



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

Regulation for Quality Markets



Mission Statement

As a financial regulator in an international financial centre, the Securities and Futures Commission 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.



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Message from Chairman and CEO



Carlson Tong
Chairman

Good corporate governance is more than just disclosure. I believe the tone at the top is crucial as it drives the values and the culture of the entire organisation. Ethics and business integrity are some of the key values which contribute to the quality of our markets.

– Carlson Tong

We share a common vision of maintaining Hong Kong's status as a leading international financial centre and are committed to strengthening and protecting the integrity and soundness of Hong Kong's financial markets. Our mandate is to ensure appropriate rules are in place for the benefit of the investing public and the financial industry. We are also charged with punishing rule-breakers and remediating the harm done to investors.

2013 was a challenging year as we strove to bolster the quality of our markets through appropriate rule-making, effective enforcement and greater financial literacy¹ among retail investors. We are always open to improving and fine-tuning our standards and practices in response to evolving market and economic conditions and in consultation with our stakeholders.

Re-focus on conduct

The global financial crisis exposed a number of problems stemming from excessive short-term focus and insufficient regard for long-term sustainability. These factors contributed to a breakdown of trust in the financial system. There is no doubt that we need to help restore trust, and it is clear that a reliance on “ticking the boxes” by firms will be insufficient. Resolving these problems requires proper management of conflicts of interest and guaranteeing that appropriate incentives encourage the right behaviour.

¹ Since November 2012, the SFC has delegated investor education to its subsidiary, the Investor Education Centre.

Conduct in financial firms is a focus of regulatory efforts globally and at the SFC. It isn't about rule-making, but rather about increased supervisory intensity, enforcement against misconduct, and helping smaller firms adapt to a complex environment.

- Ashley Alder



Ashley Alder
CEO

Regulators must remain diligent gatekeepers in a rapidly changing world. Technological advances have revolutionised the way we shop, read the news, conduct financial transactions, and, of course, communicate. But despite the dramatic pace of change, it is important to remember that our core mission and values remain the same. We must give precedence to our responsibility to maintain an effective regulatory framework which protects investors.

In last year's joint message we made it clear that regulatory arbitrage is not in our lexicon. We would like to emphasise again that sustainable market development cannot be separated from independent and robust regulation. It is self-defeating to try to facilitate market development by offering individual market participants special treatment or by lowering our standards.

Corporate regulator

We are using our existing powers under the Securities and Futures Ordinance to pursue a more structured and proactive role as a regulator of the conduct of listed companies. This is an extension of our existing work, aimed at taking a more holistic approach towards influencing corporate conduct. We review market announcements and transactions involving listed companies in order to identify questionable corporate behaviour. We use a range of remedial measures, including policy changes and, in the worst cases, enforcement action.

Our focus on corporate behaviour also reinforces the statutory disclosure regime for inside information which promotes more meaningful and timely dissemination of important information for investors. While the frequency and content of disclosures are improving, companies can

Message from Chairman and CEO

do more to provide the market with information which allows investors to properly price their securities. At the same time, the new sponsor requirements aim to ensure that sponsors carry out comprehensive due diligence and thoroughly understand the companies which they help to list in Hong Kong. By spotlighting prospectuses which are sub-standard in quality, we deliver an unambiguous message that standards need to be met, right from the start.

We are also engaging more with companies to ensure they do their part to improve corporate governance, particularly in regard to corporate diligence and responsible board conduct. The pursuit of ethical behaviour should be part of company culture, and we are encouraging shareholders to engage more with the companies they invest in.

Broader oversight of intermediaries

We are increasing our oversight of licensed intermediaries with the aim of driving better internal control and risk management culture within firms. This approach emphasises heightened supervisory expectations, particularly of sizeable financial institutions, as a means to encourage firms to enhance management and internal controls and to improve professional ethics and standards. The lesson from a number of recent incidents is that linear incentives combined with a narrow performance-dominated culture result in the wrong kinds of behaviour. The delineation of duties at financial firms – especially the segregation of compliance responsibilities from business lines – results in a lack of accountability and a skewed culture where revenue and sales are the primary incentive drivers, often at the expense of ethical considerations and client outcomes.

Our renewed focus on conduct also extends to investment products, and we will ask product providers to keep investor interest to the fore by putting in place robust internal product approval and design processes covering the entire product lifecycle. This reflects a greater interest on the part of global regulators in enhancing regulatory expectations of financial institutions which originate investment products.

Effective enforcement

We recognise that attacking wrong-doing on its own is not enough and where appropriate we must also take action to remedy the effects of market misconduct on companies and investors. The success of our remediation efforts over the past year highlighted our function as “public protector” in addressing the harm caused by misconduct and securing redress for victims. The courts have endorsed our approach, most notably in a landmark ruling by the Court of Final Appeal which specifically referred to our role in protecting the interests of persons injured by market misconduct.

This is part of our overall approach to ensure our enforcement efforts are effective: we deal with past misconduct through deterrent sanctions; we stop present misconduct through injunctions and other quick remedies and we reduce the consequences of misconduct into the future by seeking remedial orders for the benefit of the investing public.

Risk assessment and market supervision

To achieve the common goal of promoting safer, fairer and more efficient markets, regulators and market participants need to engage in an active and open dialogue about the evolution of risk and risk mitigation. In general, market participants need to set a stronger tone on risk culture and invest more in risk governance systems and controls. While we are encouraged by some emerging best practices, we will continue to urge the industry to do more. Additionally, we have launched a new internal effort with the creation and implementation of a risk register to identify potential emerging and systemic risks in financial market entities, infrastructures, products and activities. We will build on this work with the launch of an internal risk data strategy assessment.

Meanwhile, we are enhancing our supervisory approach to Hong Kong Exchanges and Clearing Limited (HKEx), which is transitioning into a vertically-integrated multi-asset class exchange. This approach will include regular

on-site reviews of HKEx's operations, and is in line with international regulatory trends centred on the need to strengthen the supervision of financial market infrastructures.

Collaboration with the Mainland

We are developing a pilot programme for mutual stock market access between the Shanghai and Hong Kong exchanges and are also in the final stage of negotiating an agreement on the mutual recognition of funds by the Mainland and Hong Kong. These are significant milestones which will enhance Hong Kong's position as a gateway for accessing Mainland capital and wealth and also its status as an international financial centre. As the two markets become more inter-connected, we will closely monitor and address the risks involved, including ensuring that recognised funds meet our standards. Meanwhile, we are also increasing collaboration with Mainland authorities on enforcement matters.

International issues

There is a pressing need to more clearly articulate Asia's policy priorities. The region's demand for capital continues to rise on the back of solid economic performance. To preserve and strengthen the region's influence, it is important that Asia embeds the right type of regulation geared to the specific needs of the region's growth opportunities. We must resist a "one-size-fits-all" approach exported from the EU and US which assumes that Asian priorities are identical with those of the West. Therefore we will continue to take a leading role in examining the impact of international reforms on the Asia Pacific region with an aim of identifying common interests and fostering cross-border collaboration.

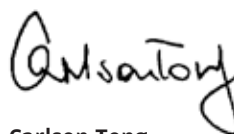
The challenges ahead

Supervision, surveillance and enforcement are the essential regulatory tools underpinning quality markets. We will continue to focus on the effective use of these measures,

and are keenly aware of the need to remain independent and impartial when doing so. This is particularly a vital point. Hong Kong's financial markets did not always have independent world-class regulation. The independent report that led to the establishment of the SFC 25 years ago described regulation in Hong Kong as passive and reactive. Both the industry and the regulatory bodies were described as being self-serving, and small investors' rights were ignored. We have come a long way since then, but our work remains challenging.

Preserving Hong Kong's status as a leading international financial centre will require us to be diligent, and, to a certain extent, courageous, in maintaining a regulatory framework responsive to the needs and circumstances of our markets, including the risks associated with the speed of technological change, increasing complexity and the integration of our markets. Public recognition in this regard is essential and we will strive to help stakeholders better understand our work.

Despite the many challenges we are confident that we will fulfil our core objectives thanks to the support of our Board and our dedicated staff who have shown such a high degree of professionalism and dedication.



Carlson Tong
Chairman



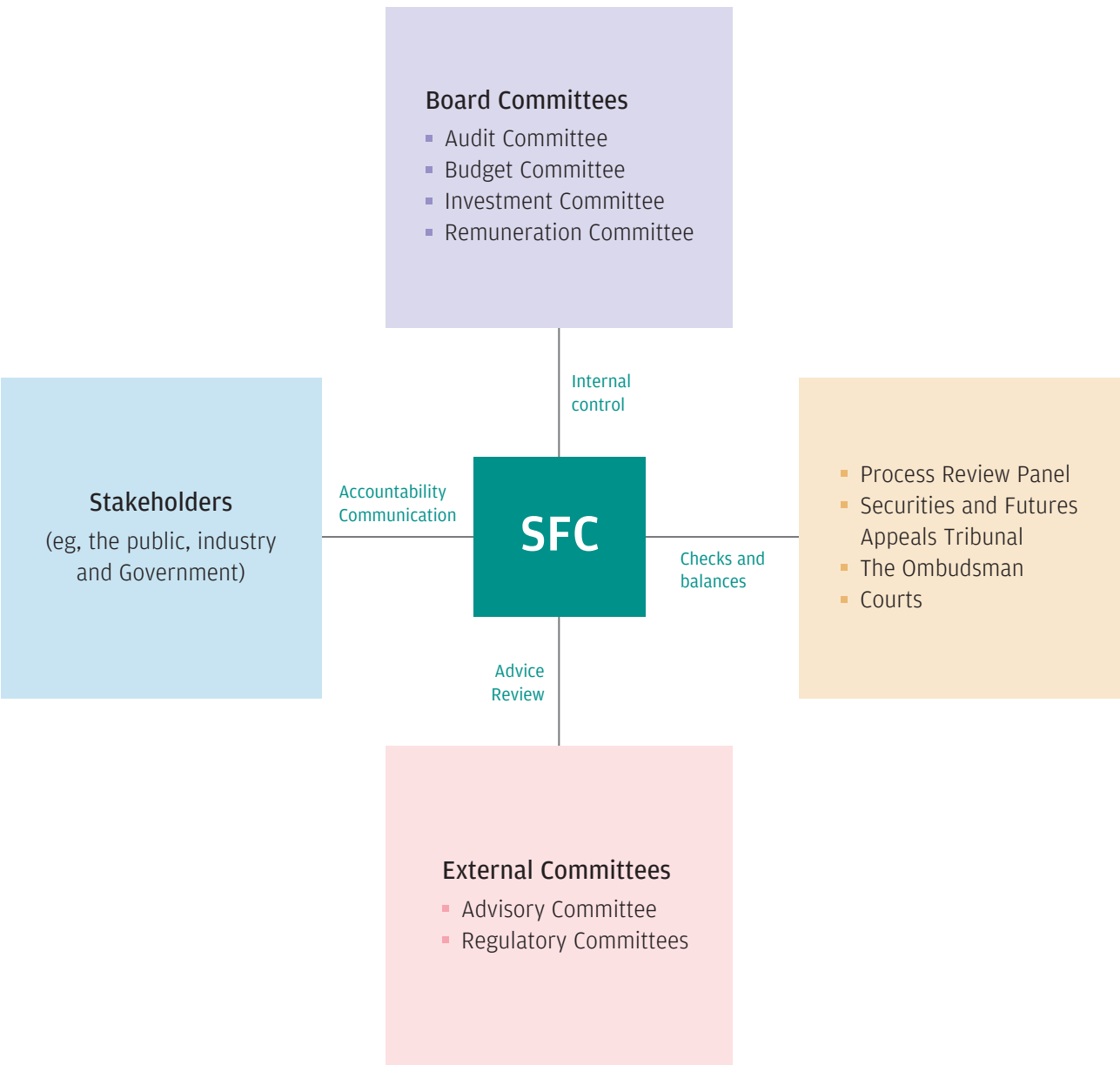
Ashley Alder
CEO

Corporate Governance



As the statutory regulator of Hong Kong’s securities and futures markets, we strive to promote transparency, accountability and communication. Our rigorous and transparent corporate governance framework incorporates a clearly defined management structure, independent checks and balances, high standards of conduct, and comprehensive operational and financial control procedures.

Governance framework



Corporate Governance



Board

The Board sets the SFC's overall direction and policies, provides strategic guidance to senior management, and oversees the work of the Executive Committee (ExCo). Board meetings are held at least once a month.

Constitution

The constitution and proceedings of the Board are stipulated by the Securities and Futures Ordinance (SFO). As of 31 March 2014, the Board is made up of six Executive Directors (EDs) (including the Chief Executive Officer) and eight Non-Executive Directors (NEDs) (including the Chairman).

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 HKSAR Government and their emoluments are disclosed on page 92.

NEDs come from a range of professional backgrounds, including accounting, business, law and academia, and bring to the Board a wide range of experience and expertise as well as an independent perspective.

Chairman and CEO

For the first 17 years of the SFC's history the Chairman of the Board also led the executive arm of the organisation. This changed after the enactment of the Securities and Futures (Amendment) Ordinance 2006, which segregated the Chairman's role from the day-to-day running of the SFC

and created the new position of Chief Executive Officer (CEO). The major responsibilities of the Chairman and CEO now include:

Chairman

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

CEO

- Shouldering 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
- Reporting regularly to the Board
- Assigning responsibilities to senior management and supervising their work

Governance practices

To keep Board members apprised of our policies and operations and to uphold good governance, we:

- provide them with all relevant information prior to meetings to enable thorough consideration of agenda items;
- circulate minutes of the Board meetings to members for comment;



- send members information regarding our operations and financial condition on a monthly basis;
- in addition to the regular monthly meetings, arrange for the Board to hold quarterly meetings to discuss policies in the pipeline; and
- brief newly-appointed Board members on the SFC's work and provide them with relevant conflicts policies.

As part of a continued process to improve its effectiveness, the Board conducted a self-assessment exercise during the year. The exercise was structured around basic board responsibilities and allowed Board members to think strategically about their governing role and identify areas where they could improve performance. The assessment results were presented on an anonymous basis and discussed at an off-site meeting of the Board.

The Commission Secretariat supports the Board and senior management, assisting them in dealing with a wide variety of SFC-wide policies and initiatives and ensuring that board proceedings follow relevant policies and procedures. The Secretariat is also responsible for liaising with Board members and members of other SFC board committees, organising their meetings, and handling communications with the HKSAR Government, the Legislative Council (LegCo), the Ombudsman, regulators and other public bodies.

Year in review

The number of Board members increased to 14 when Mr James Shipton was appointed as ED (Intermediaries) for a term of three years, effective 19 June 2013.

Mrs Alexa Lam was re-appointed as Deputy CEO and ED of Investment Products, International and China for one year until 28 February 2015.

Mr Chan Kam Lam stepped down as NED after six years of service. Ms Mary Ma was appointed as NED for a two-year term from 15 November 2013. In addition, two NEDs were re-appointed for two-year terms: Mr Wong Kai Man to May 2015 and Mr Lawrence Lee to November 2015. (See pages 18-24 for the full list of Board members and their biographies.)

Last year, 19 Board meetings were held. Attendance records for the Board and board committees are given on page 16.

Executive Committee

The ExCo is the highest executive body within the organisation. Headed by the CEO, the eight-member ExCo also includes five other EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director (Corporate Affairs). The ExCo performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. It meets weekly to discuss topical issues and bi-weekly to consider proposals and funding requests from throughout the organisation.

SFC committees

Board committees

Board committees are chaired by NEDs and focus on clearly-defined areas of the SFC's operations. They play an important role in ensuring that the SFC is accountable and transparent.

Committee	Membership	Responsibilities
Audit Committee	Four 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■ Considers other matters as required, including complaints against SFC staff
Budget Committee	Four NEDs and two EDs ¹	<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
Investment Committee	Four NEDs, three EDs and a Senior Director ¹	<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
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 HKSAR Government on EDs' remuneration and re-appointment of certain EDs

¹ In non-voting capacity.

External committees

External committees make a significant contribution to the governance of the SFC. The SFO provides for the establishment of external committees which in practice include a large number of outside members who reflect the diverse interests and concerns of market participants.

