offence. The teacher is given a suspended jail sentence for false trading and the broker's licence is suspended.



Mr Alan Lee (RTHK director/ executive producer of Series 1 and 2):

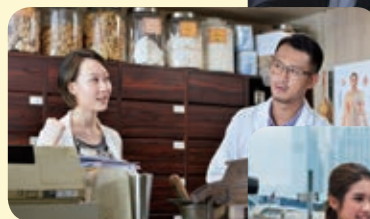
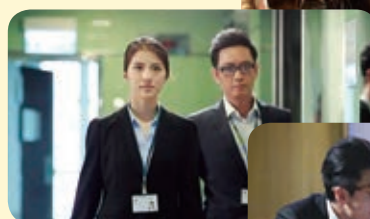
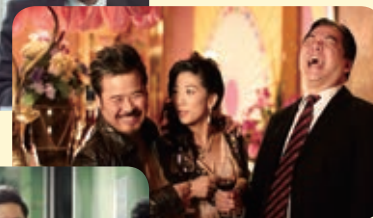
"The SFC works in different ways from other law enforcement bodies. Instead of relying on force, SFC investigators rely on their brains. I tried to showcase the SFC's work in a way that a layman could relate to, so I chose topics which are relevant to investors."

Mr Lo Chi Wa (RTHK executive producer of Series 3):

"Working on 'SFC in Action' gave me a better understanding of the SFC's enforcement work – including a lot of behind-the-scenes surveillance work that people may not know about. I also found that SFC staff always act with care and diligence and pay attention to details."



Behind the scenes of Series 3



Photos: Radio Television Hong Kong

Corporate Social Responsibility



Our corporate social responsibility initiatives focus on promoting sustainability, caring for the community, protecting the environment and fostering a congenial workplace.

Corporate Social Responsibility

As a socially responsible organisation, we consider the impact of our work on the environment and the community at large and strive to incorporate our corporate social responsibility (CSR) principles into daily operational decisions and practices.

Governance

To formulate our CSR strategy and implement activities, we established a dedicated committee which reports directly to the SFC's Executive Committee (ExCo). The CSR Committee is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, and includes members from different units across the organisation. The CSR Committee is charged with:

- formulating and developing our CSR vision, principles, framework and policies
- organising and promoting CSR activities
- setting objectives, targets and key performance indicators to measure the effectiveness of our CSR efforts
- making recommendations to ExCo where appropriate

The CSR Committee has three working groups. Each is responsible for planning and implementing initiatives under a specific theme.

Our corporate website and intranet both contain dedicated sections explaining our CSR vision, principles

CSR working groups and themes

	Focus	2015/16	2016/17
Commission Volunteers Group 	Community	Stay connected by volunteering	Making a difference through volunteering
Green Working Group 	Environment	Keep sustaining green	Think green, live green
Wellness Group 	People	Stay healthy and spread the word	Your health, we care

and activities. Since 2011, we have circulated an internal quarterly e-newsletter to keep our staff updated about our CSR initiatives and outcomes. The newsletter provides a platform for participants to share first-hand accounts of our CSR activities and for all staff to provide feedback.



Tree planting day



Outing with Hong Kong Rehabilitation Power



Blood donation day

Corporate Social Responsibility

Marketplace support

As a regulator of a leading financial centre, we have introduced a number of measures to protect the environment and raise efficiency at the market level.

Introducing industry-wide green measures

To reduce the industry's compliance burden and minimise paper consumption, we no longer issued printed individual licences as of November 2015¹. After the move to paperless individual licences, the public can still find licensing information about individuals as well as corporations and registered institutions from our online public register.

Another green measure was the launch of an online system for dealing disclosure under Rule 22² of the Code on Takeovers and Mergers. From July 2014 onwards, all submissions must be made through an electronic platform.

In September 2015, the SFC hosted a Women in Finance Asia (WiFA) event on the opportunities and risks associated with Green Finance, Green Bonds and related investment products, as well as due diligence for environmental sustainability.

Promoting market development

Streamlining the product authorization process helps improve efficiency for the fund industry. In November 2015, we implemented a revamped fund authorization process with an aim to enhance process efficiency and reduce the time to market for fund providers.

Keeping industry practitioners abreast of the latest regulatory environment helps them cope with evolving market developments and explore new business opportunities. We impose continuous professional training (CPT) requirements³ on licensees and our senior executives delivered 34 hours of CPT-eligible training through conferences and seminars organised by the SFC or other professional bodies during the year.

We fund training and examinations on regulatory regimes organised by the Hong Kong Securities and Investment Institute and provide financial support to the Investor Education Centre for educational activities for retail investors.

Strengthening industry professionalism

The SFC supports the efforts of the Hong Kong Securities and Investment Institute (HKSI) and the Vocational Training Council (VTC) to enhance professional competence in the financial industry.

Our support comes in a variety of forms, including funding and assisting the development of examinations, study manuals and training. We help improve HKSI's Licensing Examinations to ensure industry practitioners can cope with the evolving regulatory environment and we also fund the development of an online Advanced Learning Platform to better serve the training needs of practitioners at small- and medium-sized firms.

By serving on the HKSI Board of Directors and as a member of the VTC's Banking and Finance Industry Training Board, we provide guidance and support to enhance the quality of training and examinations.

We remain committed to training and professional development initiatives which help intermediaries maintain high standards of professionalism and strengthen Hong Kong's competitiveness as a leading financial centre.

¹ We will continue to issue printed licences for licensed corporations and certificates of registration for registered institutions.

² Rule 22 of the Takeovers Code requires parties to an offer and their respective associates to disclose dealings in relevant securities of the offeree company and the offeror (in the case of a securities exchange offer) conducted for themselves or on behalf of discretionary clients during an offer period.

³ Under the SFC's Guidelines on Continuous Professional Training, licensees are required to complete a minimum of five CPT hours per calendar year for each type of regulated activity.

Corporate Social Responsibility

Community care

We organise activities with community groups and offer volunteering leave to encourage staff to participate in community service. Our contributions have been recognised by the Hong Kong Council of Social Service which named us a "Caring Organisation" for the tenth consecutive year. This year, 137 staff members spent a total of 548 hours as volunteers.

Our staff also make donations to charities and support community services. This year, we raised a total of \$186,789 through Pedal Power, the Standard Chartered Marathon, and three Community Chest events: Love Teeth Day, Dress Casual Day and Skip Lunch Day. These fundraisers are intended to benefit the wider community.

We encourage donating used items to charitable organisations as a means to reducing wastage and giving back to the community at large. This year, we donated computer accessories such as printers to Caritas Hong Kong's computer refurbishment project which not only reduces landfill usage but also develops youth employment by providing computer courses and on-the-job training.



Staff runners gear up for the marathon

Environmental protection

As an environmentally friendly organisation, we launched several initiatives to raise green awareness amongst staff and stakeholders and to reduce our resources consumption and carbon footprint. Our internal protocol, *A guide to working "Green" at the SFC*, focuses on four principles – reduce, reuse, repair and recycle.

Pedalling for charity

Putting our CSR spirit into motion, 30 SFC staff and family members took part in the Pedal Power V charity event in April 2015, raising over \$90,000 to help the disadvantaged. Participants cycled a 16.6 km route or a 31.6 km elite route from Sai Kung to Hong Kong Science Park during the fundraiser, which we co-organised with Hong Kong Exchanges and Clearing Limited.

Over the past four years, Pedal Power raised over \$3 million and benefited more than 1,000 students in need, allowing them to join a five-day Outward Bound leadership course which helps them develop the confidence they need to reach their full potential.



Corporate Social Responsibility

Volunteering events

Month	Activity	Purpose	Outcome
Jun 2015	Making sticky-rice dumplings with the intellectually challenged	To provide more opportunities for socialisation	Together with members from the Hong Chi Association, 20 volunteers made sticky-rice dumplings to celebrate the Dragon Boat Festival
Aug 2015	Blood donation	To raise awareness of the importance of maintaining a stable blood supply	Over 50 staff members signed up to give blood
Sep 2015	Making lanterns with the elderly	To care for the elderly and promote recycling	More than 20 volunteers teamed up with the elderly from the Tung Wah Group of Hospitals to make lanterns out of used red packets
Oct 2015	Elderly home visit	To care for the elderly	Over 20 volunteers visited the elderly in Kowloon West and spent an enjoyable afternoon together
Dec 2015	Making Christmas decorations with children for charity sale	To visit and raise funds for underprivileged children	Around 20 volunteers helped children at Po Leung Kuk's F.S.F.T. Youth Development Centre make Christmas ornaments and prepared food for a charity sale, raising over \$3,000 for Po Leung Kuk
Feb 2016	Theme park visit with friends from Hong Kong Rehabilitation Power (HKRP)	To help the physically challenged deepen social integration with the wider community	The visit paired 15 volunteers with friends from HKRP



Volunteers prepare dumplings



Hand-made Christmas decorations



HKRP theme park visit

Corporate Social Responsibility

We implement in-house initiatives to minimise paper and power consumption, including:

- Sharing meeting materials on tablet PCs;
- Using internal electronic processes for expense claims, overseas travel records, e-pay slips, e-leave applications, e-appraisals and paperless diaries to save time and paper;
- Making internal announcements by emails;
- Using auto timers to adjust indoor lighting after office hours;
- Reducing electricity usage at our data centres;
- Providing recycling bins for newspapers and collection boxes for used red packets after Chinese New Year;
- Sorting cans and bottles for recycling;
- Issuing a “Go paperless, go inkless” survey to promote green awareness; and
- Replacing paper greeting cards with a Christmas e-card.

Consumption and recycling

	2015/16	2014/15	2013/14
Consumption			
Paper (pieces/head)	11,831	12,191	11,863
Electricity (kWh)	4,078,591	3,973,481	3,607,287
Recycling			
Paper (kg)	26,048	25,933	21,288
Toner and printer ink cartridges (number)	1,008	1,035	936

Our green efforts extend beyond our workplace. We support the World Wide Fund’s global warming prevention and environmental conservation causes:

- No Shark Fins Policy: As an organisation-wide policy, we have pledged not to serve sharks’ fins at any SFC event.
- Earth Hour 2016: For the sixth year, the SFC took part in this annual global event by encouraging staff to switch off lights for one hour.

Contributions

	2015/16	2014/15	2013/14
Number of staff participating in volunteering activities	137	134	154
Total volunteer hours	548	558	591
Funds raised for community causes (\$)	186,789	128,980	137,026
Corporate sponsorships for community causes# (\$)	18,000	12,000	38,000

Including donations in lieu of corporate gifts made in the name of guest speakers invited to our in-house training seminars.

To keep our staff engaged in environmental conservation, we coordinated several activities this year, including the “adopt-a-plant” programme to encourage going green in the office, a geo-tour to Hoi Ha Wan Marine Park and Tap Mun for staff to understand more about biodiversity, a tree planting day, and a beach clean-up.