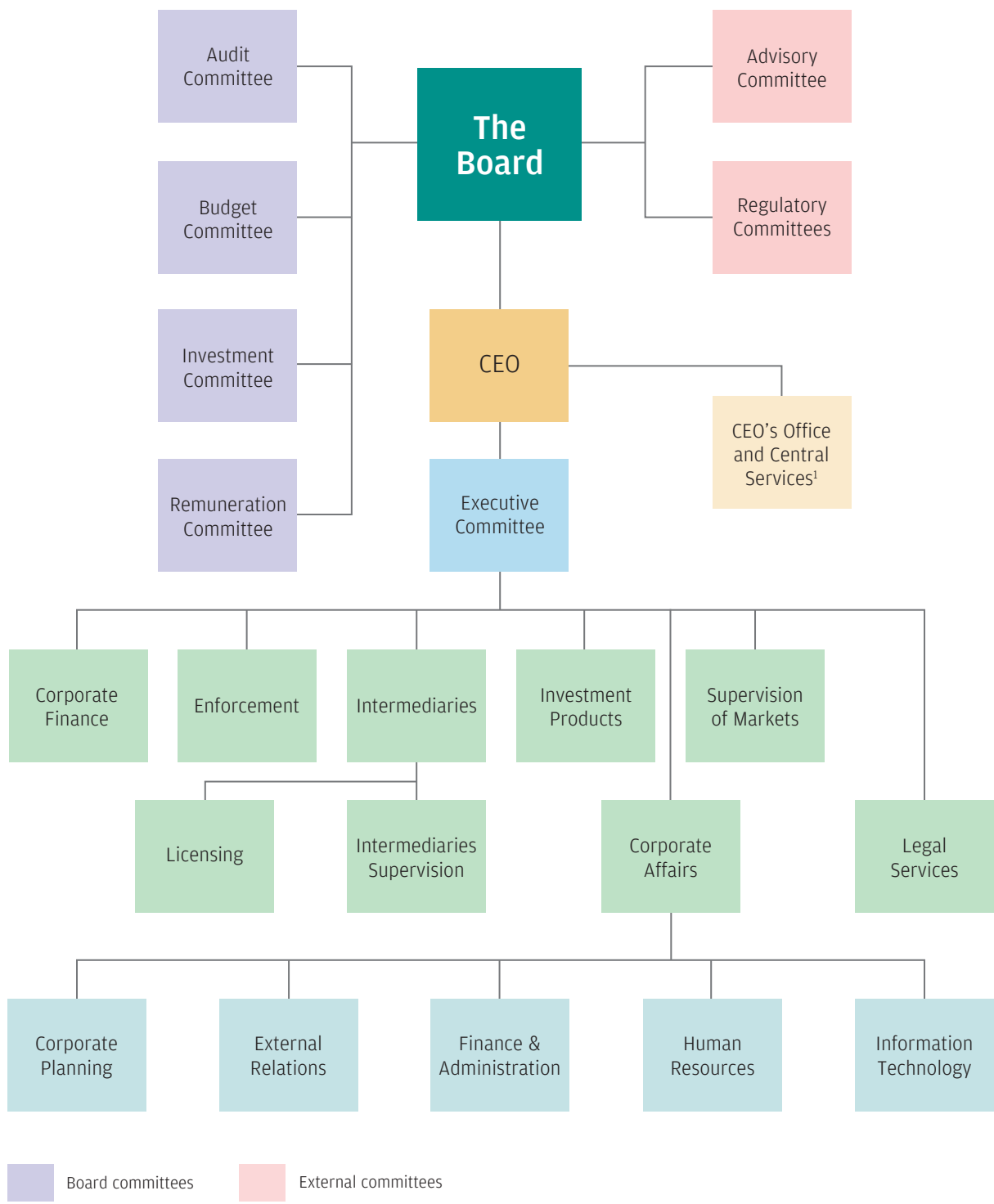
The Advisory Committee offers insight, advice and recommendations on policy matters. The majority of members are external representatives appointed by the Financial Secretary under authority delegated by the

HKSAR Chief Executive. The Committee is headed by the Chairman and also 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, or takeovers and mergers. Members are appointed by the Board and include NEDs, EDs and a large external representation.

The role and functions of each of the external committees are detailed on pages 140-148.

Organisational structure



¹ CEO's Office and Central Services include the CEO's Office, Commission Secretariat, International and China, Risk and Strategy, and Press Office.

Corporate Governance

During the year, we combined the Intermediaries Supervision Department and Licensing Department to create the Intermediaries Division, which is headed by a newly appointed ED. The integration will enhance our ability to deal with complex intermediary risks.

Standards of conduct

A high standard of integrity and conduct is required of all staff to promote and maintain public confidence. In

addition to complying with relevant legal obligations, our staff must 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.

Non-Executive Directors

Our Non-Executive Directors (NEDs) reflect on the challenges and rewards of their roles.

The SFC plays a unique and important role in Hong Kong's economy. It is charged with the primary responsibility of maintaining orderly securities and futures markets, and therefore our duties as NEDs are of paramount importance. However, unlike directors at profit-making companies, whose boards inevitably focus on setting the right business strategy and implementing it smoothly, NEDs have a very specific role at the SFC.

The Securities and Futures Ordinance imposes significant responsibilities on the SFC and at the same time it gives the SFC a range of regulatory powers. An important part of our role is to ensure that the SFC's powers and remedial actions are administered in a fair, equitable and timely manner.

Independent voices

We contribute to the Board's decision-making process by providing different perspectives and independent points of view, as well as offering our judgments on important decisions, overall strategy and policy, and other aspects of the SFC's work. We come from diverse backgrounds. Our professional knowledge and expertise complements that of the management team in important respects, and this helps the Board function more efficiently. For instance, we share our knowledge and experience relating to business, Mainland affairs, education and enforcement issues with the Board and management. One of us serves as Chairman of the Investor Education Centre, a wholly-owned subsidiary of the SFC, which promotes and provides financial education to the public in Hong Kong.

Coming from a range of professional backgrounds, we believe that it is crucial to have a diverse range of voices "in the room" at the SFC's Board and policy meetings, as well as at board committee meetings, all of which are chaired by an

NED. Most of these meetings are the scenes of robust and sometimes lengthy discussions, but we always work together, and once we have reached a consensus, all the Board members stand fully behind it. We are very proud to be part of such a unified Board.

In addition, the Board has established a system of discussing long-term policy issues on a quarterly basis. In fact, many matters which the Board has to consider involve highly technical and complicated issues in the securities and futures markets. We have to spend considerable time reading and digesting information in order to feel confident that we have properly grasped the issues under consideration.

Taking a long-term and strategic view

Identifying the long-term strategic issues facing the SFC as an independent regulator in one of the most important international financial centres is a big challenge facing the Board. To play our part as NEDs effectively, we need to understand local market developments and the SFC's regulatory initiatives and also keep pace with the technological, strategic and policy advances taking place in other financial centres. The management does an excellent job of updating the Board on a regular basis and this allows us to make more informed judgments on important issues.

A highly professional team

To maintain Hong Kong as a successful international financial centre, an extremely high degree of skill is demanded from each board member. For this reason we are glad that there is an appropriate mix of NEDs and Executive Directors on the Board. NEDs benefit enormously from the substantial expertise of the management team and this allows the Board to focus on the big picture and the philosophy behind the organisation.

We are honoured to be appointed SFC NEDs and welcome the opportunity to serve Hong Kong and our financial markets.



Accountability and transparency

Delegation of authority

Our comprehensive system of delegation of authority clearly delineates 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.

Control and reporting

We adhere to financial control policies and procedures that define the scope and responsibility of administrative, financial and management functions, including appointment of contractors, fee collection, investment, expenditure and budgeting, etc.

To ensure accountability and transparency, we:

- adopt the International Financial Reporting Standards for reporting and disclosure of financial statements;
- appoint an external firm to conduct an interim review and annual audit;
- submit our interim and annual financial statements to the Audit Committee for consideration;
- seek the Board's approval of the quarterly and annual financial statements and publish them in our quarterly and annual reports;
- submit the budget to the Financial Secretary for approval and table it before LegCo after consideration by the Budget Committee and the Board every year;

- provide regular reports to the HKSAR Government; and
- attend meetings at LegCo to explain policy initiatives and other issues of public interest, including meetings of the Panel on Financial Affairs.

Handling complaints and grievances

We have established procedures for handling complaints or grievances. Reports of improper practices of the SFC or our staff can be made under our public interest grievance procedures. These cover dissatisfaction regarding the manner in which the SFC or our staff has carried out or failed to carry out our duties. The procedures for lodging complaints are posted on our website.

Engagement with stakeholders

We actively engage with key stakeholders including the HKSAR Government, the financial services industry, regulatory counterparts and the general investing public. We also respond to public enquiries orally and in writing.

Before implementing a regulatory change, we conduct public consultations and announce consultation conclusions. We publish regular annual and quarterly reports to keep stakeholders and the public informed of key regulatory actions, organisational activities and financial details. Our other industry-related publications, reports and surveys address more specialised topics. Press releases inform the public of the latest regulatory actions and other SFC news.

Corporate Governance

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

To enable stakeholders to access information easily, our corporate website (www.sfc.hk) provides up-to-date public information including all SFC publications, press releases, consultation documents and conclusions. The information on our website is constantly updated and enriched. (See details in the Stakeholder engagement chapter on pages 63-65.)

Risks

We identify, assess and manage external and internal risks in a timely and systematic manner.

External risks

Each division closely monitors and manages regulatory risk in its respective area. We also have a market contingency plan to provide detailed procedures for dealing with emergencies that may affect Hong Kong's securities and futures markets, such as precipitous market falls and trading or clearing system failures. The plan helps us act promptly and appropriately when such problems arise. Furthermore, the risk and strategy function introduces centralisation of our risk identification and strategy-setting efforts.

Internal risks

We have a number of internal control measures in place to address possible internal risks of our operations, including financial risks, office and information security.

Our system of internal financial controls ensures proper management of our financial resources in accordance with established policies and procedures. An external audit firm conducts a review of our internal controls each year to assess how well we adhere to our controls and to evaluate and enhance the adequacy of these procedures. The review is approved by the Audit Committee annually. This year, the review looked at the process and key controls over the appointment of external consultants, fees collection, and travel and entertainment expenses.

In addition, the following measures are in place to ensure that operations are conducted safely and smoothly:

- A regularly updated business resumption plan covering readily identifiable risks, including technical problems, fires, natural disasters and other emergencies
- Office access controls to avoid unauthorised entry to office premises
- Information access controls to protect our information and information systems from unauthorised access, use, modification or destruction
- An information security policy to provide staff with guidance on how to protect the confidentiality and integrity of information

Independent checks and balances

External checks and balances provided by the Process Review Panel and the Securities and Futures Appeals Tribunal are in place. These aim to ensure fairness in

our decision making, observance of due process, and proper use of regulatory powers. We are also subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Function	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 Secretary for 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 12th annual report in October 2013
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 SFC decisions (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 seven cases of SFC regulatory decisions Decided on two cases, allowed four cases to be withdrawn
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"> Conducted six preliminary inquiries
Courts	<ul style="list-style-type: none"> Handles judicial reviews of SFC decisions 	<ul style="list-style-type: none"> None in 2013-14

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Carlson Tong	17/19	-	-	4/4	2/2	-
Executive Directors						
Ashley Alder	18/19	-	2/2	3/4	-	22/25
Brian Ho	19/19	-	-	-	-	22/25
Alexa Lam	16/19	-	2/2	-	-	22/25
Keith Lui	19/19	-	-	4/4	-	23/25
James Shipton ¹	11/13	-	-	3/3	-	16/18
Mark Steward	17/19	-	-	-	-	20/25
Non-Executive Directors						
Chan Kam Lam ²	8/11	-	-	-	1/1	-
Leonard Cheng	12/19	-	1/2	-	1/2	-
Anderson Chow	14/19	0/1	-	3/4	2/2	-
Teresa Ko	17/19	0/2	1/2	-	2/2	-
Lawrence Lee	18/19	2/2	-	-	2/2	-
Mary Ma ³	7/8	-	-	-	0/1	-
Wong Kai Man	16/19	2/2	1/2	4/4	1/2	-
Kelvin Wong	17/19	-	2/2	4/4	2/2	-
Senior Director & Chief Counsel						
Andrew Wan	-	-	-	4/4	-	23/25
Andrew Young	-	-	-	-	-	23/25

¹ Appointment commenced on 19.6.2013.

² Appointment expired on 14.11.2013.

³ Appointment commenced on 15.11.2013.

Performance pledges

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

		% of cases meeting the pledge		
		2013/14	2012/13	2011/12
Applications for subordinated loan or modification/waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	98%	100%
Authorization of investment products¹				
Take-up of applications upon receipt	2 business days	100%	100%	100%
Preliminary response to applications after take-up for unit trusts, mutual funds, investment-linked assurance schemes and MPF pooled investment funds	7/14 ² business days	100%	100%	100%
Preliminary response to applicants after take-up for other products	14 business days	100%	100%	100%
Enquiries				
Preliminary replies ³	5 business days	100%	99.9%	100%
Processing of licensing applications⁴				
Corporations	15 weeks	100%	100%	96%
Representatives (provisional licences)	7 business days	100%	99%	98%
Representatives (normal licences)	8 weeks	100%	100%	99%
Representatives (responsible officers)	10 weeks	97% ⁵	99%	99%
Transfer of accreditation	7 business days	98% ⁵	99%	94%
Complaints				
Preliminary response	2 weeks	99.9% ⁶	99.9%	99.8%

¹ Compliance with our performance pledges is measured in relation to applications in respect of which all of the required documentation is supplied by the applicants in a comprehensive manner.

² For unit trusts and mutual funds, effective from 1 May 2011, the target of 14 business days is applicable for the following types of schemes:

- 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
- schemes with policy implications

³ On 1 April 2012, the pledge for replying to enquiries was changed to five business days.

⁴ During the year, we processed 12,687 applications that were subject to performance pledges, 10,817 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,870 applications was delayed for reasons beyond our control (eg, unresolved fitness and properness issues, outstanding vetting requests, applicants failing to provide essential information, requests by applicants that we delay finalising their applications, etc.). To more accurately reflect our performance, these applications are not included in the percentages stated.

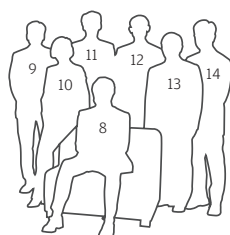
⁵ For cases in these categories in respect of which we did not meet our performance pledges, usually the delay was short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

⁶ One case failed to meet the pledge.

Board members



- | | | | |
|-----------------|------------------|-----------------|--------------|
| 1. Carlson Tong | 2. Anderson Chow | 3. Mark Steward | 4. Alexa Lam |
| 5. Kelvin Wong | 6. Wong Kai Man | 7. Teresa Ko | |



8. Ashley Alder 9. Lawrence Lee 10. Mary Ma 11. James Shipton
12. Keith Lui 13. Brian Ho 14. Leonard Cheng

Carlson TONG JP

Chairman

From 20 October 2012

Current appointment expires on 19 October 2015

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, Hong Kong Sports Institute Limited
- Chairman, English Schools Foundation
- Member, Exchange Fund Advisory Committee
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, HKEx Listing Nominating Committee

Past offices and public service

- 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 (2004-2006); Member (2002-2004)

Ashley ALDER

Chief Executive Officer

From 1 October 2011

Current appointment expires on 30 September 2014

Other SFC-related positions

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

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)

Prof Leonard CHENG JP

Non-Executive Director

From 1 January 2011

Current appointment expires on 31 December 2014

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

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, Hong Kong Port Development Council (2011-2012)
- Member, Statistics Advisory Board (2010-2013)
- Member, Provisional Minimum Wage Commission (2009-2010)
- Member, Broadcasting Authority (2003-2009)
- Member, Manpower Development Committee (2002-2006)
- Member, Monitoring Group on Trials and Studies for the Harbour Area Treatment Scheme (2001-2003)
- Member, Investment Promotion Strategy Group (2000-2001)
- Member, Advisory Committee on New Broad-based Taxes (2000-2001)
- Member, International Review Panel, Strategic Sewage Disposal Scheme (2000-2001)
- Member, Hong Kong Committee for Pacific Economic Cooperation (1998-2004)
- Member, Shanghai-Hong Kong Council for the Promotion and Development of Yangtze (1998-2002)
- Member, Economic Advisory Committee (1996-2001)

Notes:

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

The Hon Chan Kam Lam served on the Board as Non-Executive Director during the reporting year from 1 April 2013 to 14 November 2013.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

See pages 140-148 for information about the external committees of the SFC.

Anderson CHOW ^{sc}

Non-Executive Director

From 1 January 2011

Current appointment expires on 31 December 2014

Other SFC-related positions

- Member: Investment Committee and Remuneration Committee
- Member: Investor Compensation Fund Committee, Nominations Committee, Securities Compensation Fund Committee and SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Senior Counsel, Temple Chambers
- Chairman, Air Pollution Control Appeal Board
- Chairman, Standing Committee on Company Law Reform
- Recorder, Court of First Instance of the High Court of HKSAR
- Honorary Lecturer, Department of Professional Legal Education, Faculty of Law, The University of Hong Kong
- Investigation Committee Convenor and Member of Investigation Panel A, Hong Kong Institute of Certified Public Accountants
- Deputy Chairman, Appeal Board on Public Meetings and Processions
- Practising Senior Counsel Member, Barristers Disciplinary Tribunal Panel
- Member, Law Reform Commission
- Vice Chairman, Management Committee, Consumer Legal Action Fund

Past SFC-related positions

- Chairman: Takeovers and Mergers Panel, Takeovers Appeal Committee (2008-2010)
- Member, Disciplinary Chair Committee (2008-2010)

Past offices and public service

- Deputy High Court Judge, HKSAR (2009)
- Member, Appointment Advisory Board of Hong Kong International Arbitration Centre (2008-2010)
- Chairman, Water Pollution Control Appeal Board (2007-2013)
- Deputy Chairman, Administrative Appeals Board (2005-2011)
- Member, Criminal and Law Enforcement Injuries Compensation Board (2005-2011)
- Alternate of the Disciplinary Committee Convenor, Hong Kong Institute of Certified Public Accountants (2005-2011)
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants (2002-2011)
- Chairman, Appeal Tribunal (Buildings) (2000-2007)

Brian HO

Executive Director, Corporate Finance

From 28 August 2006

Current appointment expires on 27 August 2015

Other SFC-related positions

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

Public service

- Member, HKEx Listing Nominating Committee
- Member, Advisory Committee on Bond Market Development

Past SFC position

- Senior Director, Corporate Finance (2000-2006)

Teresa KO ^{JP}

Non-Executive Director

From 1 August 2012

Current appointment expires on 31 July 2014

Other SFC-related positions

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

Current offices and public service

- China Chairman and Partner, Freshfields Bruckhaus Deringer
- Chairman, Standing Committee on Disciplined Services Salaries and Conditions of Service
- Member, Exchange Fund Advisory Committee
- 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, Standing Committee on Disciplined Services Salaries and Conditions of Service (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)

Alexa LAM JP

Deputy Chief Executive Officer
Executive Director, Investment Products,
International and China

From 1 December 2001
Current appointment expires on 28 February 2015

Other SFC-related positions

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

Public service

- Co-chair, Working Group on Margining Requirements of the Basel Committee on Banking Supervision and the International Organization of Securities Commissions
- Member, Asian Financial Forum Steering Committee, Hong Kong Trade Development Council
- Member, Financial Services Advisory Committee, Hong Kong Trade Development Council
- Member, Professional Advisory Board, Faculty of Law's Asian Institute of International Financial Law, The University of Hong Kong

Past SFC positions

- Executive Director and Chief Counsel (2001)
- Chief Counsel (1999-2001)
- Senior Adviser, Chairman's Office (1998-1999)

Lawrence LEE JP

Non-Executive Director

From 15 November 2009
Current appointment expires on 14 November 2015

Other SFC-related positions

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

Current offices and public service

- Chairman, Hong Kong, PRC, Vietnam and Korea offices, Baker & McKenzie
- Chairman, Hospital Governing Committee, Pamela Youde Nethersole Eastern Hospital
- Member, Commercial and Securities Group, Baker & McKenzie

Past public service

- Member, Hospital Authority (2005-2013)
- Member, Supervisory Board, Hong Kong Housing Society (2000-2004)

Keith LUI

Executive Director, Supervision of Markets

From 28 August 2006
Current appointment expires on 27 August 2015

Other SFC-related positions

- Chairman: Investor Compensation Fund Committee and Securities Compensation Fund Committee
- Member: Investment Committee
- Member: 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)

Mary MA

Non-Executive Director

From 15 November 2013

Current appointment expires on 14 November 2015

Other SFC-related positions

- Member: 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., Stelux Holdings International Limited and Wumart Stores

Past offices and public service

- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2009-2013)
- 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)
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited (2004-2013)
- 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 position

- Member: Investment 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 of 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)

Mark STEWARD

Executive Director, Enforcement

From 25 September 2006

Current appointment expires on 24 September 2015

Other SFC-related position

- Member: SFC (HKEC Listing) Committee

Public service

- Non-Executive Director, Financial Dispute Resolution Centre Ltd

Past offices

- Australian Securities and Investments Commission: Deputy Executive Director, Enforcement (2004-2006); Director, Enforcement (2003-2004)

WONG Kai Man BBS, JP

Non-Executive Director

From 26 May 2009

Current appointment expires on 25 May 2015

Other SFC-related positions

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

Current offices and public service

- Director, Fung (1906) Foundation Ltd
- Director, Victor and William Fung Foundation Ltd
- Director, Fung Global Institute Ltd
- Director, Haven of Hope Christian Service
- Director, World Vision Hong Kong
- Court and Council Member, The University of Hong Kong
- Court Member, City University of Hong Kong
- Honorary Associate Professor, School of Business, The University of Hong Kong
- Independent Non-Executive Director: SCMP Group Ltd, Shangri-la Asia Ltd, SUNeVision Holdings Ltd and VTech Holdings Ltd

Past offices and public service

- Independent Non-Executive Director, China Construction Bank Corporation (2007-2013)
- Director, School of Professional and Continuing Education, The University of Hong Kong (2010-2013)
- Director, Hong Kong Science and Technology Parks Corporation (2001-2008)
- Member, Listing Committee, Growth Enterprise Market, The Stock Exchange of Hong Kong Limited (1999-2003)

Dr Kelvin WONG JP, DBA, FHKIoD

Non-Executive Director

From 20 October 2012

Current appointment expires on 19 October 2014

Other SFC-related positions

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

Current offices and public service

- Executive Director and Deputy Managing Director, COSCO Pacific Limited
- Council Chairman, The Hong Kong Institute of Directors
- Convenor-cum-Member, Financial Reporting Review Panel
- Member, Standing Committee on Company Law Reform
- Member, Corruption Prevention Advisory Committee, Independent Commission Against Corruption
- Member, Appeal Board Panel (Town Planning)
- 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 SFC-related position

- Member, SFC (HKEC Listing) Committee (2009-2013)

Past offices and public service

- Member, Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited (2007-2013)
- Member, The Board of Review (Inland Revenue Ordinance) (2008-2013)
- Member, China Trade Advisory Committee, Hong Kong Trade Development Council (2005-2009)
- Chairman, Hong Kong Chinese Orchestra Limited (2006-2008)
- Member, Auditing and Assurance Standards Committee, Hong Kong Institute of Certified Public Accountants (2006-2008)

Note:

FHKIoD refers to Fellow of The Hong Kong Institute of Directors.

Corporate Outlook

We are committed to working with the market to create a fertile environment in which the financial sector can thrive while ensuring that investor protection is not compromised. Internally, we monitor risks facing the SFC and Hong Kong's financial markets and take steps to enhance our regulatory regime as needed. To achieve our goals we must also ensure that the SFC operates efficiently and that our resources are optimally utilised.

We aim to benchmark the regulation of Hong Kong's financial markets to global standards. To this end, we will continue to participate in global policy-setting and work closely with our local, Mainland and overseas counterparts to foster comprehensive regulatory and enforcement cooperation.

Looking ahead, we will place increasing emphasis on measures that promote effective corporate governance and market transparency.

Quality markets

Financial regulators worldwide have a key role to play in promoting safer, fairer and more efficient markets. To fulfil our core mandate to safeguard market quality, integrity and transparency, we review and enhance our regulatory regime in response to market trends and evolving international standards.

Emphasis on intermediary oversight

We have heightened supervisory expectations of intermediaries through our newly integrated Intermediaries Division. The global financial crisis exposed a range of ethical, organisational and other problems at financial institutions, including conflicts of interest, inappropriate incentives and excessive focus on short-term results. We have taken on a broader monitoring role focusing on corporate culture, conduct, risk governance, management structures and internal controls.

IPO sponsor regime

Under the new initial public offering (IPO) sponsor regime which came into effect in October 2013, we aim to enhance the IPO gatekeeping process and the quality of listings in Hong Kong. Starting in April 2014, an application proof that is submitted to and accepted¹ by The Stock Exchange of Hong Kong Limited (SEHK) with a listing application will be published on HKExnews.hk, a dedicated website for disseminating issuer information. If the listing application is returned, the names of the listing applicant and its sponsors will be posted on the website and the listing applicant will be subject to an eight-week moratorium.

Our primary goal in introducing these measures is to encourage the submission of high quality first draft IPO prospectuses. This should also minimise the number of amendments in subsequent proofs, thereby facilitating a shorter listing timetable. It will also enhance transparency for investors.

New approach in corporate regulation

We are also pursuing a more structured, proactive and holistic approach in corporate regulation involving surveillance, analysis and enforcement against corporate misconduct. Our dedicated Corporate Regulation team, formed in December 2013, monitors disclosures and conducts periodic in-depth reviews of listed companies selected against risk-based criteria such as transaction anomalies or disclosure irregularities. The team also carries out thematic reviews which look at a specific activity across a range of companies.

Cultivating a culture of responsible corporate practices is vital for enhancing the effectiveness of corporate governance, but shareholders also have an essential role to play. To encourage institutional investors to engage with their investee companies and to promote the exercise of shareholder rights, we are drafting a set of responsible ownership principles and aim to publish a consultation paper on them in the second quarter of 2014.

¹ From 1 October 2013 to 30 September 2014, under the initial three-day check, which is one of the transitional arrangements SEHK put in place to complement the new sponsor regime, SEHK accepts a listing application for detailed vetting only after checking the application proof against a published checklist.

Enhanced supervision of HKEx

We are in discussions with Hong Kong Exchanges and Clearing Limited (HKEx) to enhance the supervisory approach to its non-listing related operations in light of its strategic plans and changing business model. Our proposed approach aims to ensure that HKEx will maintain the capability and capacity to implement its strategies and manage its business operations in compliance with its statutory obligations, and in a way that supports and ensures the orderly operation of Hong Kong's securities and derivatives markets. The approach aligns with international regulatory trends which emerged after the global financial crisis and which centre on the need to strengthen the supervision of financial market infrastructures.

Uncertificated securities market

To enhance the overall efficiency and competitiveness of Hong Kong's financial markets, we are working with the Government of the Hong Kong Special Administrative Region (HKSAR), HKEx, and the Federation of Share Registrars Limited to finalise technical details of a proposed operational model for an uncertificated, or scripless, securities market in Hong Kong. An enabling bill, expected to be introduced into the Legislative Council (LegCo) in the first half of 2014, will contain proposed amendments to the Securities and Futures Ordinance (SFO), the new Companies Ordinance, and the Stamp Duty Ordinance.

OTC derivatives

An amendment bill which introduces a framework for regulating the over-the-counter (OTC) derivatives market, including the introduction of mandatory reporting, clearing and trading obligations, and the regulation of key players in that market, was passed by LegCo in March 2014. The new regime will be implemented in phases starting first with mandatory reporting. We are currently working with the Hong Kong Monetary Authority (HKMA) on a joint public consultation which will discuss the detailed requirements for the first phase of implementation.

Alternative liquidity pools

In response to the evolution and continuous growth of electronic trading platforms, we are proposing that standardised regulatory obligations be imposed on all operators of alternative liquidity pools (commonly referred to as "dark pools") licensed in Hong Kong. We issued a consultation paper on our proposals in February 2014. After the April deadline for comments we will analyse the responses and publish the consultation conclusions.

Risk identification and assessment

For the purpose of external risk identification, we launched a new initiative in 2013 to conduct risk-focused industry meetings with financial institutions. We will involve a wider range of industry participants as the series continues.

For internal risk identification, we have developed and implemented an internal risk register, which provides the Board with an integrated overview of risks. This involves various divisions sharing their perspective on risks (including potential emerging and systemic risks) in financial market entities, infrastructures, products and activities which may affect our ability to meet the regulatory objectives set out in the SFO.

Both the risk-focused industry meetings and the risk register are intended to help us formulate long-term policies and strategies and to serve as a basis for periodic risk-focused discussions among senior management and the Board.

Hong Kong as a global financial centre

The SFC collaborates closely with the Mainland authorities, the HKSAR Government and the financial industry to maintain Hong Kong's standing as a premier international asset management hub and an offshore renminbi centre. Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which was signed in August 2013, will further facilitate financial institutions in Hong Kong accessing the Mainland market and offering financial products and services across the border.



Shanghai-Hong Kong Stock Connect

A pilot programme under development will establish mutual stock market access between the Shanghai Stock Exchange and SEHK. The two exchanges will facilitate trading in eligible stocks listed on the other's market through local brokers. We will work closely with the China Securities Regulatory Commission (CSRC) to enhance cross-boundary regulatory and enforcement cooperation. The programme's launch is subject to final regulatory approvals, market readiness and operational arrangements.

Mainland-Hong Kong mutual recognition of funds

The initiative on mutual recognition of funds (MRF) between the Mainland and Hong Kong is in its final stretch. We have reached agreement with the CSRC on key elements in six areas of the proposed MRF framework, namely: types of recognised funds, eligibility requirements for management firms, approval and vetting process for recognised funds, fund operations, disclosure of information and investor protection. We are working with the Mainland authorities to prepare for the formal launch of the initiative.

Offshore renminbi centre

The offshore renminbi business in Hong Kong has experienced tremendous growth over the years, making Hong Kong an indisputable leader in this area. We continue to expand the range and depth of renminbi investment products in Hong Kong and to work with the industry to review innovative renminbi product ideas.

REITs

A public consultation on the proposals to amend the Code on Real Estate Investment Trusts (REITs) to allow greater flexibility in the investment scope of REITs with respect to, firstly, investment in properties under development or engagement in property development activities, and secondly, investment in financial instruments, was launched in January 2014. We will release the consultation conclusions later this year.

Open-ended fund company structure

We continue to provide technical support to the HKSAR Government in developing a legal and regulatory framework for open-ended fund companies in Hong Kong. In March 2014, the Government issued a consultation paper on the proposed framework. The public consultation period will end in June 2014.

Ensuring investor protection

To promote effective investor protection, we seek to ensure that potential risks are identified to financial consumers to allow informed investment decisions, and that proper law enforcement is in place to combat misconduct.

Unit trusts and mutual funds

As part of ongoing efforts to enhance product transparency, we work closely with representatives of the Hong Kong Investment Funds Association and issuers of exchange-traded funds (ETFs). We discuss with and soft consult them on various regulatory initiatives, including disclosure of dividend policies and dividend payments in marketing materials, the total expense ratio and past performance information, as well as ETF tracking errors and tracking differences.

Investment product development

To strengthen our product authorization regime, we developed guidance for investment product providers which sets out the requirements for a robust internal product approval and design process covering the entire lifecycle from inception to post-sale. The HKMA, the Office of the Commissioner of Insurance (OCI) and the relevant industry associations have been consulted and were all supportive of the initiative. We issued a circular introducing such guidance in April 2014.



Professional investor regime

We conducted a comprehensive review of the current professional investor regime to assess whether it should be further refined, streamlined or improved. A three-month consultation on the proposed amendments to the regime ended in August 2013. We have analysed the submissions received and are now considering the way forward.

Selling practices of investment products

In the continuing low interest-rate environment, investors seek to achieve higher returns from investment products that could carry a relatively higher level of investment risk. We remain watchful of market trends and deploy a range of supervisory tools, including on-site inspections and mystery shopping programmes, to monitor licensed corporations' compliance with relevant regulatory requirements in the sale of investment products.

Investor education

Our regulatory function to protect investor interests is complemented by the Investor Education Centre (IEC), an SFC-funded subsidiary set up in November 2012. The IEC aims to equip the public with the skills and knowledge to make informed financial decisions and to manage money wisely.

Effective enforcement

Our key focus is to combat financial crimes and regulatory breaches, including insider dealing, market manipulation, corporate misgovernance, intermediary misconduct and unlicensed activities. We will continue to use the full spectrum of sanctions and remedies to protect investors' interests.

We remain firmly committed to fighting market misconduct and value the use of litigation. Litigation enables disputes to be resolved in an open and transparent way, setting authoritative precedents that can be used by all market participants and their advisers. The outcome of litigation also raises overall conduct standards in Hong Kong's markets by establishing clearer benchmarks.

The trend of complicated cases in the High Court, the Market Misconduct Tribunal and the Securities and Futures Appeals Tribunal is likely to continue. More of these cases involve international cooperation. Over the last two years, requests for investigatory assistance within the Asia-Pacific region (excluding mainland China) have increased by nearly 60%. We expect this trend to continue also.

Engagement with global regulatory reform

We engage actively in regulatory policymaking on a regional and global level. Our contribution helps keep Hong Kong's domestic regulatory framework aligned with international standards. The SFC is involved in the work of global standard setters such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). This is further detailed in the Regulatory collaboration section (see pages 59-62).