Corporate Social Responsibility

CSR activity calendar

April – June 2015

- Survey/Competition on ideas to reduce paper consumption
- **Tree planting day**
- Pedal Power
- Making sticky-rice dumplings with the intellectually challenged
- In-house introductory aerobic dance class



October – December 2015

- Geo-tour to Hoi Ha Wan
- Elderly home visit
- Making Christmas decorations with children for a charity sale
- Free on-site influenza vaccinations
- “Nutty Day” to introduce healthy snacks
- **“Healthy Beverages Workshop” to demonstrate how to make fresh smoothies**



July – September 2015

- **Making lanterns from used red packets**
- Health screening programme
- WiFA seminar



January – March 2016

- **Beach clean-up**
- Earth Hour 2016
- Outing with friends from Hong Kong Rehabilitation Power
- Massage day
- Recycling of red packets



Corporate Developments

We strive to build a high-performance organisation driven by an effective and engaged workforce. New initiatives during the year provided a range of development opportunities to our staff and equipped them with appropriate and up-to-date information technology.

Developing people

Our work in people development is aligned with our core values – being “professional”; staying “proactive” and “people count” – reflecting our unique positioning as well as our vital role in the financial community.

To develop our junior professional staff, this year we introduced a formal year-long mentoring programme and also opened a direct communication channel for them to engage in candid conversations about life and work with our senior management. In November 2015, we launched the first women’s group organised by a statutory body in Hong Kong (see sidebar on page 78).

We identify our learning and development needs based on a variety of factors, ranging from the organisation’s overall direction to each employee’s individual development plan. This year, each employee spent an average of 34.2 hours on structured learning courses, including workshops, seminars and training programmes.

Our focus on training was recognised by the Employees Retraining Board when it presented us with the Manpower Developer Award 2015-16 for outstanding achievements in employee training and development.

Training and e-learning

	2015/16	2014/15	2013/14
Percentage of employees who participated in internal training [#]	95%	91%	93%
Average hours of internal training per employee [#]	34.2	32.1	42.1
Number of employees who undertook e-learning	175	164	202

[#] Including lectures, workshops and seminars.

At regular sharing sessions, our CEO communicated regulatory developments and important organisational matters and also answered questions related to our policies and our workplace. Senior management discussed new developments and organisation-wide issues with our staff at several Commission Connection Series events.



CEO sharing session

To broaden the skills, knowledge and experience of our workforce, we promote employee development through external and internal secondment opportunities. Last year, a number of staff successfully completed intra-divisional and cross-divisional secondments. In addition, 26 staff were seconded to our regulatory counterparts, including 21 to the China Securities Regulatory Commission. We also organised one-day visits to our Mainland counterparts to allow our employees to gain a deeper understanding of Mainland securities markets.

Message from Chairman and CEO

SFC at a Glance

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Corporate Developments



SFC staff at dragon boat race

We invited local and overseas regulators and industry professionals to share their views on a range of topics including financial products, trading strategies, regulatory trends and the latest developments in the Mainland and overseas markets.

By the end of the year, 59% of our people managers had completed our Leading with Effectiveness and Professionalism (LEAP) programme which focuses on giving direction and feedback, supporting employee growth and building effective teams.

We recruited six graduate trainees through our Graduate Trainee Programme, now in its seventh year. Additionally, we placed 45 summer and winter interns in various divisions within the organisation.



The SFC women's basketball team won the Supervisory Cup 2015

SFC Women's Network

The SFC Women's Network was established on 4 November 2015 to enhance professional development and inspire women for leadership roles. The SFC is the first statutory body in Hong Kong to set up a women's group for staff.

As a regulator, the SFC has a real leadership role in this area. I do hope that the launch of the Women's Network will inspire other organisations and corporates to follow suit.

Ms Teresa Ko, SFC Non-Executive Director

The group provides a platform for staff, both female and male, to interact and to participate in events, training and other activities which promote interest in and knowledge of women leadership, and helps ensure we remain a preferred employer for professionals. Among the group's inaugural events were a speech by Ms May Tan, CEO of Standard Chartered Bank (Hong Kong) Limited, on diversity in the workplace,

and a seminar by Ms Mary Cheung, a professional image consultant, on personal branding and business etiquette.

As at 31 March 2016, women comprised 67% of SFC staff and 59% of staff at the Senior Manager grade or above.

Employee statistics	As at 31.3.2016	As at 31.3.2015	As at 31.3.2014
Male	278	258	253
Female	563	535	500
Average years of service	7.2	7	6.8
Female staff at Senior Manager grade or above	59%	57%	54%

Corporate Developments

Enhancing efficiency

As part of our information technology blueprint, we launched several projects designed to enhance collaboration and efficiency by facilitating document and information sharing as well as simultaneous co-authoring of documents among various divisions.

The new “eDiscovery” system enables our Enforcement and Legal Services divisions to analyse large volumes of paper and electronic documents as part of their investigations and prosecutions work.

In addition, we began to replace each division’s case management system beginning with the introduction of a new organisation-wide complaints control system. We also enhanced our intranet search engine, significantly improving the accuracy of search results.

Our in-house library expanded its real-time market data and research database subscriptions in part to support the launch of Shanghai-Hong Kong Stock Connect. To facilitate effective use of our resources, the library provided more customised database training sessions.

We formed cross-divisional teams for a number of specific topics as a means to further enhance information sharing and operational efficiency. The teams encourage thorough consideration of policy measures from a wide variety of perspectives throughout the conceptualisation and implementation process.



Team spirit

Workplace quality

We are an equal opportunity employer and an employer of choice. We promote employment practices that foster diversity and respect for employees’ rights. We also strive to provide a safe, quality work environment.

To support families, we set up nursery rooms for post-natal employees and grant up to five days of paternity leave.

We organised a variety of teambuilding activities this year including participation in dragon boat races and basketball games with fellow regulators.

Breakdown of staff

	As at 31.3.2016		As at 31.3.2015		As at 31.3.2014		As at 31.3.2013	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Professional	651	698	608	666	571	610	491	560
Support	190	195	185	186	182	184	177	176
Total	841	893	793	852	753	794	668	736

Corporate Developments

Managing financial performance

Expenditure

The costs of our operations were \$1,586 million, \$156 million below our original budget of \$1,742 million. Staff costs accounted for about 69% of our total expenditures. Over the past three years, our staff costs increased 45% while many regulatory activities increased in both number and complexity.

Expenditure breakdown

	2015/16	2014/15	2013/14
Staff costs	69.3%	68.3%	66.9%
Premises and related expenses	15.6%	15.9%	16%
Other expenses	11.9%	12%	13.2%
Depreciation	3.2%	3.8%	3.9%

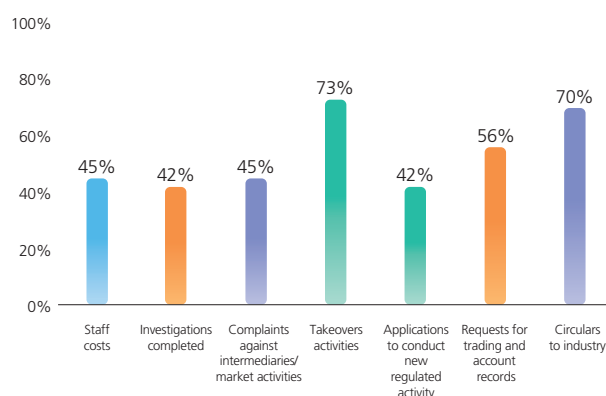
Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly less than the initial rate of 0.0125% when the transaction levy mechanism was set up in 1989. We have not revised our fees and charges since 1994. In addition, we have offered waivers for annual licensing fees four times since 2009. The current waiver is in effect for two years beginning 1 April 2016.

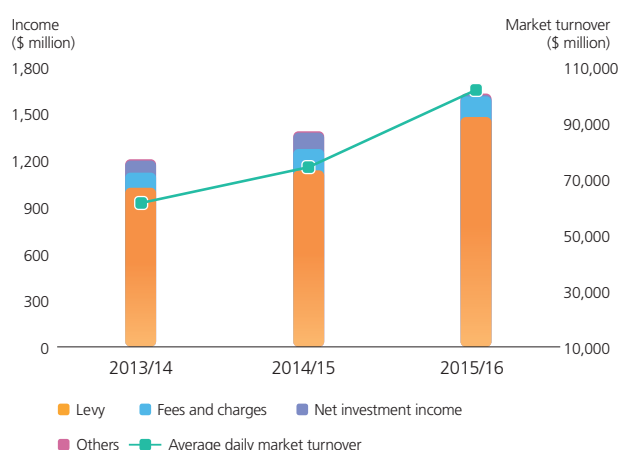
Funding breakdown

	2015/16	2014/15	2013/14
Levies	90.8%	81.7%	84.9%
Fees and charges	8.1%	10%	8%
Net investment income	0.6%	7.6%	6.4%
Others	0.5%	0.7%	0.7%

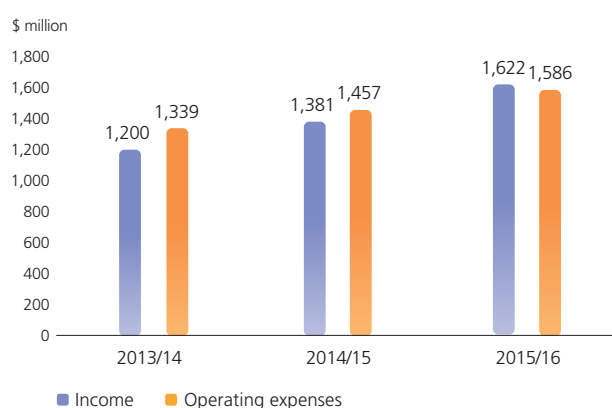
Three-year change in staff costs and regulatory activities (2013-2016)



Income vs market turnover (2013/14-2015/16)



Income and operating expenses (2013/14-2015/16)



Corporate Developments

Total income for the year was \$1,622 million, up from \$1,381 million a year ago. Due to increased securities market turnover, our levy income rose by 30% to \$1,472 million in the current year. Our income from fees and charges dropped by 4%, from \$138 million last year to \$132 million this year, mainly attributable to a drop in takeovers and mergers document fees.

The ratio of average expenses to income for the past three years was 104%. In the same period, the average increase in expenses and income was 10% and 12% respectively.

Owing to the increase in income, we recorded a surplus of \$36 million for the year, compared to a deficit of \$76 million last year.

As of 31 March 2016, our reserves stood at \$7.3 billion. We are obliged to manage our reserves according to the investment guidelines approved by the Financial Secretary. We continued to put the proceeds from debt securities which matured during the year into liquid investments such as fixed deposits, as the process for transferring funds to external investment managers is still in progress.