Participation in IOSCO and FSB

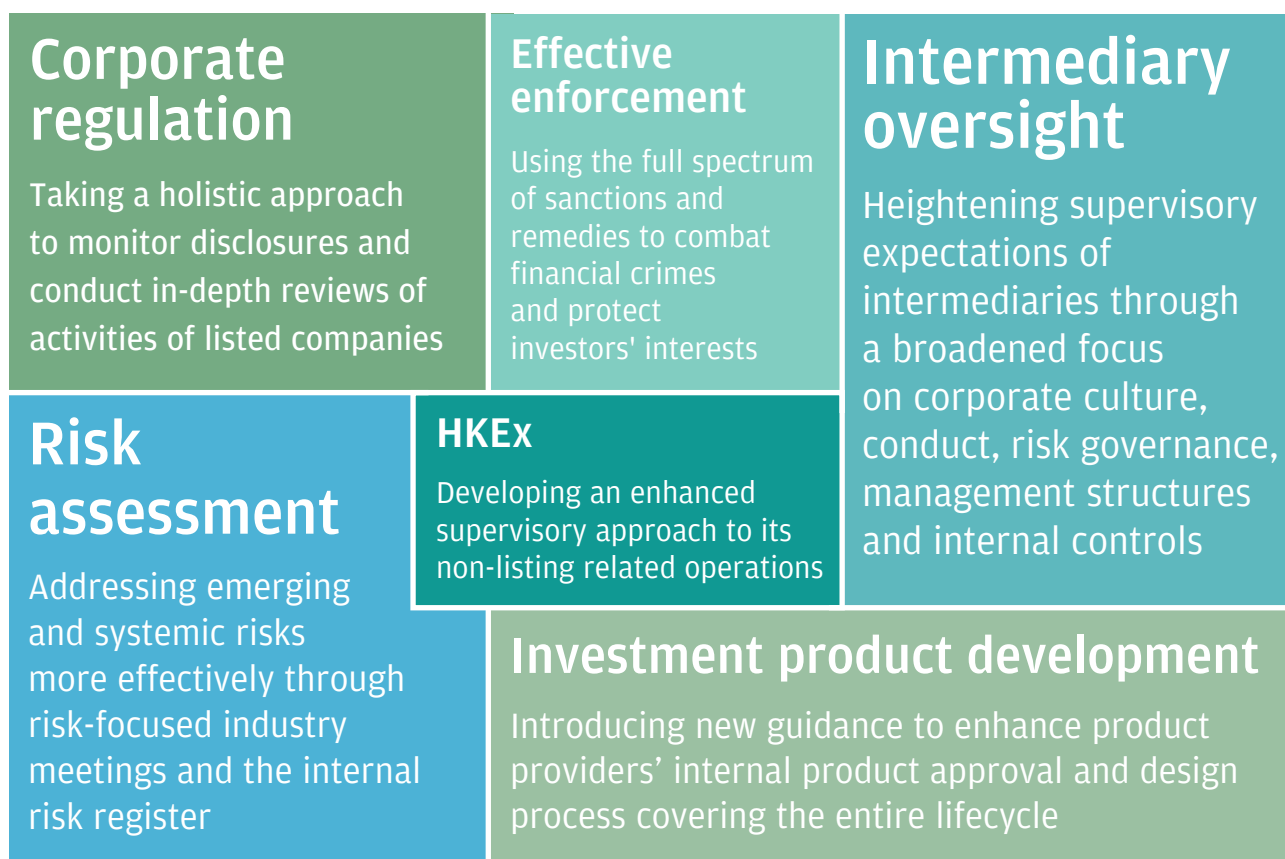
The SFC is a member of the IOSCO Board, the decision-making body within IOSCO. In addition, Mr Ashley Alder, our Chief Executive Officer (CEO), became Chairman of the IOSCO Asia Pacific Regional Committee (APRC) in May 2013. The APRC focuses on common goals and interests such as the development of Asia's capital markets, and it has become an important regional platform for communicating its members' collective concerns, aspirations and challenges to key stakeholders in the global regulatory reform process. Mr Alder also chairs the IOSCO Task Force on Cross-Border Regulation.

The SFC is represented in all eight IOSCO policy committees and its key task forces. We take part in IOSCO working groups on collective investment schemes and remain involved in the working group relating to non-bank, non-

insurer global systemically important financial institutions. IOSCO committees in which we play a leading role include:

- the Working Group on Margining Requirements Monitoring Group, co-chaired by Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China
- the Committee on Regulation of Market Intermediaries, chaired by Mr Stephen Po, Senior Director of Intermediaries Supervision
- the Committee on Emerging Risks (formerly known as the Standing Committee on Risk and Research) Workstream on Emerging Risks, co-led by Ms Benedicte Nolens, Senior Director of Risk and Strategy.

In collaboration with the HKMA, the OCI and the HKSAR Government, we support the work of the FSB which spans the securities, banking and insurance sectors. We are a member of the FSB's Standing Committee on Standards Implementation, which plays a significant role in coordinating the implementation of financial reforms by national authorities under the G20 mandate, and we are also a member of the FSB Regional Consultative Group for Asia.



Our People



Twelve of our people discuss the challenges and rewards of working at the SFC.

Shared values

Strong common interests bind us all together. Integrity is at the heart of everything we do – whether it is the integrity of the market, integrity in the way we treat one another in the workplace or the justifiably high expectations of integrity that the public has for us. We must always be fair, professional and transparent. This is entrenched in our culture.

Quality and clarity are also essential. Our commitment to quality gives us the desire to keep doing better. Maintaining quality is a continual process and requires tremendous effort. Clarity is crucial as people need to understand rules in order to comply with them, and without clarity they will not have faith in regulation. Licensees need to clearly understand what we expect them to do. Furthermore, well-developed “soft skills” are required to communicate clear and transparent messages about these and other matters.

Of course there are ups and downs and occasional frustrations. High expectations from the public and also from within the organisation create pressures which test our skills on a daily basis. Resilience is very important. But we think the SFC is the right place for us because of our common interests and shared values.

Never a dull moment

While a regulatory career naturally involves dealing with law and enforcement, working at the SFC is far from monotonous. On the contrary, increasing globalisation,

technological advances and new regulatory reforms – not to mention the need to keep abreast of a rapidly changing market – make it more interesting and challenging than ever. There will always be a need to focus on ethical behaviour and legal compliance in the market, so we also have to be vigilant.

A broad perspective is a vital requirement for success at the SFC. The rules and regulations we enforce have a significant impact on society as a whole, not just on the financial industry. Therefore we constantly ask ourselves

What our alumni say

Alumni share their working and career development experience at the SFC.

Mark Dickens

Chief Executive Officer
Financial Reporting Council

“I joined the SFC in February 1991. I had a two-and-a-half year contract and intended to go back to Australia at its end. As it turned out, I stayed at the SFC till 2005. The work was simply too fascinating.”

“At the SFC you never run out of interesting things to do. I relished the great variety of the work and the intellectual challenges. At the time I joined, the SFC was starting with virtually a blank piece of paper, and we had to make a lot of changes over the years to get the market up to an international standard.”

“The preparatory work for the enactment of the Securities and Futures Ordinance, a huge exercise to consolidate and modernise the previous 10 ordinances regulating the markets, was one of my most memorable experiences at the SFC.”

Doris Pak

Executive Director
Head of Wealth Management Compliance
UBS AG

“I decided to join the SFC after a nine-month secondment to its Legal Services Division from private practice because the work gave me a new perspective. Regulators have to consider issues from all angles and take into account the interests of different stakeholders, such as the industry, investors and the authorities. The work is much more dynamic, and this is not experience you can get in private practice.”

“I was really fortunate at the SFC in that a lot of opportunities came my way. I worked with four divisions during my 10-year stay and I learned a lot from each role. Each time I took on a new role I could leverage knowledge from my previous assignments. It was always good to try something new in an environment that you were familiar with.”

Christine Wong

Chief Counsel
Hong Kong Exchanges and
Clearing Limited

“The SFC introduced me to the policy and legislative aspects of law and regulation and challenged me to think in the broader context of policy goals, investor protection and market development.”

“The financial world was a much different place in those days, but what I learned during my six years at the SFC continues to inform and guide me as an in-house lawyer today. I am proud to have been part of the team in Corporate Finance that helped to shape our financial market, and I am grateful for the support of colleagues at the SFC whom I had the privilege to work with along the way.”



- | | | | |
|-------------------|---------------------|-----------------|------------------|
| 1. Charles Grieve | 2. Fion Tsui | 3. Pinky Tse | 4. Derek Shek |
| 5. Wong Yuk Wai | 6. Keith Lui | 7. Yvonne Mok | 8. Eugene Goynne |
| 9. Brian Ho | 10. Alexandra Yeong | 11. Hokinson Ho | |

Note: One of the group was unable to join the photo.

Our People

how to improve: What can be done better? How can we help people understand what we do? What is the purpose of regulation? In this respect, the SFC is ideal for those who relish an intellectual challenge and are not afraid of hard work.

It is common to move between different divisions within the SFC during the course of a career. Mobility within the organisation has helped us broaden our experience, build institutional knowledge, see things from a different angle and stay fresh. When moving to a new role, many colleagues already know and trust us, and that is a great benefit.

Blazing new trails

Quite often, what we are doing at the SFC is unprecedented. It could be a new regulation, a new market system, or a new product. So there might not be any outside references available. And there is never a one-size-fits-all solution. But people from different divisions work together, each contributing their expertise, and we get the job done.

The intrinsic nature of regulation makes it difficult to assess the impact of new rules over the short term. Nor can changes be introduced without a process that takes into consideration a wide range of interests and looks at an issue from different angles. As there is bound to be an impact on society when we push for a rule change, we

not only focus on due process but also must put public interest at the forefront. At the end of the day, the laws and regulations have to be right.

A meaningful career

Sometimes people are caught in a dilemma when making a career choice: to pursue their dream job or to settle for second best. But this is not a dilemma for us. When we first came to work at the SFC we had not planned to stay for more than a few years, but that's not how things turned out. We stayed because the work has been incredibly fascinating, interesting, and thoroughly enjoyable. A few of us have been at the SFC since its inception 25 years ago.

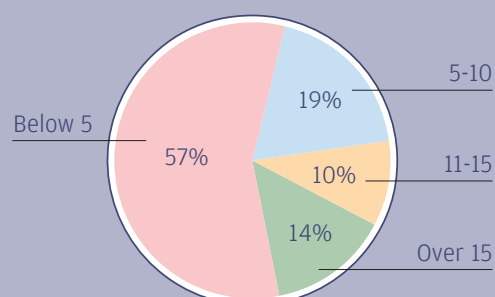
The public value of the SFC's work and having a clear sense of mission are the main reasons to choose to work for a statutory body. For us, the bottom line is what protects investors. Hong Kong's wide retail investor base, combined with a high risk appetite, makes this task all the more challenging.

To be able to make an individual contribution, however small, to the development of Hong Kong as an international financial centre is a source of considerable pride. The clear sense of mission is also important, as is the historical significance of what we do. Our work is meaningful and this, more than anything else, makes us more dedicated.

Staff statistics

	2013/14
Male	253
Female	500
Female staff	
At Senior Manager grade or above	54%
At Director grade or above	40%
Average years of service	6.8

Years of service



Survey on building a better workplace

People are our greatest asset and the key to our success. We are committed to providing a quality workplace to help us retain high-calibre talent to meet our long-term goals. With the aim of building a motivated workforce, we have launched a campaign, “Living our Values”, to cultivate our desired culture and core principles: “professional”, “proactive” and “people-count”. These common values guide all of our work from communication to decision-making.

Putting into practice the principle that “people count”, we conduct a biennial employee engagement survey to gauge the expectations and concerns of our staff in a diagnostic way. With an average response rate of over 80%, the survey helps to assess organisational effectiveness, to determine needed interventions and to set reasonable targets to drive future

change. The survey is part of our continuing effort to optimise our staff productivity, as well as to create an engaging and participative workforce.

After the baseline survey in 2010-11, organisation-wide follow-up actions have been taken to enhance employee recognition and communication, as well as to increase the frequency and variety of employee activities. Subsequently, the results of the second survey conducted in April 2013 showed an improvement in nearly all areas covered by the survey. On a five-point scale, our employee engagement level increased from 3.37 in 2011 to 3.61 in 2013.

As a responsible and understanding employer, staff engagement remains high on our agenda. We will continue to make ourselves an “employer of choice”.



Highlights of the Year

May 2013

Our Chief Executive Officer, Mr Ashley Alder, takes over the Chair of the Asia-Pacific Regional Committee of the International Organization of Securities Commissions (IOSCO).

The SFC authorizes the first dual-counter renminbi dim sum bond index exchange-traded fund.

Aug 2013

The Guidelines on the Application of the CPSS-IOSCO Principles for Financial Market Infrastructures take effect on 9 August.

Sep 2013

The SFC signs memoranda of understanding with authorities from 28 European Union or European Economic Area countries on the supervision of alternative investment fund managers.

Apr 2013

Debut of the second series of the SFC's law-enforcement themed TV drama: "SFC in Action".



Jun 2013

The SFC's Intermediaries Supervision and Licensing departments are combined to form the Intermediaries Division. The new division is headed by



Mr James Shipton, who is appointed Executive Director effective 19 June.

Oct 2013

The new initial public offering sponsor regime takes effect on 1 October.

The SFC and the Financial Regulatory Commission of Mongolia enter into a memorandum of understanding.



Dec 2013

The Court of First Instance orders Tiger Asia Management LLC and two of its senior officers to pay \$45.3 million to investors affected by their insider dealing.



Source: Hong Kong Economic Journal

Du Jun, a former Managing Director of Morgan Stanley Asia Limited, is ordered by the Court of First Instance to pay \$23.9 million to 297 investors as a result of his insider dealing.

The SFC publishes a report, *Risk-focused Industry Meetings Series: G-SIFI¹ Trends in Risk and Risk Mitigation*.

Feb 2014

The SFC begins a two-month public consultation on proposals to enhance the regulatory regime for alternative liquidity pools (also known as “dark pools”).

Jan 2014

New electronic trading regulations come into force on 1 January.

The SFC hosts meetings of the Asia-Pacific Regional Committee of IOSCO in Hong Kong on 22 and 23 January.

The SFC hosts its first Regulatory Forum on 24 January.



The SFC begins a one-month public consultation on proposals to amend the Code on Real Estate Investment Trusts.

Mar 2014

The former Chairman of GOME Electrical Appliances Holding Limited, Wong Kwong Yu, and his wife agree to compensate the company \$420 million in an agreement with the SFC.



Source: Hong Kong Economic Journal

The Securities and Futures (Amendment) Bill 2013, which proposes an over-the-counter derivatives regulatory regime, is passed by the Legislative Council.

¹ Global systemically important financial institutions.

Operational Review



Overview

The Operational Review section relates how we delivered our statutory objectives over the past year. It highlights the results of our efforts to uphold a quality market, ensure fair play and enhance investor protection across the full spectrum of our regulatory work.

The following tables summarise major developments during 2013-14. More details are provided in subsequent chapters.

Regulatory standards and updates		
Investment-linked assurance schemes	Introduced enhanced requirements for product key facts statements of investment-linked assurance schemes regarding disclosures of statements of purpose, total fees and charges, long-term features and remuneration of sales intermediaries	May 2013
Financial market infrastructures	The Guidelines on the Application of the CPSS-IOSCO ¹ Principles for Financial Market Infrastructures came into effect for recognised clearing houses	Aug 2013
IPO sponsor regime	The new initial public offering (IPO) sponsor regime became effective, emphasising early, comprehensive due diligence. Revised our relevant codes and guidelines to align with the new regime	Oct 2013
Electronic trading	New electronic trading regulations came into force on 1 January, requiring intermediaries to ensure electronic trading activities do not pose undue risks to the market	Jan 2014
REIT Code	Launched a public consultation on proposals to introduce greater flexibility in the investment scope of real estate investment trusts (REITs)	Jan 2014
Alternative liquidity pools	Began a public consultation on regulations for Hong Kong operators of alternative liquidity pools (also known as “dark pools”)	Feb 2014
OTC derivatives	The Securities and Futures (Amendment) Bill 2013, which proposes an over-the-counter (OTC) derivatives regulatory regime, was passed by the Legislative Council	Mar 2014
Open-ended fund company structure	Assisted the Government in formulating proposals for the consultation paper on open-ended fund companies	Mar 2014

Listings and takeovers matters		
Listing of overseas companies	Issued a joint policy statement with The Stock Exchange of Hong Kong Limited (SEHK) to promote transparency in the listing of overseas companies	Sep 2013
Sanctions	The Takeovers Executive ² publicly censured and sanctioned Daqing Dairy Holdings Limited and its directors for failure to issue an offeree document in response to a general offer. A cold shoulder order was also imposed against its sole executive director	Nov 2013

Market infrastructure		
OTC clearing	Approved the application of OTC Clearing Hong Kong Limited as a recognised clearing house for OTC derivatives transactions	Oct 2013
After-hours futures trading	Approved Hong Kong Exchanges and Clearing Limited's (HKEx) proposal to introduce a block trading facility for after-hours futures trading to facilitate the execution of large orders without creating excessive price movements	Dec 2013

¹ The Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements and the International Organization of Securities Commissions (IOSCO).

² This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

Operational Review Overview

Enforcement		
Key cases	After suspected financial irregularities were detected, Hong Kong Mercantile Exchange Limited surrendered its authorization to provide automated trading services and the SFC issued a formal notice of withdrawal with immediate effect. The SFC and Commercial Crime Bureau are investigating	May 2013
	Took action to unwind a collective investment scheme involving 360 hotel room units at The Apex Horizon and to secure the return of all deposits and monies paid by retail investors	May 2013
	Petitioned the court to wind up China Metal Recycling Holdings Limited for allegedly overstating its financial position in its IPO prospectus and annual report	Jul 2013
	The court ordered Du Jun, former Managing Director of Morgan Stanley Asia Limited, to pay \$23.9 million to 297 investors as a result of his insider dealing in shares in 2007. The restoration order is the first made by the court in an insider dealing case	Dec 2013
	The court ordered Tiger Asia Management LLC and two of its senior officers to pay \$45.3 million to 1,800 investors affected by their insider dealing	Dec 2013
	Obtained an interim injunction to freeze up to approximately \$1.97 billion in assets of Qunxing Paper Holdings Company Limited and its subsidiary for allegedly disclosing false or misleading information	Dec 2013
	Tsoi Bun was ordered by the court to pay \$13.7 million to about 500 investors affected by his manipulation of the prices of index futures contracts	Jan 2014
	The Securities and Futures Appeals Tribunal affirmed the SFC's decision to reprimand Sun Hung Kai International Limited, fine it \$12 million and suspend its licence to provide corporate finance advisory services for one year due to serious deficiencies in the company's sponsor work	Jan 2014
	Former Chairman of GOME Electrical Appliances Holding Limited, Wong Kwong Yu, and his wife Du Juan agreed to compensate the company \$420 million to resolve SFC proceedings	Mar 2014
"SFC in Action II"	Began broadcast of "SFC in Action II", the second series of a law-enforcement themed TV drama explaining the SFC's enforcement priorities	Apr 2013

Product development		
Exchange-traded funds	Authorized the first dual-counter renminbi dim sum bond index exchange-traded fund (ETF)	May 2013
	Authorized the first Renminbi Qualified Foreign Institutional Investor (RQFII) A-share ETFs tracking indices sponsored by the China Exchanges Services Company Limited ³	Aug 2013
	Authorized the first RQFII A-share ETF managed by a local financial institution in Hong Kong	Nov 2013
	A renminbi trading counter was added for a Hong Kong dollar-denominated gold ETF under the dual-counter arrangement on SEHK	Nov 2013
	Authorized the world's first physical RQFII bond ETF tracking an onshore Mainland government bond index	Jan 2014
	Authorized the first RQFII A-share ETF managed by a subsidiary of a Mainland securities company	Feb 2014
REITs	Authorized the world's first mainland China-based hotel REIT	Jun 2013
Funds	Allowed the first offer of renminbi share classes in a Hong Kong fund with limited renminbi-denominated assets	Oct 2013
	Authorized the first RQFII money market fund	Feb 2014
Structured products	Authorized the first equity-linked investment products that may be denominated in renminbi or linked to renminbi-denominated assets	Jul 2013
Futures and options contracts	Approved HKEx's proposal to launch futures and options contracts based on the CES China 120 index, providing an alternative trading and hedging tool for Hong Kong and Mainland stocks	Jul 2013

³ A joint venture formed by the Hong Kong, Shanghai and Shenzhen stock exchanges.