Finances

	2015/16	2014/15	2013/14	2012/13
Income (\$ million)	1,622	1,381	1,200	1,170
Expenses including depreciation (\$ million)	1,586	1,457	1,339	1,184
Surplus/(Deficit) (\$ million)	36	(76)	(139)	(14)

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (SFC) and its subsidiaries (together referred to as the Group) set out on pages 83 to 106, which comprise the consolidated and the SFC statements of financial position as at 31 March 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Hong Kong Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SFC and of the Group as at 31 March 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 May 2016

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Income			
Levies	2(a)	1,472,476	1,128,535
Fees and charges		132,078	138,414
Investment income	5	13,791	107,268
Less: custody and advisory expenses		(3,424)	(2,090)
Investment income net of third party expenses		10,367	105,178
Recoveries from Investor Compensation Fund		5,398	5,323
Other income	6	2,006	3,459
		1,622,325	1,380,909
Expenses			
Staff costs and directors' emoluments	7	1,098,575	995,034
Premises			
Rent		202,097	192,596
Rates, management fees and others		46,159	39,594
Other expenses	8	188,691	174,258
Depreciation	11(a)	50,456	55,210
		1,585,978	1,456,692
Surplus/(loss) and total comprehensive income for the year		36,347	(75,783)

The notes on pages 88 to 106 form part of these financial statements.

Consolidated statement of financial position

At 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Non-current assets			
Fixed assets	11(a)	73,247	89,139
Held-to-maturity debt securities	9	30,009	493,936
		103,256	583,075
Current assets			
Held-to-maturity debt securities	9	461,781	618,436
Financial assets designated at fair value through profit or loss	10	654,585	715,140
Debtors, deposits and prepayments	15	122,458	143,574
Fixed deposits with banks	12	6,066,032	5,322,706
Cash at bank and in hand	12	25,649	10,465
		7,330,505	6,810,321
Current liabilities			
Fees received in advance		8,405	8,777
Creditors and accrued charges		121,969	122,057
		130,374	130,834
Net current assets			
		7,200,131	6,679,487
Total assets less current liabilities			
		7,303,387	7,262,562
Non-current liabilities			
	14	25,847	21,369
Net assets			
		7,277,540	7,241,193
Funding and reserves			
Initial funding by Government			
	16	42,840	42,840
Accumulated surplus			
		7,234,700	7,198,353
		7,277,540	7,241,193

Approved and authorized for issue by the SFC on 27 May 2016 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 88 to 106 form part of these financial statements.

Statement of financial position

At 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Non-current assets			
Fixed assets	11(b)	72,701	89,020
Held-to-maturity debt securities	9	30,009	493,936
		102,710	582,956
Current assets			
Held-to-maturity debt securities	9	461,781	618,436
Financial assets designated at fair value through profit or loss	10	654,585	715,140
Debtors, deposits and prepayments	15	134,872	147,677
Fixed deposits with banks		6,066,032	5,322,706
Cash at bank and in hand		5,058	2,718
		7,322,328	6,806,677
Current liabilities			
Fees received in advance		8,405	8,777
Creditors and accrued charges		113,246	118,294
		121,651	127,071
Net current assets			
		7,200,677	6,679,606
Total assets less current liabilities			
		7,303,387	7,262,562
Non-current liabilities			
	14	25,847	21,369
Net assets			
		7,277,540	7,241,193
Funding and reserves			
Initial funding by Government			
	16	42,840	42,840
Accumulated surplus			
		7,234,700	7,198,353
		7,277,540	7,241,193

Approved and authorized for issue by the SFC on 27 May 2016 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 88 to 106 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive income for the year	–	(75,783)	(75,783)
Balance at 31 March 2015 and 1 April 2015	42,840	7,198,353	7,241,193
Total comprehensive income for the year	–	36,347	36,347
Balance at 31 March 2016	42,840	7,234,700	7,277,540

The notes on pages 88 to 106 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Surplus/(loss) for the year		36,347	(75,783)
Adjustments for:			
Depreciation		50,456	55,210
Investment income		(13,791)	(107,268)
Exchange difference		(944)	1,304
(Gain)/loss on disposal of fixed assets		(14)	2
		72,054	(126,535)
Decrease/(increase) in debtors, deposits and prepayments		25,351	(16,524)
(Decrease)/increase in fees received in advance		(372)	234
(Decrease)/increase in creditors and accrued charges		(88)	6,203
Increase/(decrease) in non-current liabilities		4,478	(326)
<i>Net cash generated from/(used in) operating activities</i>		101,423	(136,948)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(1,340,718)	(3,179,015)
Interest received		72,733	106,557
Purchase of financial assets held at fair value through profit or loss		-	(697,956)
Sale of financial assets held at fair value through profit or loss		2,532	266
Held-to-maturity debt securities redeemed at maturity		616,372	1,784,314
Fixed assets purchased		(34,830)	(43,842)
Fixed assets sold		280	1
<i>Net cash used in investing activities</i>		(683,631)	(2,029,675)
Net decrease in cash and cash equivalents		(582,208)	(2,166,623)
Cash and cash equivalents at beginning of the year		2,104,324	4,270,947
Cash and cash equivalents at end of the year	12	1,522,116	2,104,324

Analysis of the balance of cash and cash equivalents

	2016 \$'000	2015 \$'000
Fixed deposits with banks	1,496,467	2,093,859
Cash at bank and in hand	25,649	10,465
	1,522,116	2,104,324

The notes on pages 88 to 106 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 35/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

2. Income

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

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

3. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3(q) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 23).

(b) Basis of preparation

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

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Basis of consolidation

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

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

(d) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Group and we can measure reliably the revenue and costs. We record our income as follows:

(i) Levies

We record levies from SEHK and HKFE as income on an accrual basis.

(ii) Fees and charges

We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

(iii) Interest income

We record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and held-to-maturity debt securities; and (b) the amortisation of premiums or discounts on purchases of held-to-maturity debt securities.

(e) Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

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

(g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of profit or loss and other comprehensive income to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

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

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Investments

(i) Initial recognition

We classify our investments into different categories at inception, depending on the purpose for which the assets were acquired. The categories are: fair value through profit or loss and held-to-maturity.

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

Investments in debt securities and equity funds that we manage, evaluate and report internally on a fair value basis are designated at fair value through profit or loss upon initial recognition and classified as current assets. Any attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the statement of profit or loss and other comprehensive income. The net gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest earned on these investments as these are recognised in accordance with the policies set out in note 3(d)(iii).

Dated debt securities that we have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 3(o)).

We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in equity funds. The fair value is determined based on the Group's share in the net assets of the equity funds as determined by the custodian.

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(i) Related parties

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

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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

(j) Translation of foreign currencies

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

(k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income (see note 3(o)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Creditors and accrued charges

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(n) Investment in subsidiaries

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

(o) Impairment

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

For held-to-maturity investments carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (ie, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

(p) Provisions and contingent liabilities

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

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

(q) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, none of the developments are relevant to the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

5. Investment income

	2016 \$'000	2015 \$'000
Interest income	76,968	104,108
(Loss)/gain on revaluation of equity funds	(58,218)	17,760
Amortisation of premium on held-to-maturity debt securities	(5,186)	(15,052)
Amortisation of discount on held-to-maturity debt securities	227	452
	13,791	107,268
Interest income is derived as follows:		
Interest income from held-to-maturity debt securities	16,439	42,415
Other interest income	60,529	61,693
Total interest income on financial assets not at fair value through profit or loss	76,968	104,108

6. Other income

	2016 \$'000	2015 \$'000
Investigation costs awarded	1,240	3,026
Sale of SFC publications	215	339
Gain on disposal of fixed assets	14	–
Others	537	94
	2,006	3,459

7. Staff costs and directors' emoluments

	2016 \$'000	2015 \$'000
Salaries and allowances	999,685	901,227
Retirement benefits	62,405	56,417
Medical and life insurance	28,315	26,403
Staff functions	1,594	1,963
Recruitment	5,220	7,557
Registration and membership fees	1,356	1,467
	1,098,575	995,034

The total number of staff as at 31 March 2016 was 866 (841 for the SFC, 22 for the Investor Education Centre and three for the Investor Compensation Company Limited) (as at 31 March 2015: the total number of staff was 817 comprising 793 for the SFC, 21 for the Investor Education Centre and three for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2016 Total \$'000	2015 Total \$'000
Chief Executive Officer						
Ashley Alder, JP	–	6,805	2,246	680	9,731	9,412
Executive Directors						
Brian Ho	–	4,630	1,172	463	6,265	6,138
Alexa Lam, JP (retired 1 March 2015 ²)	–	–	–	–	–	6,639
Julia Leung, SBS (appointed 2 March 2015)	–	4,500	1,467	450	6,417	362
Keith Lui	–	4,613	1,190	461	6,264	6,125
James Shipton	–	4,500	1,051	450	6,001	6,061
Mark Steward (retired 25 September 2015 ²)	–	2,357	690	235	3,282	6,651
	–	27,405	7,816	2,739	37,960	41,388
Non-executive Chairman						
Carlson Tong, SBS, JP	1,012	–	–	–	1,012	1,012
Non-Executive Directors						
Au Siu Cheung, Albert, BBS (appointed 26 May 2015)	216	–	–	–	216	–
Professor Leonard Cheng Kwok-hon, JP	253	–	–	–	253	253
Anderson Chow (resigned 31 July 2014)	–	–	–	–	–	84
Lester Garson Huang, JP (appointed 15 November 2015)	96	–	–	–	96	–
Teresa Ko, JP	253	–	–	–	253	253
Lawrence Lee, JP (retired 14 November 2015 ²)	157	–	–	–	157	253
Mary Ma	253	–	–	–	253	253
Wong Kai Man, BBS, JP (retired 25 May 2015 ²)	38	–	–	–	38	253
Dr Kelvin Wong Tin-yau, JP	253	–	–	–	253	253
Dr William Wong Ming-fung (appointed 1 August 2014)	253	–	–	–	253	169
	2,784	–	–	–	2,784	2,783
Total directors' emoluments	2,784	27,405	7,816	2,739	40,744	44,171

¹ This represents net contribution expenses accrued during the year ended 31 March 2016 in accordance with the accounting policy set out in note 3(f) on page 89. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2016 was \$1,402,000 (as at 31 March 2015: \$1,940,000).

² Retired having completed appointment period.

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

The aggregate of the emoluments of the five highest paid individuals in 2015-16, representing the emoluments of the Chief Executive Officer and four Executive Directors, was \$34,678,000 (2014-15: \$34,965,000) with the breakdown as follows:

	2016 \$'000	2015 \$'000
Salaries, allowances and benefits in kind	25,048	25,217
Discretionary pay	7,126	7,254
Retirement scheme contributions	2,504	2,494
	34,678	34,965

Their emoluments are within the following bands:

	2016 No. of individuals	2015 No. of individuals
\$6,000,001 to \$6,500,000	4	2
\$6,500,001 to \$7,000,000	0	2
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	1
\$9,500,001 to \$10,000,000	1	0

Employee benefits

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

Employee benefits (cont'd)

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2015: nil).

(ii) Executive staff

For executive staff, we make monthly contributions between 5% to 10% of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$2,796,000 (2015: \$2,987,000) and the amount so forfeited available at the end of the reporting period was \$24,000 (2015: \$659,000).

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

(b) MPF Scheme

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

8. Other expenses

	2016 \$'000	2015 \$'000
Learning and development	6,685	6,900
Legal and professional services	70,403	54,757
Information and systems services	43,861	44,987
Auditor's remuneration	737	702
Funding for the Financial Dispute Resolution Centre	–	10,500
Funding for the Financial Reporting Council	7,340	6,990
Funding for the Hong Kong Securities and Investment Institute and other training initiatives	8,600	7,800
Funding for the International Financial Reporting Standards Foundation	388	388
General office and insurance	7,921	7,484
Investor and other education programme costs to the Investor Education Centre	25,133	19,528
Overseas travelling, regulatory meeting expenses and others	12,547	12,318
Exchange loss	5,076	1,902
Loss on disposal of fixed assets	–	2
	188,691	174,258

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

9. Held-to-maturity debt securities

The Group and the SFC

		2016 \$'000	2015 \$'000
Maturing after one year			
In the second to sixth years	– unlisted	30,009	415,440
	– listed outside Hong Kong	–	78,496
		30,009	493,936
Maturing within one year	– unlisted	383,865	123,805
	– listed outside Hong Kong	77,916	494,631
		461,781	618,436
		491,790	1,112,372
Amortised cost at 31 March	– unlisted	413,874	539,245
	– listed outside Hong Kong	77,916	573,127
		491,790	1,112,372
Market value at 31 March	– unlisted	414,943	542,753
	– listed outside Hong Kong	77,813	577,455
		492,756	1,120,208

The average yield to maturity of the debt securities was 0.7% as at 31 March 2016 (2015: 0.6%).

Exchange gain arising from the translation of year-end held-to-maturity debt securities amounted to \$750,000 (2015: exchange losses of \$1 million) are recognised in the statement of profit or loss and other comprehensive income.

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

		2016 \$'000	2015 \$'000
Equity funds – unlisted		654,585	715,140

The equity funds comprise mainly listed equity securities.

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

11. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2015	118,688	9,830	172,927	99,601	2,411	403,457
Additions	162	247	19,483	14,938	–	34,830
Disposals	(266)	(70)	(574)	(1,409)	–	(2,319)
At 31 March 2016	118,584	10,007	191,836	113,130	2,411	435,968
Accumulated depreciation						
At 1 April 2015	67,656	6,208	151,846	86,898	1,710	314,318
Charge for the year	22,292	1,506	15,135	11,073	450	50,456
Written back on disposals	(12)	(61)	(574)	(1,406)	–	(2,053)
At 31 March 2016	89,936	7,653	166,407	96,565	2,160	362,721
Net book value						
At 31 March 2016	28,648	2,354	25,429	16,565	251	73,247
Cost						
At 1 April 2014	101,210	8,597	160,124	89,029	2,411	361,371
Additions	17,478	1,568	13,079	11,717	–	43,842
Disposals	–	(335)	(276)	(1,145)	–	(1,756)
At 31 March 2015	118,688	9,830	172,927	99,601	2,411	403,457
Accumulated depreciation						
At 1 April 2014	44,679	4,824	135,991	74,107	1,260	260,861
Charge for the year	22,977	1,716	16,131	13,936	450	55,210
Written back on disposals	–	(332)	(276)	(1,145)	–	(1,753)
At 31 March 2015	67,656	6,208	151,846	86,898	1,710	314,318
Net book value						
At 31 March 2015	51,032	3,622	21,081	12,703	701	89,139

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

11. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2015	118,673	9,766	172,927	98,976	2,411	402,753
Additions	162	242	19,483	14,203	–	34,090
Disposals	(266)	(70)	(574)	(1,409)	–	(2,319)
At 31 March 2016	118,569	9,938	191,836	111,770	2,411	434,524
Accumulated depreciation						
At 1 April 2015	67,640	6,149	151,846	86,388	1,710	313,733
Charge for the year	22,292	1,504	15,135	10,762	450	50,143
Written back on disposals	(12)	(61)	(574)	(1,406)	–	(2,053)
At 31 March 2016	89,920	7,592	166,407	95,744	2,160	361,823
Net book value						
At 31 March 2016	28,649	2,346	25,429	16,026	251	72,701
Cost						
At 1 April 2014	101,195	8,533	160,124	88,470	2,411	360,733
Additions	17,478	1,568	13,079	11,651	–	43,776
Disposals	–	(335)	(276)	(1,145)	–	(1,756)
At 31 March 2015	118,673	9,766	172,927	98,976	2,411	402,753
Accumulated depreciation						
At 1 April 2014	44,663	4,767	135,991	73,739	1,260	260,420
Charge for the year	22,977	1,714	16,131	13,794	450	55,066
Written back on disposals	–	(332)	(276)	(1,145)	–	(1,753)
At 31 March 2015	67,640	6,149	151,846	86,388	1,710	313,733
Net book value						
At 31 March 2015	51,033	3,617	21,081	12,588	701	89,020

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

12. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2016 ranged from 0.35% to 5% (2015: 0.4% to 4.65%). These balances mature within one year as at both 31 March 2016 and 31 March 2015.

Reconciliation with the consolidated statement of financial position

	2016 \$'000	2015 \$'000
Cash at bank and in hand	25,649	10,465
Fixed deposits with banks	6,066,032	5,322,706
Amounts shown in the consolidated statement of financial position	6,091,681	5,333,171
Less: Amounts with an original maturity of beyond three months	(4,569,565)	(3,228,847)
Cash and cash equivalents in the consolidated cash flow statement	1,522,116	2,104,324

13. Investments in subsidiaries

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

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

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

As at 31 March 2016, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2015: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The financial statements of the ICC and IEC are included in the consolidated financial statements.

14. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our statement of profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of the lease expense.

15. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$111,108,000 receivables classified as loans and receivables in accordance with the determination of HKAS 39, *Financial instruments: Recognition and measurement* (2015: \$134,449,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2016 and 2015.

16. Initial funding by Government

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

17. Capital commitments

Capital commitments outstanding as at 31 March 2016 not provided for in the financial statements were as follows:

	2016 \$'000	2015 \$'000
Authorized and contracted for	21,446	13,301
Authorized but not contracted for	12,309	44,736

18. Commitment to pay rents for offices

At 31 March 2016 the minimum amount we are committed to pay in rent for our offices up to 16 December 2018 are as follows:

	The Group and the SFC	
	2016 \$'000	2015 \$'000
Payable next year	208,294	208,002
Payable in one to five years	87,619	294,173
Payable in more than five years	–	–
	295,913	502,175

During the year ended 31 March 2016, \$202,097,000 net of lease incentives, was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2015: \$192,596,000).

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

19. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant 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 year, \$5,398,000 was recovered from the ICF for the ICC's expenses (2015: \$5,323,000). As at 31 March 2016, the amount due to the ICF from the ICC was \$73,000 (as at 31 March 2015: \$157,000).

(b) Remuneration of key management personnel

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

(c) Legal services provided by a former Non-Executive Director

During the year ended 31 March 2015, \$30,000 was paid to a former Non-Executive Director for legal services provided in respect of matters commenced prior to his appointment. There was no such fee for the year ended 31 March 2016.

20. Financial risk management and fair values

Financial instruments of the Group mainly comprise held-to-maturity debt securities and units in equity funds. The underlying investments of the equity funds mainly comprised equity securities.

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

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

(a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in high-quality dated securities, rated A or above. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is also permitted. The policy also limits the exposure to each organisation and each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

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For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(b) Interest rate risk

The Group's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements. As at 31 March 2016, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$62,824,000 (2015: \$56,787,000). As at 31 March 2016 the average duration of the Group's investment portfolio was 0.66 years (as at 31 March 2015: 1.03 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2015.

(c) Exchange rate risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, the Group was not exposed to significant foreign exchange risk at the end of the reporting period.

(d) Market risk

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

The Group invests in units of equity funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia Free ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (15.4%) in the corresponding period, it is estimated that a general increase/decrease of such 15.4% would increase/decrease the Group's investment income and the accumulated surplus by approximately \$110,432,000 (2015: \$79,401,000).

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

(e) Fair value measurement

(i) Financial assets measured at fair value

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

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

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For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(e) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Equity funds – Unlisted	654,585	–	–	654,585

	2015			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Equity funds – Unlisted	715,140	–	–	715,140

The fair value of the investment in the unlisted equity funds is determined based on the Group's share in the net assets of the equity funds as determined by the custodian. The majority of the underlying assets of the equity funds are listed securities.

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(e) Fair value measurement (cont'd)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2016 and 2015 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 at 31 March 2016 \$'000	Fair value at 31 March 2016 \$'000	2016		
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Held-to-maturity debt securities	491,790	492,756	492,756	–	–

	Carrying amount at 31 March 2015 \$'000	Fair value at 31 March 2015 \$'000	2015		
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Held-to-maturity debt securities	1,112,372	1,120,208	1,120,208	–	–

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

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

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21. Sponsored unconsolidated structured entities

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

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2016, the ICF's maximum liability in respect of claims received was \$4,031,000 (2015: \$45,759,000) and the net asset value was \$2.2 billion (2015: \$2.2 billion).

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2016, the UECF's maximum liability in respect of claims received was \$10,253,000 (2015: \$10,253,000) and the net asset value was \$71,411,000 (2015: \$70,013,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2016. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC has not provided financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2015: nil). The related party relationships with these entities are disclosed in note 19 of these financial statements.

22. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 16, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has agreed to set aside \$3 billion of the current reserves in financial year 2016-17 for the possible future acquisition of office premises.

23. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 9, <i>Financial instruments</i>	1 January 2018

We are in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2016.

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 financial year ended 31 March 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 109 to 124.

Members of the Committee

The members of the Committee during the year ended 31 March 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Mark Steward	(resigned with effect from 24 September 2015)

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 financial year or at any time during the financial year.

Auditor

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Keith Lui
Chairman

27 May 2016

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Chairman and CEO

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Independent auditor's report to the Securities and Futures Commission

We have audited the financial statements of the Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 109 to 124, which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Securities and Futures Commission's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the Securities and Futures Commission (SFC) to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2016 and of the Fund's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 May 2016

Investor Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Income			
Net investment income	5	12,938	68,548
Exchange difference		662	(732)
Recoveries		7	-
		13,607	67,816
Expenses			
Investor Compensation Company Limited expenses	7	5,398	5,323
Compensation expenses	8	7,341	43,856
Auditor's remuneration		124	119
Bank charges		934	905
Professional fees		3,752	3,838
		17,549	54,041
(Loss)/surplus and total comprehensive income for the year		(3,942)	13,775

The notes on pages 113 to 124 form part of these financial statements.

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Statement of financial position

At 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,866,404	1,887,972
– Pooled fund	9	282,860	304,967
Interest receivable		13,367	12,900
Due from Investor Compensation Company Limited		73	157
Fixed and call deposits with banks	10	7,788	46,258
Cash at bank	10	43,175	7,787
		2,213,667	2,260,041
Current liabilities			
Provision for compensation	8	1,412	43,808
Creditors and accrued charges		1,376	1,412
		2,788	45,220
Net current assets		2,210,879	2,214,821
Net assets		2,210,879	2,214,821
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		1,107,238	1,111,180
		2,210,879	2,214,821

Approved and authorized for issue by the Securities and Futures Commission on 27 May 2016 and signed on its behalf by

Carlson Tong
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 113 to 124 form part of these financial statements.