Intermediary conduct and practices

Professional investors	Launched a public consultation on proposed amendments to the professional investor regime and client agreement requirements in the Code of Conduct ⁴	May 2013
Internet trading	Issued a circular highlighting certain security vulnerabilities of internet trading systems identified from thematic inspections and providing guidance on control techniques for reducing internet hacking risks	Jan 2014
Selling practices	Issued a circular to licensed corporations highlighting common deficiencies in the selling process for complex and high-yield bonds	Mar 2014

Risk assessment

Risk-focused industry meetings	Published <i>Risk-focused Industry Meetings Series: G-SIFI Trends in Risk and Risk Mitigation</i> relating perspectives on risk and risk mitigation from senior officers of 10 global systemically important financial institutions (G-SIFIs)	Dec 2013
Risk register	Implemented an internal risk register methodology to provide senior management with an integrated overview of risks relevant to the SFC and strategic responses to those risks	Mar 2014

Regulatory collaboration

IOSCO	Our Chief Executive Officer, Mr Ashley Alder, became the Chair of the Asia-Pacific Regional Committee of IOSCO	May 2013
	Hosted the meeting of the IOSCO Committee on Investment Management in Hong Kong	Nov 2013
	Hosted meetings of the IOSCO Asia-Pacific Regional Committee in Hong Kong	Jan 2014
CEPA	Facilitated the inclusion of several securities-related cooperation measures under Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA X)	Aug 2013
MOUs	Signed memoranda of understanding (MOU) with authorities from 28 European Union or European Economic Area countries on the supervision of alternative investment fund managers	Sep 2013
	Signed an MOU with the Financial Regulatory Commission of Mongolia, establishing a framework for mutual assistance and exchange of information	Oct 2013

Stakeholder communication

Regulatory forum	Held the first SFC Regulatory Forum on the theme "New perspectives on the future of regulation in the aftermath of the Global Financial Crisis"	Jan 2014
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Operational efficiency

Organisational structure	Integrated the Intermediaries Supervision and Licensing departments to form the Intermediaries Division to enhance our regulatory effectiveness in licensing and supervising intermediaries	Jun 2013
	Set up a dedicated Corporate Regulation team to take on broader, more proactive oversight of listed companies	Dec 2013
System upgrades	Enhanced the SFC Online Portal and internal systems to support the new regimes on sponsors and OTC derivatives and to improve operational efficiency	Nov 2013

⁴ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

We grant licences to corporations and individuals who are appropriately qualified and can demonstrate that they are fit and proper to be licensed under the Securities and Futures Ordinance (SFO). We conduct on-site inspections and off-site monitoring to ensure that licensed corporations¹ are financially sound and they, together with their licensed representatives, are in full compliance with the relevant laws and regulatory requirements.

Licence applications

This year, we received 6,528 licence applications², up 12% from last year. As of 31 March 2014, the total number of licensees and registrants in Hong Kong remained stable compared to last year at around 39,060.

We revised the licensing application and notification forms, both paper and electronic, to capture information required under the enhanced sponsor regime and the new Companies Ordinance that came into effect on 1 October 2013 and 3 March 2014, respectively.

Upgrade of licensing system

We completed a major upgrade of the back-end of our automated licensing system in November, which has streamlined the processing of intermediary licensing-related applications, notifications and returns. This back-end system was integrated with a number of existing systems, including the SFC Online Portal, to increase process efficiency.

Enhancing regulatory standards

We published a consultation paper on 27 February proposing that standardized regulatory obligations be imposed on all alternative liquidity pool (ALP) operators licensed in Hong Kong by including within the Code of Conduct³ comprehensive requirements governing their operation. In consideration of the evolving markets in which ALPs operate and global concerns over their regulation, the proposals aim to strike a balance between market development, market integrity and investor protection, taking into account the needs and circumstances of the Hong Kong market. The two-month consultation ended on 25 April 2014.

As of 31 March 2014, 25 corporations were licensed for Type 7 regulated activity⁴ in Hong Kong, of which 16 operated ALPs, which are also known as “dark pools”.

Under the statutory regime for the regulation of Mandatory Provident Fund (MPF) intermediaries effective November 2012, we were one of four regulators⁵ to jointly conclude the Memorandum of Understanding (MoU) Concerning the Regulation of Regulated Persons with respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance in May 2013. To ensure regulatory consistency and a level-playing field for the regulation of MPF intermediaries, the MoU sets out administrative and operational arrangements among the four regulators concerning the exercise of their respective functions. These include registration and approval, inspection, complaint handling, investigation, prosecution and disciplinary action. Under the MoU, the four regulators meet regularly to discuss topics of common concern regarding the regulation of MPF intermediaries.

Licensees[#]

	Corporations		Representatives		Responsible Officers		Total		Change
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	
Stock exchange participants	453	463	10,772	11,602	1,556	1,601	12,781	13,666	-6.5%
Futures exchange participants	111	115	877	940	141	149	1,129	1,204	-6.2%
Stock exchange and futures exchange participants	67	65	4,879	3,720	475	392	5,421	4,177	29.8%
Non-participants	1,339	1,262	14,671	14,911	3,599	3,409	19,609	19,582	0.1%
Total	1,970	1,905	31,199	31,173	5,771	5,551	38,940	38,629	0.8%

[#] This table represents a snapshot view as of each financial year-end. The figures exclude registered institutions. The total number of licensees and registrants is 39,060 as of 31 March 2014.

¹ Licensed corporations broadly include stock brokers, investment banks, futures and leveraged forex dealers, 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 3,764 provisional licence applications compared with 3,199 in the previous year.

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

⁴ This involves the provision of automated trading services, eg. the operation of ALPs.

⁵ The SFC, Mandatory Provident Fund Schemes Authority, Hong Kong Monetary Authority and the Insurance Authority.



Separately, on 15 May 2013 we published a consultation paper on proposed amendments to the professional investor regime and client agreement requirements in the Code of Conduct³. The consultation aimed to identify those investors who require full protection under the Code of Conduct³ and those who do not, as well as to align the contents of client agreements used by intermediaries with the actual services they agree to provide to customers. We have analysed the comments received from various industry associations, licensed corporations, law firms and individuals, and are now considering the way forward with a view to striking an appropriate balance between enhancing investor protection and addressing industry concerns.

Supervision of intermediaries

We conduct off-site monitoring and on-site inspections in our supervision of intermediaries. In doing so we use techniques such as high-level discussions with senior management at intermediaries, computer-aided systems for monitoring key risk indicators, independent verification of client assets, walk-throughs of key processes and sample transaction reviews. Over the past year, we conducted 296 risk-based inspections of licensed corporations. Our focus areas include reviews of client asset protection, internet trading and intermediaries' selling practices.

Issues noted in intermediaries supervision

Last year, we focused on the following areas during our risk-based on-site inspections and off-site monitoring of licensed corporations:

Financial and fraud risks

The risk of broker insolvency and the inadequate protection of client assets remained key areas of supervisory focus amid continuing uncertainties in the global financial markets. We scrutinised financial returns submitted by licensed corporations to identify financially-vulnerable brokers for closer monitoring. In more serious cases, we required brokers to better manage their credit, market and liquidity risks, or to inject capital or subordinated loans, in order to better protect their clients' interests and assets.

We noted a number of deficiencies in relation to the protection of client assets. For example, one broker used its clients' securities, without their consent, to cover the settlement shortfalls of other clients, which was in breach of the Securities and Futures (Client Securities) Rules. In another case, we found that an employee of a broker had falsified documents and misappropriated client securities. In addition, employees of several brokers were found to have conducted discretionary trading using clients' accounts without authorization. In addition to taking enforcement action in more serious cases, we also followed up on other cases of deficiencies and

non-compliance to ensure that appropriate remedial steps had been taken by the licensed corporations concerned.

Selling practices

This year, our thematic review of intermediaries' selling practices focused on the selling of high-yield bonds and bonds with special features that carry additional risks for investors. This followed up on a circular we issued to intermediaries in November 2012 on the features and risks of high-yield bonds and funds which invest in them. We conducted on-site inspections of selected licensed corporations to review whether or not they comply with selling practice requirements when selling such products to retail investors.

In some cases, we were concerned that firms solicited or recommended some products which might be unsuitable for the particular clients concerned. We also noted deficiencies in both staff training and the disclosure of material sales-related information to clients at a number of firms, and promptly followed up on the actions taken by these firms to correct them. We also investigated cases involving more serious breaches of regulatory requirements. In March 2014, we issued a circular to licensed corporations to highlight some common deficiencies in the selling process for complex and high-yield bonds, and reminded them to review their policies and procedures and to address any weaknesses they identified.

For statistics, please refer to Table 5 on page 133.

Operational Review Intermediaries

We engaged an external consultant to help conduct a review of the information technology (IT) control environment and other related management controls for internet trading systems at selected brokers. During the review, we identified certain security vulnerabilities which could expose these firms and their clients to considerable internet hacking risks. In addition to issuing a circular to remind licensed corporations about the importance of IT security controls, we gave presentations to members of various industry associations on our experience and observations related to IT controls and management for internet trading.

Guidance on compliance

We carried out a number of initiatives to provide guidance to intermediaries on compliance matters during the period. These included:

- publishing a set of frequently asked questions on the SFC website covering topics related to the new sponsor regime, which came into effect on 1 October 2013;

- offering 12 training seminars for industry practitioners on a range of issues including anti-money laundering and counter-terrorist financing, internet trading risks and fraud risks;
- issuing 28 advisory circulars to promote compliance with various legal and regulatory requirements and to enhance the industry's awareness about the latest developments in anti-money laundering and counter-terrorist financing; and
- holding five meetings with broker associations to discuss contemporary risk management, compliance and regulatory matters.

Processing investor claims

The Investor Compensation Company Limited⁶, a wholly owned subsidiary of the SFC, processed the remaining claim from a client of a broker that defaulted in 2007, as well as claims against nine brokers relating to individual disputes. Three claims were rejected during the year.

Compensation funds

	2013/14	Change	2012/13	Change	2011/12
NAV of all compensation funds (\$ million)	2,263.9	0.3%	2,257.2	4.6%	2,157.9
■ Unified Exchange Compensation Fund ¹	62.9	-1.9%	64.1	2.2%	62.7
■ Investor Compensation Fund ²	2,201	0.4%	2,193.1	4.7%	2,095.2

¹ See pages 118-130 for the financial statements of the Unified Exchange Compensation Fund.

² See pages 102-117 for the financial statements of the Investor Compensation Fund.

Department integration to enhance regulation of intermediaries

In 2013, the Intermediaries Supervision Department and the Licensing Department were combined to create the Intermediaries Division. With 230 staff, the new division is responsible for licensing and supervising around 39,060 corporations and individuals.

The integration is a strategic response to the rapidly changing and increasingly complex market and regulatory environment. To enhance the overall effectiveness of our licensing and supervisory functions, the new division will drive higher standards of integrity and compliance among intermediaries by promoting and insisting upon heightened and consistent levels of fitness and properness, professionalism and business

ethics. Central to the realisation of this objective will be insistence upon compliance with the SFO and its subsidiary legislation, complemented by enhanced obligations imposed on intermediaries under the SFC's codes and guidelines.

Following the integration, staff members of the new Intermediaries Division continue to lead or participate in organisation-wide projects including the development of the over-the-counter derivatives regime, the enhanced regulation of alternative liquidity pools and a revision of an international code of conduct for credit rating agencies. Staff of the new division are provided with training opportunities, including external training, to help them develop the market and regulatory knowledge needed to carry out their work effectively.

⁶ The Investor Compensation Company Limited provides statutory compensation to investors when a licensed corporation or registered institution goes into default.

Investment products

Over the past year, we continued our efforts to maintain high market standards and protect the investing public through performing our gate-keeping functions in authorizing and monitoring investment products offered to the public, as well as enhancing product disclosure and investor education.

Authorized investment products

As of 31 March 2014, there were 2,487 SFC-authorized collective investment scheme (CIS) investment products (excluding unlisted structured investment products) on offer to the public.

For the 12 months ended 31 March 2014, there were 119 unlisted structured investment products authorized by the SFC for public offering. For details, please refer to Table 3 on page 132.

Renminbi product development

In close collaboration with Mainland authorities, we played an active role in expanding the range and depth of retail renminbi products so as to support the continued growth of the renminbi and help Hong Kong strengthen its position as a pre-eminent offshore renminbi centre.

In August 2013, we authorized the first Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds (ETF) tracking the CES China A80 Index

sponsored by the China Exchanges Services Company Limited, a joint venture formed by the Hong Kong, Shanghai and Shenzhen stock exchanges. We authorized the first RQFII ETF tracking an onshore Mainland Government bond index and the first RQFII money market fund in January and February 2014, respectively.

The expansion of the RQFII scheme in March 2013 allowed more market players in Hong Kong to participate. We authorized the first RQFII A-share ETF managed by a local financial institution in November 2013, and the first RQFII A-share ETF managed by a manager whose parent company is a Mainland securities firm in February 2014. The total number of SFC-authorized RQFII ETFs stood at 14 as of 31 March 2014.

During the year, we have allowed, on a case-by-case basis, Hong Kong-domiciled SFC-authorized funds managed by SFC-licensed corporations to offer renminbi share classes where the funds may have limited or no renminbi-denominated underlying investments.

The aggregate quota size of authorized RQFII funds (including unlisted funds and ETFs) amounted to RMB103.9 billion as of 31 March 2014.

In July 2013, we authorized three equity-linked investments which were the first unlisted structured investment products denominated in renminbi or linked to renminbi-denominated reference assets.

Authorized CIS investment products¹

	2013/14	2012/13	2011/12
Unit trusts and mutual funds ²	1,935	1,964	1,988
Investment-linked assurance schemes	264	258	254
Pooled retirement funds	35	35	35
MPF master trust schemes	40	40	39
MPF pooled investment funds ²	186	182	172
Others ³	27	26	25
Total	2,487	2,505	2,513

¹ Excluding unlisted structured investment products. This table represents a snapshot view as of each financial year-end.

² Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail AIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong. For comparison purposes, adjustments have been made to these categories to reflect that 117 retail AIFs as at 31 March 2013 and 125 retail AIFs as at 31 March 2012 have been reclassified accordingly.

³ Other schemes comprise 16 paper gold schemes and 11 real estate investment trusts as of 31 March 2014.



SFC-authorized renminbi investment products¹

	2013/14
RQFII unlisted funds	31
RQFII ETFs ²	14
Renminbi offshore dim sum bonds/ fixed income unlisted funds	14
Renminbi offshore dim sum bond ETF	1
Renminbi gold ETF ³	1
Renminbi real estate investment trust	1
Renminbi-denominated paper gold scheme	1

¹ This table represents a snapshot view as of each financial year-end.

² These ETFs adopt a dual-counter model, offering investors both a Hong Kong dollar counter and a renminbi counter for secondary trading purposes.

³ Only includes gold ETF denominated in renminbi.

	2013/14
Unlisted structured investment products with renminbi features	58

Open-ended fund companies

Over the past year, we continued to provide technical support to the Government of the Hong Kong Special Administrative Region (HKSAR) in developing a legal and regulatory framework for open-ended fund companies (OFC) to complement the existing unit trust structure for investment fund vehicles in Hong Kong. We worked closely with the Government in formulating the proposals set out in its consultation paper on OFC, which was issued in March 2014 for a three-month public consultation.

Enhanced regulatory requirements

We introduced enhanced disclosure requirements for investment-linked assurance schemes (ILAS). After 30 September 2013, all ILAS must comply with enhanced disclosure requirements for product key facts statements in order to be marketed to the Hong Kong public. The requirements include disclosures on statements of purpose, total fees and charges, long-term features and the remuneration of sales intermediaries. In consultation with the Hong Kong Monetary Authority, the Office of the Commissioner of Insurance, and the Hong Kong Federation of Insurers, we introduced the enhanced requirements in a circular issued in May 2013. We also held a follow-up industry workshop for ILAS issuers later that month to explain the new requirements, and embarked on a surveillance exercise.

REIT market development

In January 2014, we released the Consultation Paper on Amendments to the Code on Real Estate Investment Trusts (REITs). The proposals aim to allow for greater flexibility in the investment scope of REITs with respect to investment in properties under development or engagement in property development activities, and investment in financial instruments.

We authorized two REITs during the year, including the world's first mainland China-based hotel REIT. The market capitalisation of all SFC-authorized REITs stood at approximately US\$22.6 billion as of 31 March 2014.



ETF market growth

The ETF market in Hong Kong remains one of the largest and most active in Asia. To promote the development and competitiveness of Hong Kong's ETF market, we worked closely with the HKSAR Government and Hong Kong Exchanges and Clearing Limited on a proposal to waive stamp duties for all ETF trading. The Financial Secretary of the HKSAR announced this proposal in his 2014-15 Budget Speech in February 2014.

During the year, 19 new ETFs were listed for trading with market making facilities, of which 10 were RQFII ETFs traded in both Hong Kong dollar and renminbi counters.

In May 2013, we authorized the first dual-counter renminbi dim sum bond index ETF enabling investors to gain exposure to offshore renminbi bonds in the secondary market.

In November 2013, a Hong Kong dollar-denominated gold ETF introduced a renminbi trading counter under the dual-counter arrangement which enables investors to trade units in the secondary market in both Hong Kong dollars and renminbi.

Streamlined application process

During the year, we provided or published various guidance and measures, including industry briefings, circulars and frequently asked questions, with the aim of facilitating the processing of applications for SFC-authorized investment products.

With a view to enhancing the product authorization process, we have adopted a revised application lapse policy¹ for product authorization applications with effect from 1 January 2014.

Fund Management Activities Survey

In July 2013, we released the *Fund Management Activities Survey 2012*, an annual survey now in its 14th year. The findings showed that the combined fund management business in Hong Kong rebounded significantly to a record high of \$12,587 billion as of 31 December 2012, representing year-on-year growth of 39.3%. There was also overall growth in different types of fund management business activities from an increasing pool of market players in Hong Kong.

Mainland-Hong Kong mutual recognition of funds

We are working with Mainland authorities to finalise the proposed framework for the mutual recognition of funds (MRF). Under the proposed MRF framework, qualified SFC-authorized funds domiciled in and operating from Hong Kong would enjoy the status of "recognised Hong Kong funds" on the Mainland, while qualified Mainland funds would enjoy the status of "recognised Mainland funds" in Hong Kong. Once recognised, funds could then obtain authorization and be sold directly into the other market.

This initiative is now in its final stretch. We have agreed on all key elements of the proposed MRF framework with the China Securities Regulatory Commission in six areas, namely, types of recognised funds, eligibility requirements for management firms, approval or vetting process for recognised funds, operation of funds, disclosure of information, and investor protection. This initiative will mark a major breakthrough in combining the strengths of both markets, establishing a sizeable fund platform and expanding the scope of product offerings available in Hong Kong.

¹ The policy covers unit trusts and mutual funds, ILAS, unlisted structured investment products and REITs. The time period for the lapse of applications has been reduced from one year to six months.

Listings and takeovers

During the year, our oversight of listing and takeover matters in Hong Kong included takeover and merger activities, the dual filing regime for listing applicants, disclosure obligations, proper corporate conduct, and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK).

Strengthening regulatory framework

Standards of IPO sponsor work

To complement the new initial public offering (IPO) sponsor regime which took effect on 1 October 2013, we approved consequential amendments to the Listing Rules as well as new measures to streamline the regulatory commenting process for listing applications. These changes aim to ensure that before making a listing application IPO sponsors thoroughly understand any company aspiring to access Hong Kong's securities markets. This should reduce risks for investors and all those involved in IPOs.

In September we published the revised Code of Conduct¹ which incorporates the new sponsor requirements. Revised versions of relevant codes and guidelines² were also published on the same day. After the new regime came into force, SEHK published 10 guidance letters that set out the streamlined measures for IPO sponsors.

Prior to the launch of the new regime, we worked with the Hong Kong Securities and Investment Institute on the preparation of two new papers for the licensing examination and a refresher course for individuals seeking to act as sponsor principals or to engage in sponsor work for meeting the SFC's competence requirements. The first sitting of these examinations was held in October. We also

published frequently asked questions (FAQ) on our website to help market participants understand the new eligibility requirements for sponsors.

Listing of overseas companies

In September, we issued a joint policy statement (JPS) with SEHK regarding the listing of overseas companies to promote transparency in the listing process and to provide regulatory certainty for overseas companies seeking either primary or secondary listings in Hong Kong. The statement consolidated all issues relevant to the listing of overseas companies into a single document, thereby superseding the JPS issued in March 2007³ and SEHK's guidance letter on streamlined procedures for overseas company listings issued in September 2009.

Cultivating a disclosure culture

We promote more timely disclosure of inside information and increased transparency through enhanced standards under the statutory inside information disclosure regime, which became effective on 1 January 2013. To help listed companies better understand their obligations, we posted Guidelines on Disclosure of Inside Information with practical examples and expanded the FAQ section on our website. We also provided consultation services to listed companies and issued guidance letters to help them comply with the rules.

As at 31 March 2014, corporate announcements about inside information had increased by 29% from the commencement of the regime, and the number of profit alerts and warnings had risen 14% in the same period.

New listing applications

	2013/14	2012/13	2011/12
Total listing applications received ¹	188	124	191
Of which: cases lapsed/withdrawn/rejected during the year	24	34	63
Of which: cases returned ²	8	-	-
New listings in the year (including successful transfers from the Growth Enterprise Market (GEM) to the Main Board)	124	57	102

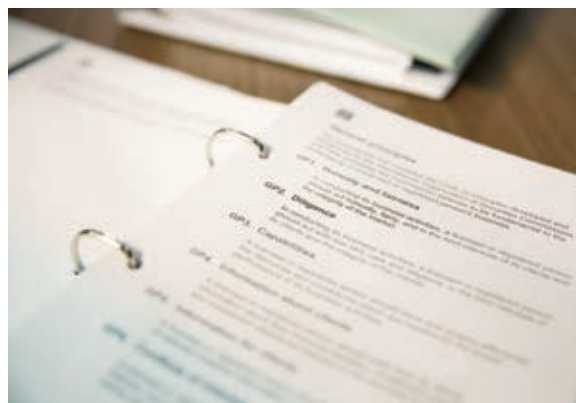
¹ These include 13 applications (13 in 2012-13 and 9 in 2011-12) for transfer from GEM to the Main Board.

² These include one listing application that was returned after 31 March 2014. Following the implementation of the new IPO sponsor regime on 1 October 2013, listing applications that are returned are subject to an eight-week moratorium.

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

² Including the Corporate Finance Adviser Code of Conduct and Additional Fit and Proper Guidelines for Corporations and Authorized Financial Institutions applying for or continuing to act as Sponsors and Compliance Advisers with consequential sponsor-related amendments.

³ This JPS aimed to facilitate the listing of overseas companies by clarifying requirements in SEHK's Listing Rules and to provide clear guidance to potential issuers and their advisers regarding key shareholder protection matters.



Review of listing applications

Under the dual filing regime, we received 188 listing applications via SEHK during the year. We commented or shared our concerns with SEHK on:

- 116 of the 121 listing applications filed with SEHK prior to 30 September 2013; and
- 58 of the 67 listing applications submitted following the implementation of the new IPO sponsor regime. Eight⁴ listing applications were returned and an eight-week moratorium⁵ was imposed because the application proofs were not substantially complete.

In May, we issued a letter of mindedness to object to the listing of an applicant on the ground of public interest⁶. The applicant's principal operations and assets were located in a jurisdiction with non-transparent legal and business environments and significant uncertainties. These raised concerns as to whether the applicant could ascertain its legal rights over its business assets, the loss of which would have catastrophic consequences on the applicant.

Following the issue of the JPS, we reviewed one secondary listing of a Japanese company on SEHK by way of introduction, bringing the total number of Hong Kong-listed overseas companies to 31 as of 31 March 2014.

In December, we published our ninth annual review report on SEHK's 2012 performance in its regulation of listing matters. Based on our review, SEHK's operational procedures and decision-making processes were appropriate to enable the fulfilment of its statutory obligation to maintain an orderly, informed and fair market during the period. We also identified areas for SEHK to continue to enhance its performance, primarily in relation to its handling of reverse takeover transactions and complaints.

Takeovers matters

During the year, we dealt with 81 takeovers-related transactions and 209 applications. We continued to see transactions of increasing complexity and a long lead time. We sought to ensure that shareholders were treated fairly and that fair and informed markets were maintained. In addition to pre-deal consultations and live case work, the Takeovers Executive⁷ also allocated extensive resources to investigate potential undisclosed related parties and serious breaches of the Codes⁸.

⁴ Including one listing application that was returned during the year subsequent to our issue of principal comments, and one other listing application that was returned after 31 March 2014.

⁵ The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

⁶ This is set out in Section 6(2)(d) of the Securities and Futures (Stock Market Listing) Rules.

⁷ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

⁸ The Codes on Takeovers and Mergers and Share Buy-backs.



In September and November, the Takeovers Executive commenced disciplinary proceedings before the Takeovers and Mergers Panel on two matters concerning allegations of acting in concert and the warehousing of shares. In the first case, the Executive alleged that four individuals actively cooperated to assist the Chairman of Pearl Oriental Oil Limited to obtain or consolidate control of the company, and avoid the obligation to make a general offer pursuant to the Takeovers Code. In the second case, the Executive alleged that between 2000 and 2002, the Chairman of Chevalier Group and two other persons actively cooperated to assist the late Nina Kung to obtain or consolidate the control of ENM Holdings Limited through secret warehousing of shares and avoid triggering a mandatory general offer.

In November, the Takeovers Executive publicly censured and issued sanctions against Daqing Dairy Holdings Limited and its directors for their failure to issue an offeree document in response to a general offer. The Executive also imposed a cold shoulder order against its sole executive director, denying him direct or indirect access to the Hong Kong securities market for 24 months. Their failure to provide up-to-date corporate and financial

information, including about the board's recommendation and the advice of an independent financial adviser on the general offer, prejudiced the interests of Daqing Dairy's shareholders as well as the investing public.

Process efficiency

In January 2014, we consolidated a number of routine reminders and letters issued during a takeover transaction into a single guidance note, which was issued in March as Practice Note 20. The guidance note and accompanying checklists aim to reduce the cost and burden of compliance as well as to promote self-discipline among market practitioners to ensure compliance with the Codes⁸ and related administrative procedures.

To streamline traditional methods of submission by hand, fax and email, we are developing an online submission system for dealing disclosures required under Rule 22 of the Takeovers Code. The online submission portal is expected to be launched this year.

In March, we amended Rule 12.1 of the Takeovers Code to reduce the number of copies of a document that must be filed with the Takeovers Executive upon issuance from six to two to promote environmentally friendly practices.

New team to focus on corporate behaviour

In December, we set up a dedicated Corporate Regulation team to take on broader, more proactive oversight of listed companies' conduct and activities. Encompassing the corporate disclosure team's remit, the new Corporate Regulation team aims to promote improved corporate behaviour and more meaningful corporate disclosures, encourage better dialogue between companies and their shareholders, and identify potential corporate misconduct.

The team carries out active surveillance and fundamental, in-depth reviews of listed companies; reviewing their

announcements related to sales and purchases, share reconstructions and dilutions, and rights issues, as well as other price-sensitive information. It also performs risk-based reviews of particular companies when there are serious regulatory concerns, such as a history of losses, frequent corporate restructuring, or changes of directors or auditors.

In addition, the team's broader thematic reviews look at issues relating to several listed companies where specific activities or anomalies may signal corporate misconduct. When necessary the team will bring forward cases for enforcement action under the Securities and Futures Ordinance and other legislation.

Market infrastructure and trading

We supervise Hong Kong's market operators, namely the exchanges, clearing houses, share registrars and alternative trading platforms. During the year we introduced new rules and refined existing rules to enhance the operations of the securities and futures markets.

OTC derivatives reform

New regime

Following on the July 2012 release of consultation conclusions on the proposed scope of mandatory obligations for over-the-counter (OTC) derivatives transactions, we continued to prepare for the expected launch of a new regulatory regime governing OTC derivatives activities in 2014.

To codify the new regime, we worked with the Hong Kong Monetary Authority (HKMA) and the Government of the Hong Kong Special Administrative Region (HKSAR) to introduce legislative amendments in the Securities and Futures (Amendment) Bill 2013. The Bill was gazetted in June 2013, and in July it was introduced to the Legislative Council (LegCo) and a bills committee was formed. The Bill was passed in March 2014. In parallel with the legislative process, and in collaboration with the HKMA, we began drafting subsidiary legislation on mandatory obligations and other matters related to the proposed OTC derivatives regime.

Market consultations

We published joint supplemental consultation conclusions with the HKMA on proposed regulatory and oversight arrangements for certain OTC derivatives market participants in September 2013. These included two new regulated activities and two expanded regulated activities for OTC derivatives intermediaries under the Securities and Futures Ordinance (SFO), as well as new oversight arrangements for systemically important participants.

In collaboration with the HKMA, we plan to start consulting the market on the subsidiary legislation later this year. The first phase of the consultation will focus on mandatory reporting.

Recognition of OTC Clear

In October 2013 we approved the application of OTC Clearing Hong Kong Limited (OTC Clear) as a recognised clearing house (RCH) for OTC derivatives transactions. OTC Clear, newly established by Hong Kong Exchanges and Clearing Limited (HKEx), became the first clearing house to be recognised in Hong Kong under section 37¹ of the SFO since its enactment in 2002. The recognition of OTC Clear will better prepare the market for mandatory clearing of OTC derivatives transactions, which will be implemented in Hong Kong after the relevant legislation is enacted.

OTC Clear commenced operation on 25 November 2013, initially providing clearing services for plain vanilla interest rate swaps and non-deliverable forwards.

Enhancing market infrastructure Progress towards an uncertificated securities market

In collaboration with the HKSAR Government, HKEx and the Federation of Share Registrars Limited, we made progress during the year on a proposed amendment bill to implement an uncertificated securities market in Hong Kong. Also known as a scripless market, an uncertificated securities market allows the holding and transfer of legal ownership in securities without paper documents. This initiative helps improve overall market efficiency and corporate governance by facilitating direct ownership and increased shareholder transparency. We briefed LegCo's Panel on Financial Affairs on this subject in January 2014, and the amendment bill will be introduced to LegCo in June 2014.

¹ Section 37 gives the SFC the power to recognise a company as a clearing house in the interest of the investing public or in the public interest; or for the proper regulation of markets in securities or futures contracts. The other three clearing houses were recognised under legislation that was repealed by the SFO but their recognition was continued in effect and deemed to have been done under section 37 of the SFO.



CPSS-IOSCO principles

We released guidelines on the application of the CPSS-IOSCO² Principles for Financial Market Infrastructures (PFMIs) on 9 August 2013. Aiming at RCHs, the guidelines were published in the Gazette and on our website. However, we recognise that apart from the newly established OTC Clear, other RCHs³ may require a transition period to implement certain aspects of the PFMIs that are new or demand higher standards than before. In this regard, we are in discussion with the clearing houses to determine the time required to implement the PFMIs before scheduling an official timetable.

Upgrade of HKEx's derivatives systems

We approved HKEx's proposal and relevant rules in June 2013 to upgrade its derivatives trading and clearing systems to a new technology platform, Genium INET, and to introduce a central gateway for the derivatives market to centralise all connections between exchange participants and HKEx systems. These upgrades support further development of the derivatives market by expanding trading and clearing capacity, reducing order transmission time, and increasing throughput rate.

After-hours futures trading

In February 2013, we approved HKEx's proposed after-hours futures trading (AHFT) session which aims to introduce a trading platform covering time zones in Europe and the United States as a means to bring new business to the futures industry and strengthen Hong Kong as a leading financial centre. The session was launched on 8 April with the Hang Seng Index (HSI) and H-share Index (HHI) futures contracts available for trading from 5:00pm to 11:00pm.

In December, we approved HKEx's proposal to introduce a block trading facility for the AHFT session to facilitate execution of large orders without creating excessive price movements. The launch of the block trading facility, together with the introduction of the mini-HSI futures and mini-HHI futures contracts, took place during the AHFT session on 6 January 2014. We have assigned dedicated offsite teams to monitor AHFT session trading on a real-time basis.

² The Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements and the International Organization of Securities Commissions (IOSCO).

³ These include the Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited and SEHK Options Clearing House Limited.

Futures and options contracts

In July 2013, we approved HKEx's proposal to launch futures and options contracts based on the CES China 120 index, which provides investors with an alternative trading and hedging tool to manage their exposure to Hong Kong and Mainland stocks. The index is compiled, calculated and disseminated by the China Exchanges Services Company Limited. The index's constituents include stocks listed on HKEx and the two Mainland stock exchanges. The CES China 120 Index futures contract began trading in August 2013.

During the year, we also approved HKEx's proposals to introduce options contracts for nine stocks and a futures contract on one A-share exchange-traded fund.

Automated trading services

Over the past year, we approved four Part III automated trading services⁴ (ATS) applications and withdrew three authorizations from overseas exchanges/clearing house and one authorization from a local exchange. The total number of authorized Part III ATS providers remained unchanged at 30 as of 31 March 2014.