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2014	994,718	108,923	1,097,405	2,201,046
Surplus and total comprehensive income for the year	–	–	13,775	13,775
Balance at 31 March 2015 and 1 April 2015	994,718	108,923	1,111,180	2,214,821
Loss and total comprehensive income for the year	–	–	(3,942)	(3,942)
Balance at 31 March 2016	994,718	108,923	1,107,238	2,210,879

The notes on pages 113 to 124 form part of these financial statements.

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Cash flow statement

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	2016 \$'000	2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the year	(3,942)	13,775
Adjustments for:		
Net investment income	(12,938)	(68,548)
Exchange difference	(662)	732
	(17,542)	(54,041)
Decrease in amount due from Investor Compensation Company Limited	84	147
(Decrease)/increase in provision for compensation	(42,396)	43,658
(Decrease)/increase in creditors and accrued charges	(36)	54
Net cash used in operating activities	(59,890)	(10,182)
Cash flows from investing activities		
Debt securities purchased	(505,239)	(729,765)
Debt securities sold or redeemed	514,675	522,612
Equity securities sold	1,450	1,472
Interest received	45,922	46,249
Net cash generated from/(used in) investing activities	56,808	(159,432)
Net decrease in cash and cash equivalents	(3,082)	(169,614)
Cash and cash equivalents at beginning of the year	54,045	223,659
Cash and cash equivalents at end of the year	50,963	54,045

Analysis of the balance of cash and cash equivalents

	2016 \$'000	2015 \$'000
Fixed and call deposits with banks	7,788	46,258
Cash at bank	43,175	7,787
	50,963	54,045

The notes on pages 113 to 124 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing.

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council has by order set the maximum amount of compensation at \$150,000 per claimant for a single default in relation to securities traded at The Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at Hong Kong Futures Exchange Limited (HKFE).

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation-Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on SEHK and futures contracts traded on HKFE (see also note 6), and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(m) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see note 3(e)).

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

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

(c) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

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

(e) Financial instruments

(i) Initial recognition

We classify the financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss immediately.

We account for financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the statement of profit or loss and other comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of profit or loss and other comprehensive income.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian.

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Impairment

The carrying amount of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks and other financial institutions.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(f)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(i) Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

(j) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(k) Provisions and contingent liabilities

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

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

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(l) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

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

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(m) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, none of the developments are relevant to the Fund's financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

5. Net investment income

	2016 \$'000	2015 \$'000
Interest income from bank deposits	58	155
Interest income on financial assets designated at fair value through profit or loss	42,269	40,991
Realised (loss)/gain on disposal of equity securities	(38)	13
Realised loss on redemption/disposal of debt securities	(2,862)	(1,873)
(Loss)/gain on revaluation of equity securities	(20,655)	22,456
(Loss)/gain on revaluation of debt securities	(5,834)	6,806
Net investment income	12,938	68,548

6. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005.

7. ICC expenses

The SFC formed the 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 SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2016, the ICC incurred costs of \$5,398,000 for its operations (2015: \$5,323,000) which were reimbursed by the Fund.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

8. Provision for compensation

	\$'000
Balance as at 1 April 2014	150
Add: compensation expenses during the year ended 31 March 2015	44,006
Less: compensation write-backs during the year ended 31 March 2015	(150)
Less: compensation paid during the year ended 31 March 2015	(198)
Balance as at 31 March 2015 and 1 April 2015	43,808
Add: compensation expenses during the year ended 31 March 2016	11,142
Less: compensation write-backs during the year ended 31 March 2016	(3,801)
Less: compensation paid during the year ended 31 March 2016	(49,737)
Balance as at 31 March 2016	1,412

As at 31 March 2016, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 March 2016 was \$1,412,000 (31 March 2015: \$43,808,000). As at 31 March 2016, all provisions were expected to be paid within one year.

9. Financial assets designated at fair value through profit or loss

	2016 \$'000	2015 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	693,550	583,193
Listed – outside Hong Kong based on valuation techniques	148,777	72,829
Listed – in Hong Kong at quoted market prices	487,379	566,888
Unlisted	536,698	665,062
	1,866,404	1,887,972
(ii) Maturity profile		
Within one year	268,269	439,009
After one year but within two years	892,544	288,727
After two years but within five years	663,757	1,127,817
After five years	41,834	32,419
	1,866,404	1,887,972
(iii) The weighted average effective interest rate of debt securities on 31 March 2016 was 1.8% (2015: 1.6%).		
(b) Pooled fund – Unlisted	282,860	304,967

The pooled fund comprises mainly listed equity securities.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2016 ranged from 0.25% to 0.70% (2015: 0.01% to 1.15%). The balances of deposits at both 31 March 2016 and 31 March 2015 mature within one year.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2016, the SFC had \$994,718,000 (2015: \$994,718,000) and \$108,923,000 (2015: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

12. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2015 and 2016 (refer to notes 7 and 11).

13. Financial risk management and fair values

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

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

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

(a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of US Treasuries, any issuances by the Hong Kong Government and the Government of the People's Republic of China and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the Policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above Policy. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(b) Liquidity risk

The Fund's policy is to regularly monitor its liquidity requirement to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

All financial liabilities are due within one year or payable on demand.

(c) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short-term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than five years within its debt securities portfolio. As at 31 March 2016 the duration was 1.74 years (31 March 2015: 1.98 years).

At 31 March 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$32,475,000 (2015: \$37,887,000). Further, at 31 March 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's interest income and the accumulated surplus by approximately \$1,076,000 (2015: \$2,814,000). Other components of the accumulated surplus would not be affected (2015: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for the year ended 31 March 2015.

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar and renminbi foreign exchange exposure. As at 31 March 2016, the Fund has exposure to US dollars, as Hong Kong dollars are pegged with US dollars, the Fund was not exposed to significant foreign exchange risk.

(e) Market risk

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

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 16.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$42,995,000 (2015: a general increase/decrease of 15.7% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$47,880,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2015.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(f) Fair values of financial instruments

The table on page 123 presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2016 and 2015.

The fair value of the debt securities is the quoted market price or based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund is determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund are listed securities.

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

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

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

(f) Fair values of financial instruments (cont'd)

	2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	1,180,929	148,777	–	1,329,706
– Unlisted	359,663	177,035	–	536,698
Pooled fund				
– Unlisted	282,860	–	–	282,860
	1,823,452	325,812	–	2,149,264
	2015			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	1,150,081	72,829	–	1,222,910
– Unlisted	377,641	287,421	–	665,062
Pooled fund				
– Unlisted	304,967	–	–	304,967
	1,832,689	360,250	–	2,192,939

During the year there were no significant transfers between financial instruments in Level 1 and Level 2.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

14. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$2,619,000 (2015: \$1,951,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Fund is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2016.

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 31 March 2016, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission 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 financial year ended 31 March 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 127 to 137.

Members of the Committee

The members of the Committee during the year ended 31 March 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Mark Steward	(resigned with effect from 24 September 2015)

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 financial year or at any time during the financial year.

Auditor

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Keith Lui
Chairman

17 May 2016

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Chairman and CEO

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Independent auditor's report to the Securities and Futures Commission

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 127 to 137, which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Securities and Futures Commission's responsibility for the financial statements

The repealed Hong Kong Securities Ordinance (Chapter 333) requires the directors of the Securities and Futures Commission (SFC) to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2016 and of the Fund's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Fund is in the process of terminating its business and operations. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 May 2016

Unified Exchange Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Income			
Interest income		518	634
Recoveries	5	–	7,203
		518	7,837
Expenses			
Auditor's remuneration		52	50
Professional fees		18	17
Sundry expenses		–	1
		70	68
Surplus and total comprehensive income for the year		448	7,769

The notes on pages 131 to 137 form part of these financial statements.

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Statement of financial position

At 31 March 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		59	59
Fixed and call deposits with banks		82,179	82,182
Cash at bank		278	175
		82,517	82,417
Current liabilities			
Creditors and accrued charges	6	10,306	10,304
Relinquished trading rights payable to SEHK	7	800	2,100
		11,106	12,404
Net current assets		71,411	70,013
Net assets		71,411	70,013
Representing:			
Compensation fund			
Contributions from SEHK	7	49,050	48,100
Excess transaction levy from SEHK	9	353,787	353,787
Special contributions	10	3,500	3,500
Additional contributions from SEHK	11	300,000	300,000
Additional contributions from the SFC	11	330,000	330,000
Special levy surplus	12	3,002	3,002
Accumulated surplus		26,790	26,342
		1,066,129	1,064,731
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		71,411	70,013

Approved and authorized for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 17 May 2016 and signed on its behalf by

Keith Lui
Chairman

Lee Kwok Keung
Committee Member

The notes on pages 131 to 137 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	Contributions from SEHK \$'000	Excess transaction levy from SEHK \$'000	Special contributions and special levy surplus \$'000	Additional contributions from SEHK and the SFC \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 2014	48,750	353,787	6,502	630,000	18,573	(994,718)	62,894
Net contributions to SEHK	(650)	-	-	-	-	-	(650)
Surplus and total comprehensive income for the year	-	-	-	-	7,769	-	7,769
Balance at 31 March 2015	48,100	353,787	6,502	630,000	26,342	(994,718)	70,013
Balance at 1 April 2015	48,100	353,787	6,502	630,000	26,342	(994,718)	70,013
Net contributions from SEHK	950	-	-	-	-	-	950
Surplus and total comprehensive income for the year	-	-	-	-	448	-	448
Balance at 31 March 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411

The notes on pages 131 to 137 form part of these financial statements.

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Cash flow statement

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

	2016 \$'000	2015 \$'000
Cash flows from operating activities		
Surplus for the year	448	7,769
Adjustment for:		
Interest income	(518)	(634)
	(70)	7,135
Increase in creditors and accrued charges	2	3
(Decrease)/increase in relinquished trading rights payable to SEHK	(1,300)	650
Net cash (used in)/generated from operating activities	(1,368)	7,788
Cash flows from investing activities		
Interest received	518	633
Net cash generated from investing activities	518	633
Cash flows from financing activities		
Net contributions from/(to) SEHK	950	(650)
Net cash generated from/(used in) financing activities	950	(650)
Net increase in cash and cash equivalents	100	7,771
Cash and cash equivalents at beginning of the year	82,357	74,586
Cash and cash equivalents at end of the year	82,457	82,357

Analysis of the balance of cash and cash equivalents

	2016 \$'000	2015 \$'000
Fixed and call deposits with banks	82,179	82,182
Cash at bank	278	175
	82,457	82,357

The notes on pages 131 to 137 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After 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. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from SEHK (2015: Nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 16; special levy surplus detailed in note 12; and excess transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (deposits for transferred trading rights) as disclosed on the face of the statement of financial position.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(i) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 17).

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements 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. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease as these are estimated to be immaterial.

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

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

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

(iii) Replenishments by SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(d) Impairment

The carrying amount of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks and other financial institutions.

(f) Creditors and accrued charges

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

(g) Provisions and contingent liabilities

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

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

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(i) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, none of the developments are relevant to the Fund's financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong Profits Tax.

5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2016 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in HKAS 39, *Financial Instruments: Recognition and Measurement*. According to HKFRS 13, *Fair value measurement*, these subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

6. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in HKAS 39 unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

The movement of contributions from SEHK during the year was as follows:

	2016 \$'000	2015 \$'000
Balance brought forward	48,100	48,750
Add: new trading rights issued	1,400	500
Less: relinquished trading rights refunded	(1,750)	(500)
Add/(less): decrease/(increase) in relinquished trading rights payable to SEHK	1,300	(650)
Balance carried forward	49,050	48,100

8. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 5), will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy.

7. Contributions from SEHK/ Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. 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 year, deposits of \$1,400,000 in respect of 28 new trading rights were received from SEHK and deposits of \$1,750,000 in respect of 35 relinquished trading rights were refunded to SEHK. As at 31 March 2016, there were 16 trading rights in total that have been relinquished but not yet refunded.

10. Special contributions

In October 1993, a member of SEHK made a special contribution to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities.

11. Additional contributions from SEHK and the SFC

As a result of the relaxation of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years 1998 to 2001.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

12. Special levy surplus

In November 2000, the former Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

13. Contributions to Investor Compensation Fund

When the 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. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2016 amounted to \$994,718,000 (2015: \$994,718,000).

14. Material related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2015 and 2016.

15. Financial risk management

The Fund's interest bearing assets mainly comprise deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2016, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$822,000 (2015: \$822,000). Other components of accumulated surplus would not be affected (2015: Nil) by the changes in interest rates. The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

16. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Notes to the financial statements

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

16. Replenishments from SEHK (cont'd)

Up to 31 March 2016, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,816,000 to the Fund as follows:

	2016 \$'000	2015 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,946)	(29,946)
Add: recoveries re-distributed to claimants	16,385	16,385
Less: replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,816	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Breakdown of SFC activity data

Table 1 Authorized unit trusts and mutual funds – by type¹

	As at 31.3.2016		As at 31.3.2015	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	404 (21.2%)	423,757 (33.2%)	394 (21.6%)	454,109 (33.7%)
Equity	1,031 (54.1%)	608,782 (47.7%)	1,011 (55.4%)	649,846 (48.2%)
Diversified	140 (7.3%)	117,242 (9.2%)	107 (5.8%)	115,150 (8.6%)
Money market	46 (2.4%)	21,302 (1.7%)	47 (2.6%)	19,355 (1.4%)
Fund of funds	102 (5.4%)	15,651 (1.2%)	92 (5%)	16,266 (1.2%)
Index	161 (8.5%)	87,530 (6.9%)	153 (8.4%)	89,833 (6.7%)
Guaranteed	3 (0.2%)	69 (0%)	3 (0.2%)	81 (0%)
Hedge	3 (0.2%)	110 (0%)	3 (0.2%)	140 (0%)
Other specialised ²	14 (0.7%)	1,576 (0.1%)	15 (0.8%)	2,205 (0.2%)
Sub-total	1,904 (100%)	1,276,019 (100%)	1,825 (100%)	1,346,985 (100%)
Umbrella structures	229		220	
Total	2,133		2,045	

¹ Total net asset value (NAV) shown in this table in previous annual reports was as of the end of the calendar year. Beginning from 2015/16, number and total NAV are shown as of 31 March. For comparison purposes, figures as of 31 March 2015 are also presented.

² Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 2 Authorized unit trusts and mutual funds – by origin¹

	As at 31.3.2016				As at 31.3.2015		
	Umbrella funds	Sub-funds	Single funds	Total	Total NAV (US\$ million)	Total	Total NAV (US\$ million)
Hong Kong	122	460	74	656 (30.8%)	118,158 (9.3%)	594 (29.1%)	121,668 (9.1%)
Luxembourg	51	953	0	1,004 (47.1%)	860,620 (67.4%)	1,000 (48.9%)	933,547 (69.3%)
Ireland	31	244	2	277 (13%)	150,267 (11.8%)	278 (13.6%)	160,883 (11.9%)
United Kingdom	5	42	18	65 (3%)	78,830 (6.2%)	64 (3.1%)	77,277 (5.8%)
Mainland China	0	0	27	27 (1.3%)	10,880 (0.8%)	0 (-)	0 (-)
Bermuda	2	2	1	5 (0.2%)	292 (0%)	5 (0.2%)	364 (0%)
Cayman Islands	18	47	25	90 (4.2%)	15,253 (1.2%)	95 (4.7%)	15,306 (1.1%)
Others	0	0	9	9 (0.4%)	41,719 (3.3%)	9 (0.4%)	37,940 (2.8%)
Total	229	1,748	156	2,133 (100%)	1,276,019 (100%)	2,045 (100%)	1,346,985 (100%)

¹ Total net asset value (NAV) (excluding umbrella funds) shown in this table in previous annual reports was as of the end of the calendar year. Beginning from 2015/16, number and total NAV are shown as of 31 March. For comparison purposes, figures as of 31 March 2015 are also presented.

Breakdown of SFC activity data

Table 3 Takeovers activities

	2015/16	2014/15	2013/14
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under Code on Takeovers and Mergers	50	55	33
Privatisations	7	7	4
Whitewash waiver applications	51	31	39
Other applications under Code on Takeovers and Mergers ¹	323	279	203
Off-market and general offer share buy-backs	1	3	5
Other applications under Code on Share Buy-backs ¹	3	9	6
Total	435	384	290
Executive Statements			
Sanctions imposed with parties' agreement ²	1	1	1
Takeovers and Mergers Panel			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	0
Hearings before the Panel (disciplinary and non-disciplinary)	2	4	1
Statements issued by the Panel ³	4	2	0

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.

³ Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Breakdown of SFC activity data

Table 4 Breaches noted during on-site inspections

	2015/16	2014/15	2013/14
Failure to comply with Securities and Futures (Financial Resources) Rules	16	18	15
Failure to safekeep client securities	41	40	33
Failure to maintain proper books and records	34	22	11
Failure to safekeep client money	45	28	26
Unlicensed dealing and other registration issues	33	18	8
Breach of licensing conditions	10	7	1
Breach of requirements of contract notes/statements of account/receipts	69	79	47
Failure to make filing/notification	6	5	3
Breach of margin requirements	5	5	5
Marketing malpractices	0	2	1
Illegal short selling of securities	1	0	6
Dealing malpractices	2	2	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	388	236	226
Breach of Corporate Finance Adviser Code of Conduct	9	9	28
Breach of Fund Manager Code of Conduct	56	48	22
Breach of regulation of on-line trading	14	97	88
Non-compliance with anti-money laundering guidelines	223	117	88
Breach of other rules and regulations of the Exchanges ²	12	4	11
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	3	0	2
Internal control weaknesses ³	571	307	342
Others	146	65	113
Total	1,684	1,109	1,076

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

² Comprised The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ 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.

Breakdown of SFC activity data

Table 5 Successful prosecutions

Market manipulation

Defendant	Date of conviction	Penalty	Investigation costs awarded (\$)
WONG Chun	27.5.2015	240 hours' community service and two years' cold shoulder order	45,581

Unauthorized activities

Defendant	Date of conviction	Penalty	Investigation costs awarded (\$)
SZE Ching Lok Lawrence	8.5.2015	One month imprisonment suspended for two years	29,000

Note: Cases with fines below \$10,000 are not shown here.

Provision of false/misleading representation to the SFC

Defendant	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
LEE Kwok Wah	12.11.2015	15,000	11,964

Note: Cases with fines below \$10,000 are not shown here.

Disclosure of interests

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
TO Man Chau	24.6.2015	12,000	7,244
Saba Capital Limited	24.6.2015	12,000	7,244
HUI Wan Hon	25.6.2015	24,000	28,991
LAM Fai Man	30.6.2015	12,000	387,240
China Investment Fund Company Limited	23.7.2015	24,000	26,992
CHAN Kai Tai Alfred	3.12.2015	48,000	14,664
LEE Hei Wun	24.12.2015	20,000	16,624
LUNG Yau Wai	7.1.2016	20,000	9,627
LIU Wing Yan Winnie	25.2.2016	12,000	13,848
LI Zhixiong	31.3.2016	52,000	15,729
Total		236,000	528,203

Note: Cases with fines below \$10,000 are not shown here.

Breakdown of SFC activity data

Table 6 Most significant disciplinary actions

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
Merrill Lynch Far East Limited	1.4.2015	Internal control failures relating to position limit	Reprimanded and fined \$2 million
WONG Wai Hong	5.5.2015	Effected transactions in a client's account on a discretionary basis without obtaining the client's written authorization	Banned for six months
ZHU Zhiwei Benjamin	7.5.2015	Concealed from his employer his personal trading activities conducted in his and his friend's accounts	Banned for 18 months
SUN Xiao	26.5.2015	Traded in a personal securities account without disclosing it to her employer and failed to avoid potential conflicts of interest	Banned for 13 months
BNP Paribas Securities (Asia) Limited	1.6.2015	Failed to report cross trades to The Stock Exchange of Hong Kong Limited	Reprimanded and fined \$11 million
YU Chun Chieh	2.6.2015	Misappropriated an investor's money and misled him with false account statements	Banned for life
Phillip Securities (Hong Kong) Limited	16.6.2015	Failures over fund sales to clients	Reprimanded and fined \$1 million
KIANG Mang Yi Laura	13.7.2015	False representations about her academic qualifications	Banned for three years
Nomura International (Hong Kong) Limited	30.7.2015	Failed to report significant misconduct by a former trader in a timely manner	Reprimanded and fined \$4.5 million
BNP Paribas Securities (Asia) Limited	3.8.2015	Failures relating to alternative liquidity pool trading services	Fined \$15 million
SHAM Sze Wai Miranda	13.8.2015	Failed to identify and report suspicious transactions to the SFC and the Joint Financial Intelligence Unit in a timely manner	Revoked the approval of Sham to act as a responsible officer
WONG Chun	8.10.2015	Convicted of false trading	Banned for eight years
CHAN Chi Yuen	13.10.2015	Convicted of illegal short selling and concealing his personal trading from his employer	Banned for 18 months
YONEZAWA Masashi	14.10.2015	Made false entries in his employer's risk management system to conceal the real risk exposure of his trades	Banned for 30 months
KO Shu Chuan	15.10.2015	Fabricated an academic certificate purportedly issued by a Taiwan university	Banned for six years
Okasan International (Asia) Limited	2.11.2015	Failures in selling unlisted investment products and in properly disclosing trading profits	Reprimanded and fined \$4 million
GONG Yueyue	16.11.2015	Convicted of bribery	Banned for 15 years
J.P. Morgan Broking (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited and J.P. Morgan Securities (Far East) Limited	15.12.2015	Failed to implement adequate systems and controls to ensure compliance with the rules and regulations on short selling activities, client facilitation and principal trading business, and dark liquidity pool trading services	Reprimanded and fined a total of \$30 million

¹ The Securities and Futures Appeals Tribunal.