Enhanced electronic trading regime to keep pace with technology

In view of technological developments that led to the proliferation of automated electronic trading, we considered it necessary to address the associated risks by making the existing regulatory framework⁵ for electronic trading more coherent and comprehensive through the addition of specific requirements for policies, procedures and controls.

On 24 July 2012, we issued a consultation paper which set out our proposals on the regulatory requirements for intermediaries to manage and mitigate the risks that arise from trading in an automated environment. The proposals built on the then-existing regulatory requirements and took into account regulatory developments in major jurisdictions and the principles for direct electronic access to markets published by IOSCO.

We received written submissions from industry associations, brokers, investment banks and individuals. On 22 March 2013, we issued the consultation conclusions.

Key aspects of the enhanced regulatory framework include:

- Management and supervision – The responsibility to ensure compliance rests with the responsible officers or executive officers and the management of the intermediaries.
- Adequacy of systems – Intermediaries' electronic trading systems should meet regulatory standards of reliability, control, security and capacity, and ensure that contingency measures are in place.
- Record keeping – Intermediaries should keep, or cause to be kept, proper records on the design, development, deployment and operation of their electronic trading systems.
- Risk management – Intermediaries should put in place risk management and supervisory controls to monitor orders and trades, including automated pre-trade controls and regular post-trade monitoring.

The new regime came into effect on 1 January 2014.

⁴ As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, 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 SFO, while those solely providing ATS are expected to be authorized under Part III of the SFO.

⁵ Under this regulatory framework, requirements were set out in various codes and guidelines including the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, and the repealed Guidance Note on Internet Regulation.

Enforcement

We seek criminal, civil and disciplinary remedies and sanctions using the full spectrum of functions and powers vested in the Securities and Futures Ordinance (SFO). We also use injunctions and remedial orders to inhibit wrongdoing as it happens and to make wrongdoers accountable for the financial costs of misconduct.

During the year, we successfully prosecuted 20 persons and seven corporations, four of whom were convicted of 18 counts of market manipulation and one was convicted of two counts of insider dealing¹. We also sought disqualification and restoration orders against five persons and one corporation, as well as 226 criminal charges against 26 persons and nine corporations. There are also civil actions against 69 persons or corporations pending before the court.

Surveillance work

We monitor the trading activities in the securities and futures markets on a daily basis to detect market misconduct. During the year, our surveillance activities on untoward price and turnover movements which may signal market misconduct resulted in 5,711 requests for trading and account records from intermediaries. Some of these were assessed for further investigation, and in many cases our early inquiries stopped seemingly improper trading activities from continuing.

In the year, we posted 14 announcements on the SFC website regarding small numbers of shareholders holding a high concentration of shares in a given company. The announcements were meant to remind investors to exercise extreme caution when trading such shares as their prices might fluctuate substantially.

Notifications from intermediaries on possible market misconduct

Licensed intermediaries should report clients' suspected market misconduct to the SFC². Over the past year, we assessed 87 notifications from intermediaries regarding suspicious trading in equities and derivatives in Hong Kong or overseas.

Redress for investors

To address the harm caused by market misconduct and seek redress for investors, we obtained restoration orders in three long-running cases under section 213³ of the SFO. In total, the court ordered the wrongdoers in these cases to compensate over 2,500 Hong Kong and overseas investors to restore them as closely as possible to their pre-transaction positions. We also obtained interim freezing orders in a number of other cases.

- In a landmark ruling, the Court of Final Appeal (CFA) dismissed the appeal of Tiger Asia Management LLC (Tiger Asia) and its three officers, Hwang Sung Kook, Bill, Raymond Park and William Tomita (Tiger Asia parties) in April 2013, ending Tiger Asia's challenge of the Court of First Instance's (CFI) jurisdiction to make final orders under section 213 of the SFO without a prior determination by a criminal court or the Market Misconduct Tribunal (MMT). The CFA's decision affirmed the court's free-standing jurisdiction to grant remedial orders and injunctions separately from criminal or deterrent sanctions. In December 2013, the CFI ordered Tiger Asia and its two senior officers to restore \$45.3 million to 1,800 investors affected by their insider dealing after they admitted that they had contravened Hong Kong insider dealing and market manipulation laws when dealing in the shares of two listed companies in December 2008 and January 2009.
- The CFI made the first restoration order in an insider dealing case when it ordered former Managing Director of Morgan Stanley Asia Limited, Du Jun, to pay \$23.9 million to 297 investors. In 2009 Du was convicted in the District Court of insider dealing in the shares of CITIC Resources Holdings Limited.
- Futures trader Tsoi Bun, who was convicted of price rigging offence in January 2012, was ordered by the CFI to pay \$13.7 million to around 500 investors affected by his manipulation of the calculated opening prices of index futures contracts between 2007 and 2009. The order restored the positions of those 500 investors, who were counterparties to the impugned underlying trades.

¹ Chui Wing Nin, Simon was convicted on 26 October 2012 after pleading not guilty to the same charges. The convictions were set aside on appeal and the Court of First Instance ordered a re-trial. He pleaded guilty to those charges on 30 January 2014.

² In accordance with paragraph 12.5 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

³ Section 213 of the SFO gives the SFC the power to apply to the CFI for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.



- We obtained an interim injunction to freeze up to around \$1.97 billion in assets of Qunxing Paper Holdings Company Limited and its subsidiary. The company was alleged to have included materially false or misleading information in its initial public offering (IPO) prospectus in 2007 and annual results' announcements from 2007 to 2011. We also obtained a court order to appoint interim receivers and managers for the company.

Winding-up orders

We filed two winding-up petitions under section 212⁴ of the SFO to protect the interests of company shareholders, clients, creditors and the investing public.

In July 2013, the SFC presented a petition to the CFI to wind up China Metal Recycling (Holdings) Limited, alleging that the company overstated its financial position in its IPO prospectus and annual report in 2009. We also obtained an order to appoint provisional liquidators.

In August 2013, the CFI ordered Salisbury Securities Limited⁵ (Salisbury) to be wound up pursuant to petition filed in June 2013 by the SFC based on concerns over the whereabouts of nearly \$9 million worth of securities and sale proceeds belonging to clients. In June 2013 the court also made an order to appoint provisional liquidators of Salisbury upon the application of the SFC.

Disqualification orders

We used section 214⁶ of the SFO to seek to disqualify senior executives of three listed companies for their misconduct.

We commenced legal proceedings in the CFI against founder and former Chairman of First Natural Foods Holdings Limited, Yeung Chung Lung (Yeung) and various parties, for alleged embezzlement of \$84 million in corporate assets and false accounting. We are seeking disqualification orders against Yeung and two senior executives. We are also seeking orders against Yeung to repay \$84 million to the company.

We commenced legal proceedings in the CFI to disqualify three former senior executives of China Best Group Holding Limited for alleged breaches of directors' duties in handling a subsidiary's proposed acquisition. We also sought orders to compel the company or its subsidiary to bring proceedings against the seller to recover the interest accrued on the \$305 million cash deposit for the proposed acquisition.

We commenced proceedings to disqualify four former directors of Tack Fat Group International Limited (now known as Tack Fiori International Group Limited). Our allegations included that the company had falsely announced the vendor of a proposed acquisition was an independent third party but in fact the transaction was a sham involving an undisclosed connected party. We also sought orders from the former chairman to repay the company or other entities \$26 million.

⁴ Section 212 of the SFO permits the SFC to initiate winding-up proceedings under the Companies (Winding Up and Miscellaneous Provisions) Ordinance against companies if it considers that it is desirable in the public interest to do so, and on the ground that the making of a winding-up order would be just and equitable.

⁵ The SFC issued a restriction notice to Salisbury Securities Limited on 19 March 2013.

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.



In November 2013, two former directors of Styland Holdings Limited were ordered to compensate the company \$193.9 million as a result of proceedings commenced by the SFC in 2008. This was the first time the court ordered directors to compensate a company directly in proceedings brought by the SFC under section 214 of the SFO.

Investigative actions

We commenced an investigation into suspected financial irregularities in the affairs of Hong Kong Mercantile Exchange Limited (HKMEx). In May 2013, HKMEx notified us of its decision to surrender its authorization to provide automated trading services (ATS), as its trading revenues were insufficient to support operating expenses. We issued a formal notice of withdrawal of HKMEx's ATS authorization with immediate effect.

In May 2013, Cheung Kong (Holdings) Limited and other related companies (collectively the Cheung Kong parties) entered into an agreement with us to unwind the sale of 360 hotel room units at The Apex Horizon. We took the view the offer to purchase the units appeared to be an invitation to acquire an interest in or to participate in a collective investment scheme (CIS) as defined in the SFO and, accordingly, the marketing materials ought to have been approved by us. We decided we needed to initiate proceedings under section 213 of the SFO to unwind the scheme and the transactions. Although the Cheung Kong parties' disagreed with our view, they agreed to unwind the scheme and to restore the purchasers to their pre-purchase positions. The agreement avoided the need for us to seek injunctions and orders under section 213 of the SFO to unwind the purchase transactions.

Criminal and civil sanctions

Courts

- The former Chairman of GOME Electrical Appliances Holding Limited (GOME), Wong Kwong Yu (Wong), and his wife Du Juan (Du), a former Director of GOME, agreed to compensate GOME \$420 million in an agreement with the SFC to rectify their breaches of duties as directors of GOME and to resolve proceedings commenced by the SFC relating to certain share repurchases by the company and organised by Wong and Du in 2008 to raise cash to repay a \$2.4-billion personal loan of Wong to a financial institution.

Wong and Du also agreed to seek resolutions of GOME shareholders to ratify the share repurchase concerned and their breaches of directors' duties to the company. Payment of the compensation will be dependent upon GOME's independent shareholders passing the ratification resolution.

- The CFI overturned the acquittals of Pacific Sun Advisors Limited and its director Andrew Pieter Mantel on four counts of issuing advertisements to promote a CIS without the SFC's authorization. The CFI agreed that the acquittal decision was based on legal errors, and ordered the case to be remitted back to the Magistrates' Court for reconsideration in light of the CFI's judgment.

- Former Assistant Director of Finance at CITIC Pacific Limited (CITIC Pacific), Chui Wing Nin, Simon (Chui), was convicted in the Eastern Magistrates' Court for insider dealing in the shares of CITIC Pacific after he pleaded guilty to the charges. Chui was sentenced to nine months' imprisonment and fined \$612,000. Chui was also disqualified from being a director of corporations in Hong Kong, including listed corporations, for three years.

Chui was convicted of the same charges in October 2012 after pleading not guilty to the charges. The convictions were set aside on appeal and a re-trial was ordered.

- The Eastern Magistrates' Court sentenced Mui Kwong Yin, Gordon to three months' imprisonment, suspended for 12 months, for providing online advice on trading in futures contracts without a licence between November 2009 and July 2010. He received approximately \$128,700 in subscription fees from 113 clients.

Market Misconduct Tribunal

In the first directly-instituted case to the MMT, we commenced proceedings in the tribunal against the Tiger Asia parties related to securities dealings. Following the enactment of the Securities and Futures (Amendment) Ordinance 2012, we can bring cases directly to the MMT without first referring them to the Financial Secretary.

The MMT heard the case of suspected market manipulation involving Hong Kong-listed Yue Da Mining Holdings Limited⁷. Senior executives and a substantial shareholder were alleged to have conspired to manipulate the share price in order to facilitate share placements. The hearing was concluded in July 2013 and the decision of the tribunal was handed down in May 2014.

We commenced MMT proceedings against former Chairman of Asia TeleMedia Limited (ATML) (now known as Reorient Group Limited) Lu Ruifeng and three former employees for alleged insider dealing in ATML's shares in 2007. We alleged that the former Chairman and the three former employees were aware of an assignment of a debt to a new creditor and the statutory demand from the new creditor, and that such information was material to ATML's share price, and was not publicly known. We further alleged that they each sold ATML's shares before the information was publicly disclosed, and avoided a combined loss of around \$50.9 million.

Disciplinary actions

We took disciplinary action against licensed corporations and individuals to punish offenders for a range of misconduct and internal control deficiencies, with 47 licensees disciplined and the total fines⁸ amounting to \$30.3 million.

HSBC Securities Brokers (Asia) Limited was reprimanded and fined \$5 million for providing inaccurate information to the SFC in its licence application to carry out a Type 7 regulated activity⁹ for the provision of matching and crossing services in Hong Kong (Crossing Service). During the licence application process, the company stated that existing clients would have the option of "opting in" if they wished to participate in the Crossing Service. However, the company changed the enrolment approach for retail clients from "opt in" to "opt out"¹⁰ without notifying the SFC.

We concluded an agreement under section 201¹¹ of the SFO with The Royal Bank of Scotland N.V. (formerly known as ABN AMRO Bank N.V.) regarding the sale of Lehman Brothers-related equity-linked notes (LB-ELNs) in 2007 and 2008. As a result, the bank made repurchase offers to around 540 eligible retail customers and 12 eligible professional investors holding outstanding LB-ELNs sold by the bank at full principal value.

⁷ The case was referred to the MMT by the Financial Secretary on 16 December 2011.

⁸ Any pecuniary penalty paid to or recovered by the SFC shall be paid by the SFC into the general revenue of the Government of the Hong Kong Special Administrative Region.

⁹ Refers to providing automated trading services.

¹⁰ Under the "opt out" approach, clients would effectively be assumed to consent to their trades being matched and crossed on the crossing service unless they took the initiative to notify HSBC Securities Brokers (Asia) Limited otherwise.

¹¹ Section 201 of the SFO provides that the SFC may resolve its disciplinary proceedings against regulated persons by reaching an agreement with them if it is in the interest of the investing public or in the public interest to do so.

Operational Review Enforcement

Internal control failures

- Sun On Tat Securities Company Limited was reprimanded and fined \$1.6 million for serious internal control failings, including using one client's securities to settle another client's transactions. One of its responsible officers was reprimanded and fined \$200,000 for supervisory failures.
- China Securities Holdings Limited was reprimanded and fined \$1.3 million, and two of its responsible officers were banned for 27 months and eight months respectively, for a number of serious deficiencies in order record keeping, employment of unlicensed staff and supervision of dealing functions.
- A One Investment Company Limited was reprimanded and fined \$1.2 million for failings related to the unauthorized sale of client securities and the transfer of over \$7 million in client funds to third party accounts. We have also suspended the approval granted to Alysia Ann Lee to act as a responsible officer and her licence to act as a representative for eight months.
- Credit Suisse Securities (Hong Kong) Limited was reprimanded and fined \$1.6 million for regulatory breaches and internal control failings relating to position limit breaches. The company agreed to engage an SFC-approved independent reviewer to review its systems and controls for ensuring compliance with the relevant rules.
- UBS Securities Hong Kong Limited was reprimanded and fined \$1.6 million for internal control failings relating to position limit breaches for stock options. The company failed to implement adequate internal controls to ensure that all opened positions in stock options contracts it held or controlled complied with regulatory requirements. The company agreed to engage an SFC-approved independent reviewer to review its systems and controls to ensure compliance with regulatory requirements.
- Sun Hung Kai Investment Services Limited was reprimanded and fined \$1.5 million for internal control failures in relation to an erroneous buy order. One of its account executives mistakenly entered 2,500,018,000 shares as the order quantity for a client's buy order of 25,000 shares.
- China Everbright Securities (HK) Limited and one of its responsible officers were reprimanded and fined \$1.2 million and \$400,000 respectively for internal control and supervisory failures in relation to the account opening and know-your-client procedures.
- Cheong Lee Securities Limited was reprimanded and fined \$2 million for internal control failures relating to self-matching transactions under a resolution with us.

Enforcement activities

	2013/14
Trading inquiries issued under S181 ¹	5,711
Investigations started	352
Investigations completed	319
Investigations completed within seven months (%)	200 (63%)
Persons charged in criminal proceedings	35 ²
Criminal charges laid	226 ²
Notices of Proposed Disciplinary Action ³	55
Decision Notices ⁴	51
Persons subject to ongoing civil proceedings	69
Compliance advice letters issued	336

¹ 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.

² The SFC brought a total of 226 criminal charges against 26 persons and nine corporations, with 36 charges laid against five for market manipulation.

³ A Notice of Proposed Disciplinary Action is 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.

⁴ A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Bans on re-entering industry

During the year, we imposed lifetime bans on 12 individuals and suspended and revoked the licences of 11 persons or corporations for various wrongdoings, including window dressing activities, internal control failures and IPO sponsor failures. Please refer to Table 7 on pages 135-136 for more details.

Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal (SFAT) is a key buttress in the checks and balances on the SFC's administrative powers. It heard one appeal during the year.

The SFAT affirmed our decision to reprimand and fine Sun Hung Kai International Limited (SHKI) for \$12 million and suspend its licence to provide corporate finance advisory services for one year. The SFAT found serious deficiencies in SHKI's sponsor work relating to the listing of Sino-Life Group Limited on the Growth Enterprise Market in Hong Kong, including its failure to conduct proper due diligence and undue reliance on the work delegated to external experts.

TV drama portrays SFC enforcement work

We are always looking for effective ways to communicate our regulatory mission to Hong Kong retail investors. Building on the success of "SFC in Action", a law-enforcement television drama aired in 2010, we teamed up with Radio Television Hong Kong (RTHK) again to produce a second series of the drama. The new series "SFC in Action II" attracted a viewership of more than one million people when it premiered on TVB Jade and RTHK's website on 2 April 2013.