Breakdown of SFC activity data

Table 6 Most significant disciplinary actions (cont'd)

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
SUEN King Shan	22.12.2015	Failed to perform proper account opening procedures and concealed his personal trading by conducting it in an account opened in a relative's name	Banned for four years
CHOW Chi Keung	11.2.2016	Misappropriated client monies, forged client signatures and conducted unauthorized transactions in client accounts	Banned for life
YIM Ping Alice	22.2.2016	Failure in seeking client's authorization before trading for him	Banned for three years
Yuanta Securities (Hong Kong) Company Limited	29.2.2016	Failed to disclose the actual execution price and properly disclose its financial gains whilst handling bond transactions for clients	Reprimanded and fined \$4 million
SHAH Raaj J	10.3.2016	Failed to disclose personal accounts and obtain prior approval for securities transactions in breach of staff dealing policy	Banned for 12 months
Unicorn Securities Company Limited and CHAN Hoi Shu	14.3.2016	Mishandled clients' share dividend entitlements	Unicorn Securities – reprimanded and fined \$3 million Chan – suspended for 15 months and fined \$200,000
YUEN Siu Lun	24.3.2016	Abused the access right granted to him and made order amendments for personal benefit	Banned for seven years
Moody's Investors Service Hong Kong Limited	31.3.2016	Various failures relating to preparation and publication of a "red flags" report on Mainland companies	Reprimanded and fined \$11 million

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Chairman and CEO

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Breakdown of SFC activity data

Table 7 Other enforcement actions

	2015/16	2014/15	2013/14
S179 ¹ inquiries commenced	24	21	23
S181 ² inquiries commenced (number of letters sent)	286 (7,997)	293 (9,752)	220 (5,711)
S182 ³ directions issued	507	553	346
Rule 8 directions ⁴ issued	2	1	1
Show cause letters ⁴ issued	0	1	0
Cases with search warrants executed	31	53	59
Compliance advice letters issued	453	302	337
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings ⁵			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	1 (3)	0 (0)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	13	12	12
Individuals/corporations involved in ongoing MMT proceedings	2	4	8
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	0 (0)	0 (0)	5 (36)
Individuals/corporations involved in ongoing civil proceedings	0	0	4
Individuals/corporations involved in ongoing MMT proceedings ⁶	16	21	5
(c) Others			
Individuals/corporations summonsed (summons laid)	20 (107)	15 (71)	32 (190)
Individuals/corporations involved in ongoing civil proceedings	87	81	53
Individuals/corporations involved in ongoing MMT proceedings ⁶	14	16	0
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁷ issued	35	36	55
Notices of Decision ⁸ issued (including S201 ⁹ agreement)	42	46	51
SFAT hearings			
Applications to SFAT	4	5	7
Applications/hearings completed	4	4	6

¹ 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.

² Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

³ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

⁴ A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

⁵ Following the enactment of the Securities and Futures (Amendment) Ordinance in 2012, the SFC can bring cases directly to the MMT without first referring them to the Financial Secretary.

⁶ One case was referred to the MMT by the Financial Secretary.

⁷ 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.

⁸ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

⁹ Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Breakdown of SFC activity data

Table 8 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2015	As at 31.12.2014	As at 31.12.2013
Securities dealers and securities margin financiers	1,002	951	927
Active cash clients ²	1,259,868	1,157,599	1,079,550
Active margin clients ²	241,948	181,593	150,545
Active clients (+12%)	1,501,816	1,339,192	1,230,095
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	429,002	341,124	286,388
Amounts receivable from margin clients ⁴	145,307	111,549	85,794
Amounts receivable from clients and other dealers arising from dealing in securities	139,869	197,043	146,898
Proprietary positions	170,125	219,491	189,300
Other assets	205,673	211,338	176,858
Total assets (+1%)	1,089,976	1,080,545	885,238
Amounts payable to clients and other dealers arising from dealing in securities	466,208	470,507	366,299
Total borrowings from financial institutions	111,265	119,060	67,358
Short positions held for own account	61,198	94,473	101,044
Other liabilities	146,989	144,626	109,737
Total shareholders' funds	304,316	251,879	240,800
Total liabilities and shareholders' funds (+1%)	1,089,976	1,080,545	885,238
	12 months to 31.12.2015 (\$ million)	12 months to 31.12.2014 (\$ million)	12 months to 31.12.2013 (\$ million)
Profit and loss			
Total value of transactions ⁵	84,787,467	57,970,022	53,538,483
Net securities commission income	28,656	21,179	20,096
Gross interest income	12,203	9,421	7,666
Other income ⁶	106,044	94,071	86,107
Total operating income (+18%)	146,903	124,671	113,869
Total overheads and interest expense	120,499	109,281	105,746
Total operating profit (+72%)	26,404	15,390	8,123
Net profit on proprietary trading	16,799	11,223	8,579
Net profit for the period (+62%)	43,203	26,613	16,702

¹ Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. 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 were excluded.

² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank include trust monies held on behalf of clients which totalled \$225,099 million (31.12.2014: \$164,813 million).

⁴ As at 31.12.2015, the average collateral coverage was 4.4 times (as at 31.12.2014: 4.2 times). It 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.

⁵ The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

⁶ Comprised fund management fee income, corporate finance income, inter-company management fee income and others.

Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see our discussion in the Corporate Governance chapter on pages 12-29.

SFC Committees

Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
TONG Carlson, SBS, JP	
Members	
ALDER Ashley Ian, JP	LI Brian David Man Bun
Dr AU King-lun, MH	Dr LIN Yong (to 31.5.2015)
CHAN Jeffrey Lap-tak (from 1.6.2015)	LO Chi Wai (Peter LO)
CHEONG Ying Chew Henry (to 31.5.2015)	LUI Kei Kwong Keith
CHRISTIANSON Sun Wei	SHIPMAN Mark Graham
DING Chen (from 1.6.2015)	TSANG Frederick Sui Cheong
DUHAMEL Vincent	WINTER Richard David
GRAHAM David	WONG Anna Wai-kwan (to 31.5.2015)
HO Yin Tung Brian	YIN Ke (from 1.6.2015)
Number of meetings: 4	Average attendance rate: 75%

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
SHIPTON James Roger Francis	
Members	
Prof CHAN Chi Fai Andrew, SBS, JP	Prof LUI Ting Ming Francis
CHOW Yuen Yee	Dr MAK Sui Choi Billy
DAVIS Nigel	PICKERELL Blair Chilton
HAGLAND Trent	YUEN Ho Duen Judith
KEE Nicholas Min Kwan	
Secretary	
TUNG Ka Shun Sam	
Number of meetings: 0	Average attendance rate: N/A

Committees, panels and tribunal

Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, the Committee met once to review recent developments in and the market outlook for the Hong Kong REIT market.

Chairman	
LEUNG Fung Yee Julia, SBS	
Members	
CHAN Duen Grace	LAU Chun Kong
Dr CH' IEN Kuo Fung Raymond, GBS, CBE, JP	LIM Chai Geok
CHOI Fung Yee Christina	LO Chi Wai (Peter LO)
HO Yin Tung Brian	LUI Yin Tat
KONG YAO FAH Sew Youne (Marie-Anne KONG)	LYNN Sui Yuen Robert
Dr KWOK Chi Piu Bill, JP	MAGUIRE John Martin
KWOK Lam Kwong Larry, BBS, JP	NIGHTINGALE Anthony John Liddell, CMG, SBS, JP
Secretary	
TSE Lok Min	
Number of meetings: 1	Average attendance rate: 66.7%

Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, two disciplinary proceedings were ongoing under the Codes on Takeovers and Mergers and Share Buy-backs with a member of this Committee acting as Chairman. Sanctions in respect of one of the disciplinary proceedings were issued in July 2015.

Members	
CHAN King Sang Edward, SC	SHIEH Wing Tai Paul, SC
JAT Sew Tong, SC, JP	WONG Yuk Lun Horace, SC
LI Gladys Veronica, SC	
Number of meetings: N/A	Average attendance rate: N/A

Committees, panels and tribunal

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman

LUI Kei Kwong Keith

Members

KO Teresa Yuk Yin, JP

LEE Kwok Keung Roger

STEWART Mark Robert (to 24.9.2015)

Number of meetings: 1

Average attendance rate: 100%

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel and the Takeovers Appeal Committee.

Ex-officio Members

ALDER Ashley Ian, JP (Chairman)

CLARK Stephen Edward

HO Yin Tung Brian

Members

TONG Carlson, SBS, JP

Dr WONG Ming Fung William, SC

Alternate members to CLARK Stephen Edward

CHAN Yuk Sing Freeman

KO Teresa Yuk Yin, JP

LIU Chee Ming

MAGUIRE John Martin

WEBB David Michael

Number of meetings: 1

Average attendance rate: 100%

Committees, panels and tribunal

Products Advisory Committee

The Committee may be consulted by the SFC on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features.

During the year, the Committee held a sub-group meeting to discuss the review of asset management regulation and liquidity risk management of open-ended funds.

Chairman	
LEUNG Fung Yee Julia, SBS	
Members	
CHAN Duen Grace	MAHOMED Ferheen
CHAN King Cheung, BBS	McSHANE Darren Mark
Prof CHEUNG Yan Leung Stephen, BBS, JP	MURRAY Alastair Elliot
CHOI Fung Yee Christina	NORONHA Virginia
CHOW Ka Leung Louis	NOYES Keith Samuel
DING Chen	PAN San Kong Terry (from 21.9.2015)
FRASER Charles Stuart (to 30.4.2015)	PANG Wai Sau Queenie (from 25.11.2015)
FUNG Hau Chung Andrew, JP	RICHARDSON David Alexander
FUNG Ka Shing Bernard	ROBINSON Andrew John Lever
HUI Mei Ying (Carol HUI)	(from 26.5.2015 to 17.12.2015)
LASKOWITZ Jedediah Isiah	TAM Sau Ngor Vera
LECKIE Stuart Hamilton, OBE, JP	TSANG Jacob Chung
LEE Chi Kee Trevor	WONG Man Yee (Fanny WONG)
LEE Kam Wing Bruno (to 8.9.2015)	WONG Wai Sum Wilfred
Prof LIU Pak Wai, SBS, JP	YONG Lennard Peng Kuang (from 12.1.2016)
LUO Jiabin	
Secretary	
POON Wing Yee Loreen	
Number of meetings: 1	Average attendance rate: 73.3%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed public float rules, the Mainland circuit breaker mechanism, negative reports from short-sellers, and plans initiated by Hong Kong Exchanges and Clearing Limited (HKEX) for "Primary Equity Connect" and a third board, among other issues.

Chairman	
HO Yin Tung Brian	
Members	
BENNETT Pru	PHADNIS Dhananjay Shrikrishna
CHEN Yang Chung Roy	SHAH Asit Sudhir
HO John	Prof SO Wai Man Raymond
LAU Ka Shi, BBS	van Rijn Arnout
PARK Yoo Kyung	YE Xiang
Number of meetings: 3	Average attendance rate: 78.8%

Committees, panels and tribunal

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003. During the year, the Committee met once to consider the Fund's financial statements and to deal with other administrative matters.

Chairman

LUI Kei Kwong Keith

Members

KO Teresa Yuk Yin, JP
LEE Kwok Keung Roger

MAK Po Shuen
STEWARD Mark Robert (to 24.9.2015)

Number of meetings: 1

Average attendance rate: 80%

SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime. There were no circumstances which called for a meeting of the Group during the year.

Convener

Executive Director, Corporate Finance, SFC

Members

BROWN Stephen James
CHAN Ching Chu
CHAN Yuk Sing Freeman
HANNING Matthew Paul
JOHNSON Nicholas Regan
LEE Carmelo Ka Sze, JP

LIU Kennedy Tat Yin
LUNG Hak Kau
SOUTAR James Alexander
WANG Elizabeth Lily Chiang
WECHSLER Joshua

Number of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of SEHK when actual or potential conflicts of interest arise between HKEX as the holding company of SEHK and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC. There were no circumstances which called for a meeting of the Committee during the year.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

Members

ALDER Ashley Ian, JP
BROWN Melissa
LEE Carmelo Ka Sze, JP
LEUNG Fung Yee Julia, SBS
LUI Kei Kwong Keith
PHENIX Paul Anthony

SHIPTON James Roger Francis
STEWARD Mark Robert (to 24.9.2015)
TYE Philip Andrew
YEUNG Eirene
YOUNG Andrew John
YU Ka Po Benita

Number of meetings: 0

Average attendance rate: N/A

Committees, panels and tribunal

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

Members

AU Siu Cheung Albert, BBS (from 26.5.2015)	MA Xuezheng Mary
Prof CHENG Kwok Hon Leonard, JP	TONG Carlson, SBS, JP
HUANG Lester, JP (from 15.11.2015)	Dr WONG Tin Yau Kelvin, JP
KO Teresa Yuk Yin, JP	Dr WONG Ming Fung William, SC
LEE Kam Hung Lawrence, JP (to 14.11.2015)	WONG Kai Man, BBS, JP (to 25.5.2015)

Number of meetings: 0

Average attendance rate: N/A

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman

NORMAN David Michael

Deputy Chairman

LIU Yun Bonn

Members

DENNY Roger Michael	MA Ka Ming Teresa (to 31.7.2015)
KONG YAO FAH Sew Youne (Marie-Anne KONG)	TSAI Wing-chung Philip
KWOK Tun Ho Chester	WANG Elizabeth Lily Chiang
LIN James C	YUEN Ka Fai

Number of meetings: 0

Average attendance rate: N/A

Committees, panels and tribunal

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive¹ at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met twice to consider non-disciplinary matters. Two disciplinary proceedings were ongoing and sanctions in respect of one of the disciplinary proceedings were issued in July 2015.

Chairman	
CLARK Stephen Edward	
Deputy Chairmen	
CHAN Yuk Sing Freeman KO Teresa Yuk Yin, JP LIU Chee Ming	MAGUIRE John Martin WEBB David Michael
Members	
BROWN Melissa CHAN Che Chung CHARLTON Julia Frances DENNY Roger Michael FU Yat Hung David IP Koon Wing Ernest KWOK Tun Ho Chester LAM Sung Lai Edward LEE Pui Ling Angelina, SBS, JP LIU Che Ning LIU Yun Bonn LUNG Hak Kau	MA Ka Ming Teresa (to 31.7.2015) NORMAN David Michael NORRIS Nicholas Andrew PARK Yoo Kyung PERRY Jonathan Garth SABINE Martin Nevil SCHWILLE Mark Andrew SOUTAR James Alexander VAS CHAU Lai Kun Judy WINTER Richard David YU Ka Po Benita
Number of policy meetings: 0	Average attendance rate: N/A
Number of non-disciplinary hearings: 2	Average attendance rate: N/A²
Number of disciplinary hearings: 0	Average attendance rate: N/A

¹ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

² The Chairman will appoint not less than four panel members to participate in hearings, and the attendance of other members is not required.

Committees, panels and tribunal

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

Members

BROWN Melissa	LUNG Hak Kau
CHAN Che Chung	MA Ka Ming Teresa (to 31.7.2015)
CHAN Yuk Sing Freeman	MAGUIRE John Martin
CHARLTON Julia Frances	NORMAN David Michael
CLARK Stephen Edward	NORRIS Nicholas Andrew
DENNY Roger Michael	PARK Yoo Kyung
FU Yat Hung David	PERRY Jonathan Garth
IP Koon Wing Ernest	SABINE Martin Nevil
KO Teresa Yuk Yin, JP	SCHWILLE Mark Andrew
KWOK Tun Ho Chester	SOUTAR James Alexander
LAM Sung Lai Edward	VAS CHAU Lai Kun Judy
LEE Pui Ling Angelina, SBS, JP	WEBB David Michael
LIU Che Ning	WINTER Richard David
LIU Chee Ming	YU Ka Po Benita
LIU Yun Bonn	

Number of meetings: 0

Average attendance rate: N/A

Independent Panels and Tribunal

Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman

LAM Yuk Kun Lawrence

Deputy Chairman

LEE Pui Shan Rosita

Members

CHAN Kang Muk Woody
CHEUNG Tai Keung Jack

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Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, product authorization, exercise of investigation and disciplinary action, and corporate finance transactions (including administration of listing rules).

Chairman

Dr CHENG Mo Chi Moses, GBS, JP

Members

CHAN Kam Wing Clement
CHOW Yuen Yee
DING Chen
Prof HO Yan Ki Richard, JP
Dr HU Zhanghong

Dr LAM Kit Lan Cynthia
LEE Pui Shan Rosita
LEE Wai Wang Robert
MAK Chi Ming Alfred
YUEN Shuk-kam Nicole

Ex-officio Members

CHEUNG Kam-Wai Christina
TONG Carlson, SBS, JP

Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairmen

The Hon Mr Justice HARTMANN Michael John, GBS, Non-Permanent Judge of the Court of Final Appeal
SUFFIAD Azizul Rahman, SBS, former Judge of the Court of First Instance of the High Court (to 13.8.2015)
TALLENTIRE Garry, former Deputy Judge of the Court of First Instance of the High Court (from 14.8.2015)

Members

CHAN Jeffrey
CHENG Chung-ching Raymond
CHEUNG Wing-han Ivy
CHIN Vincent
DATWANI Mohan
DING Chen
EU Andrew Douglas
HO Chiu-ping Dennis
Dr HU Zhanghong

KWOK Pui Fong Miranda
LAI Hin-wing Henry
LAM Sze-cay Kevin
LEE Yiu-wing William
LIM Wai-tin Cynthia
LIN James C
LIU Swee Long Michael
Prof LOW Chee-keong
Dr MAK Sui Choi Billy

MUH Yi-tong Anthony
NG Joo-yeow Gerry
TSANG Chi-wai Roy
TSANG Kam-yin Wendy
WONG Anna Wai-kwan
YUNG Wen-yee Wendy
ZEE Helen

Glossary and abbreviations

Alternative liquidity pool (ALP)

An electronic system which allows crossing or matching of orders anonymously outside traditional exchanges without any pre-trade transparency. Also known as dark pool or alternative trading system.

Automated trading services (ATS)

Electronic facilities outside of those provided by a recognised exchange company or clearing house through which participants may trade, clear and settle securities, futures contracts and over-the-counter (OTC) derivatives.

China Securities Regulatory Commission (CSRC)

A ministry-level unit directly under the State Council which regulates the Mainland's securities and futures markets.

Dual filing regime

The requirement that all corporate disclosure and listing application materials be filed with both The Stock Exchange of Hong Kong Limited (SEHK) and the SFC.

European Securities and Markets Authority (ESMA)

An independent authority which safeguards the stability of the financial system in the European Union by assessing risks to investors and markets, providing supervisory convergence and directly supervising credit rating agencies and trade repositories.

Exchange participant (EP)

A company with rights to trade on or through SEHK or Hong Kong Futures Exchange Limited.

Exchange-traded fund (ETF)

A passively managed index-tracking investment fund traded on a stock exchange.

Financial Dispute Resolution Scheme

An independent and impartial process administered by the Financial Dispute Resolution Centre whereby financial institutions in Hong Kong are required to resolve monetary disputes with their customers through mediation and arbitration.

Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

Financial technology (Fintech)

The application of information and communications technology in the field of financial services, including digital payments, peer-to-peer financing, cybersecurity and data security, big data and data analytics, and distributed ledger technology.

Hong Kong Exchanges and Clearing Limited (HKEX)

Operates the securities and derivatives markets and their related clearing houses.

Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements that provides both insurance protection and investment options, usually funds.

International Organization of Securities Commissions (IOSCO)

An international body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

Leveraged and inverse products

Products structured as ETFs for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index that they track.

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)

A free trade agreement covering trade in goods and services as well as investment facilitation. Provisions include tariff agreements, preferential treatment for service providers, mutual recognition of professional qualifications, and enhanced cooperation in trade and investment facilities.

Glossary and abbreviations

Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance (SFO) which imposes civil sanctions against those it determines to be guilty of market misconduct.

Mandatory provident fund (MPF)

An employment-based retirement savings scheme that requires regular mandatory contributions by employees and employers in Hong Kong.

Mutual Recognition of Funds (MRF)

An arrangement that allows eligible funds offered to the public in the Mainland and Hong Kong to be sold directly into the other market.

Over-the-counter derivatives (OTC derivatives)

Financial instruments that are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from the values of underlying assets.

Real estate investment trust (REIT)

A collective investment scheme constituted as a trust that invests primarily in real estate with the aim to provide returns to holders derived from rental income.

Regulatory technology (Regtech)

Technologies that assist regulators and firms to enhance processes for the collection, management and reporting of regulatory data, risk identification, risk weighting, surveillance and data analytics.

Securities and Futures Appeals Tribunal (SFAT)

A body established under the SFO to review specified decisions made by the SFC, the Monetary Authority or a recognised investor compensation company.

Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products and the securities and futures market and industry, as well as to their regulation and to other connected matters including the protection of investors.

The Stock Exchange of Hong Kong Limited (SEHK)

Operates and maintains a stock market in Hong Kong and is the front-line regulator of Stock Exchange Participants in relation to trading matters.

Unit trust

A collective investment scheme constituted in trust form.

US Commodity Futures Trading Commission (CFTC)

The independent agency that regulates futures and options markets in the United States.

**Contact
Information**

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35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong
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Facsimile : (852) 2521 7836
Website : www.sfc.hk

Auditor

KPMG

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