While the first series told one story in six episodes, "SFC in Action II" consists of six half-hour stories built around our key strategic enforcement priorities. Like the first series, the second series uses fictional characters to portray our enforcement work in fighting market misconduct. For example, one episode shows a director of a listed company

leaking inside information to his girlfriend, and in another episode a college student provides unlicensed investment advice via social media. The series covers our enforcement work from insider dealing, market manipulation, mis-selling, and corporate governance involving IPO listings and sponsors, to unlicensed investment advising.

Our office in Cheung Kong Center was used as a location for the production. Filming took place on weekends to avoid interference with our operations. Part of the programme was also filmed on the Mainland. The TV drama featured a theme song, written by local pop group the RubberBand, which begins:

Gold glitters, gold dazzles and behind it looms darkness.
How many lives have been ruined?
What remain are anger and strife.
But in the dark, there is light at the end of the tunnel....



Risk assessment

The global financial crisis brought to light the importance of regulators and market participants engaging in an active and open dialogue on emerging risks and risk mitigation, to serve the common goal of promoting safer, fairer and more efficient markets.

Global dialogue: Risk trends and vulnerabilities

We are an active member of the International Organization of Securities Commissions (IOSCO) Committee on Emerging Risks (CER).

One of the CER's key objectives is to develop and maintain a detailed research methodology for the identification, monitoring and mitigation of systemic risk that can be used by securities regulators around the globe.

In October 2013, the CER published the *IOSCO Securities Markets Risk Outlook 2013-14*, the first publication in a planned annual series of forward-looking reports.

The series aims to identify and assess potential systemic risks from securities markets, focusing on issues relevant to the securities markets and whether they are, or could become, a threat to the financial system as a whole.

Local dialogue: Risks and mitigation

In 2013, we launched a new initiative to establish a series of non-supervisory, risk-focused industry meetings with financial institutions and market participants.

The key objective of this meeting series is to stay informed about and to better understand the evolution of financial markets, market structure, product innovation and risk governance, as well as to identify new risks and emerging risk trends.

For our first meeting series, we engaged from March to August 2013 in open dialogues with over 200 senior officers from the business, risk management and compliance from a representative sample of 10 global systemically important financial institutions (G-SIFIs).

In December 2013, we published a report, *Risk-focused Industry Meeting Series: G-SIFI Trends in Risk and Risk Mitigation*, which provided a summary of these meetings, supplemented by our independent research and analysis. We will continue the risk-focused industry meeting series and extend the engagement to a wider range of market participants.



Internal dialogue: Risk and strategy setting

In March 2014, we implemented an internal risk register methodology to provide the Executive Committee and the Board with an overview of risks relevant to the SFC and our strategic responses to them.

The risk register methodology involves various SFC divisions sharing their perspectives on risks in financial market entities, infrastructures, products and activities. Based on a heat-mapping methodology, we assign scores to the risks identified through this cross-divisional effort. This in turn facilitates the identification, assessment and mitigation of risk and serves as the basis for strategic decision-making.

Regulatory collaboration

International

We work closely with overseas regulators to strengthen regulatory cooperation to maintain high standards of regulation. We are also active in regulatory policymaking at the global level. This helps keep Hong Kong's regulatory framework aligned with international standards.

IOSCO

The SFC is a member of the Board of the International Organization of Securities Commissions (IOSCO), the decision-making body within IOSCO, and is well represented in all eight IOSCO policy committees and its key task forces. These cover the full range of securities regulatory policy, including investment products, enforcement, supervision, secondary markets, issuer regulation, credit rating agencies, and hedge funds.

- Mr Ashley Alder, Chief Executive Officer, chairs the IOSCO Asia Pacific Regional Committee (APRC). Since assuming the APRC chairmanship in May 2013, the SFC has worked to strengthen regulatory cooperation amongst the 23 IOSCO member jurisdictions in the Asia Pacific region. We hosted the most recent APRC meeting in January 2014 in Hong Kong, where members agreed to develop and pursue several regional initiatives. Under the SFC's leadership, the APRC has become an important platform for communicating its members' collective concerns, aspirations and challenges.

On 9 April 2014, the APRC sent a letter to the US Commodity Futures Trading Commission regarding the impact of new rules for swap execution facilities on Asia Pacific OTC derivatives markets.

APRC members' collective concerns about the recognition of Asia Pacific central counterparties under the European Market Infrastructure Regulation were communicated to the European Commission.

- Mr Alder also chairs the IOSCO Task Force on Cross-Border Regulation, which was set up in response to the introduction of various national and regional



APRC meeting in Hong Kong

regulatory approaches and reforms which have implications for the supervision and conduct of cross-border business activities. The task force, which comprises 22 member jurisdictions and regulatory institutions from the Americas, Asia Pacific and Europe, aims to develop a toolkit of cross-border regulatory approaches and to consider principles for the development of guidance for the coordinated use of the toolkit. Additionally, the task force will consider IOSCO's role in developing and implementing these approaches.

- Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, co-chaired the Working Group on Margining Requirements (WGMR). The working group was set up by the Basel Committee on Banking Supervision and IOSCO and aimed to establish internationally-consistent margin standards for non-centrally-cleared derivatives. Following two public consultations, the working group released its final policy framework in September 2013.

Subsequently, Mrs Lam co-chairs the new WGMR Monitoring Group which will publish a progress report to evaluate and assess the state of implementation, efficacy and appropriateness of the margin requirements.

- The SFC was a member of the IOSCO Task Force on Unregulated Markets and Products Working Group on Retail Structured Products, which published its *Final*

Operational Review Regulatory collaboration

Report on Regulation of Retail Structured Products in December 2013. With the goal of enhancing investor protection, the report contains a toolkit outlining regulatory options for securities regulators to address certain concerns with retail structured products throughout the value chain, including product design, disclosure, suitability, mis-selling and post-sale product controls.

- Mr Stephen Po, Senior Director of Intermediaries Supervision, chairs IOSCO's Committee on Regulation of Market Intermediaries, which published its final report titled *Recommendations Regarding the Protection of Client Assets* as well as a consultation report titled *A Comparison and Analysis of Prudential Standards in the Securities Sector*. The committee has taken up new mandates in several areas including social media, the automation of financial advice, business continuity and recovery planning, crowd-funding, and sound practices at large intermediaries regarding alternatives to the use of credit ratings to assess creditworthiness.
- Ms Benedicte Nolens, Senior Director of Risk and Strategy, is an active member of the IOSCO Committee on Emerging Risks (formerly known as the Standing Committee on Risk and Research) and co-leads the IOSCO Workstream on Emerging Risks. (See details in Risk assessment on page 58.)
- We joined a new working group on Collective Investment Schemes (CIS) Custodians under IOSCO's Committee on Investment Management in September 2013. The working group reviews the safekeeping of assets by CIS custodians and surveys participating jurisdictions to better understand the activities of CIS custodians as well as the current regulatory landscape and issues which have global relevance.
- In November 2013, we hosted a meeting in Hong Kong for the IOSCO Committee on Investment Management to discuss ongoing priorities, new mandates and topical issues.
- We also contributed to the public consultation paper on the Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions published jointly by the Financial Stability Board (FSB) and IOSCO in January 2014.
- In our capacity as a member of IOSCO's Committee on Credit Rating Agencies (CRA) we participate in the ongoing revision of the IOSCO CRA Code. A market consultation paper relating to the code was published by IOSCO in February 2014, and the consultation period ended in March 2014.
- We are a member of the IOSCO 2020 Working Group, which will develop IOSCO's strategic plan for 2015-2020, set IOSCO's major objectives for 2020, and determine the resources and financing needed to achieve them. Another new initiative is the IOSCO Capacity Building Resource Committee, which will develop and implement policies to attract financial and human resources to provide technical assistance, education and training to IOSCO members, especially those in emerging markets.
- Our subsidiary, the Investor Education Centre (IEC) is a member of the IOSCO Committee on Retail Investors, which conducts policy work on retail investor education and financial literacy. The committee also advises the IOSCO Board on emerging matters and undertakes policy work. The IEC is actively involved in developing a strategic framework to guide IOSCO's work in these areas.
- As a member of the IOSCO Committee on Regulation of Secondary Markets, we contribute to a number of policy recommendations on issues including changes in market structure, trading fee models and their impact on trading behaviour, robustness of electronic trading systems or electronic markets, and business continuity and recovery for trading venues.
- We contributed to reports released by the IOSCO Committee on Commodity Futures Markets including one related to oil price reporting agencies.

FSB

We collaborate closely with the Hong Kong Monetary Authority, the Office of the Commissioner of Insurance and the Hong Kong Special Administrative Region (HKSAR) Government to support the work of the Financial Stability Board (FSB), which spans the securities, banking and insurance sectors.

- The SFC is a member of the FSB's Standing Committee on Standards Implementation (SCSI) which plays a significant role in coordinating the implementation of financial reforms by national authorities under the G20 mandate. We also take part in the SCSI Implementation Task Force, which conducts an annual exercise to monitor the implementation of global financial reforms, and the Expert Group under SCSI, which encourages adherence to regulatory and supervisory standards on international cooperation and information exchange.
- The SFC is a member of the FSB Regional Consultative Group for Asia and Mr Alder co-chaired its working group on Shadow Banking in Asia.

Others

- In October 2013, we signed a Memorandum of Understanding with the Financial Regulatory Commission of Mongolia, establishing a framework for mutual assistance and exchange of information between the two regulators.
- Together with the Securities Commission Malaysia, we jointly host the Asia Pacific Takeovers Regulators Forum, an e-platform designed to facilitate the exchange of ideas and views regarding takeovers and related matters among regulators in the Asia-Pacific region. The layout of the Forum was revamped during the year.

- In October 2013, the SFC jointly chaired the Second Regional Takeovers Roundtable in Bangkok hosted by the Securities and Exchange Commission of Thailand to discuss the latest developments related to takeovers.
- We also participated in the Task Force on OTC Derivatives Regulation, the OTC Derivatives Regulators' Forum, and the OTC Derivatives Regulators' Group, as well as meetings with authorities who regulate the OTC derivatives markets in Asia, Europe and the Americas, to discuss ways to address cross-border issues.
- In September 2013, we entered into memoranda of understanding with competent authorities of 28 European Union or European Economic Area countries regarding the supervision of alternative investment fund managers.

Mainland China

Over the years, Hong Kong has successfully served as a platform for mainland China's experiments in market reform and opening. In November 2013, the Mainland leadership stated its intention to deepen financial reforms and market liberalisation. This signalled the next stage of cooperation which will further integrate the Mainland into global financial markets and fortify Hong Kong's status as a primary offshore renminbi centre and an international asset management hub.

We strengthen collaboration with, and pursue support from, Mainland authorities to develop and implement policy measures which benefit the development of Hong Kong's financial sector. A number of policy initiatives have already resulted in significant achievements, including the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme, the development of renminbi investment products, and the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). Further details of these initiatives can be found in Investment products on pages 43-45.

Requests for regulatory cooperation

	2013/14		2012/13		2011/12	
	Requests received	Requests made	Requests received	Requests made	Requests received	Requests made
Enforcement-related requests for assistance	107	113	112	146	104	104
Licensing-related requests for assistance	103	1,081	96	953	76	964

Operational Review Regulatory collaboration

CEPA

We provided extensive support to the HKSAR Government in formulating cooperation measures under CEPA Supplement X (CEPA X), which was signed in August 2013.

Under CEPA X, the mutual recognition of fund products by the Mainland and Hong Kong has been discussed intensively. There are also several measures to facilitate Hong Kong financial institutions' access to the Mainland securities market, which include:

- relaxing the eligibility requirements for Hong Kong-funded securities companies to become Qualified Foreign Institutional Investors (QFII) on the Mainland;
- allowing qualified Hong Kong-funded financial institutions to set up joint venture fund management companies in mainland China with over 50% shareholdings;
- allowing qualified Hong Kong-funded financial institutions to set up one full-licensed joint venture securities company with a maximum of 51% shareholdings in certain specified locations. The Mainland shareholders in such joint ventures are not restricted to securities companies;
- allowing qualified Hong Kong-funded financial institutions to set up one full-licensed joint venture securities company in certain financial reform pilot

zones, with a maximum of 49% shareholdings, and removing the requirement for a single Mainland shareholder to hold 49% of shareholding in such joint ventures; and

- allowing Hong Kong-funded securities companies to hold more than 50% shareholdings in joint venture securities investment advisory companies in certain financial reform pilot zones.

We maintain close contact with the Mainland authorities on the implementation of CEPA X initiatives.

Others

- In November 2013, we attended the 45th Memorandum of Regulatory Cooperation Meeting in Shanghai to discuss enhancing cross-border regulatory cooperation with the China Securities Regulatory Commission (CSRC), the stock exchanges in mainland China and Hong Kong, and the China Securities Depository and Clearing Corporation. We also held high-level discussions with the CSRC and other Mainland authorities on financial services cooperation between Hong Kong and the Mainland.
- In December 2013, we attended the fifth Memorandum of Understanding meeting with the Taiwan Financial Supervisory Commission in Taipei to exchange views on the latest market developments and regulatory reforms in Hong Kong and Taiwan.

Stakeholder engagement

Ensuring that stakeholders understand our actions and proposals is a top priority. It is particularly important to keep stakeholders informed as we regularly review our rules and amend them when needed to keep up with evolving international standards and rapidly changing markets. Our organisation-wide stakeholder engagement programme allows us to accomplish more concerted, timely and effective outreach.

Transparency

Because the rules we enforce have widespread impact, we consult the public on all of our policy proposals before implementation. Public consultations help market participants understand the objectives of our proposals and give us an opportunity to consider comments from the industry and professionals when we formulate standards and regulations. During the year we published four consultations and one consultation conclusion.

To enhance transparency in our operations, we took the initiative to attend five meetings of the Panel on Financial Affairs of the Legislative Council (LegCo) last year. Through these meetings we provided legislators, market participants and members of the public with details of our proposals and the rationale behind our work.

Information

As part of our efforts to promote market quality, we work to keep the industry well informed about financial market trends and the SFC's regulatory priorities. For instance, last year we organised five meetings with local broker associations to discuss intermediaries supervision and licensing-related matters, such as commonly identified risks and frauds. Targeting risk management in particular, we organise risk-focused industry meetings with financial institutions. In addition, we maintain constant dialogue with industry associations and professional bodies to explain rule changes.

To communicate a more in-depth account of various topical issues, we released 11 thematic publications during the period, ranging from periodic newsletters to market reviews and surveys. Reaching out to a wider audience, our senior executives regularly speak at industry conferences to share perspectives as well as to explain our regulatory philosophy. In the past year we were involved in over 80 speaking engagements.



Interaction

As a financial regulator, we seek to address public concerns and enquiries regarding the markets we regulate. To facilitate this we ensure communication channels are open to the general public. During the year we received a total of 7,333 general enquiries.

For complaint cases, our Complaints Control Committee, which comprises senior executives from across the organisation, first conducts a preliminary assessment to determine whether the subject of a complaint, whether a person or a firm, has complied with the rules and regulations that we administer. Complaints indicative of regulatory breaches are referred to responsible divisions for follow-up. In the past year, we handled 1,648 complaints. After the preliminary assessment, 244 complaints were further reviewed by our various divisions, including 100 cases which were investigated by our Enforcement Division. In addition, 119 complaints were referred to Hong Kong Exchanges and Clearing Limited or other financial regulators.

We regularly host delegate groups to introduce them to our operations and to exchange views and ideas. During the year, we received around 500 visitors, including representatives of exchanges, regulatory authorities, industry groups and universities from mainland China and overseas.

Operational Review Stakeholder engagement

The SFC website is a platform for disseminating information to our stakeholders. We added a section, Gazette Notices, which contains materials published by the SFC in the Government Gazette under various provisions of the Securities and Futures Ordinance. We have also launched Quick Guide, a set of frequently asked questions (FAQs) to address common general enquiries about the securities and futures markets in Hong Kong and our role in them, as well as about our policies, practices and responsibilities.



Public complaints¹

	2013/14	2012/13	2011/12
Conduct of licensees and registered institutions	342	276	582
Listing-related matters and disclosure of interests	403	433	462
Market misconduct	311	295	465
Products	11	7	5
Other financial activities	579	410	439
Miscellaneous	2	0	16
Total	1,648	1,421	1,969

¹ This table shows the number of complainants by subject.

Publications and other communications

	2013/14	2012/13	2011/12
Press releases issued	117	130	151
Consultation papers issued	4	4	7
Consultation conclusions issued	1	6	6
Industry-related publications	11	5	6
Codes and guidelines issued	5	10	8
Corporate website average daily page views ¹	42,908	31,764 ²	-
General enquiries	7,333	7,746	8,448

¹ The average number of web pages browsed per day during the reporting period.

² The corporate website underwent a re-design in 2012. The figure covers the period from 8 August 2012, the launch date of the revamped website, to 31 March 2013.

SFC Regulatory Forum 2014

The first SFC Regulatory Forum took place on 24 January 2014 in Hong Kong. Taking up the theme “New perspectives on the future of regulation in the aftermath of the Global Financial Crisis”, the Forum was an opportunity for us to interact with market participants and exchange views on major issues facing the industry.

The full-day event kicked off with opening remarks from our Chairman, Mr Carlson Tong, who set the stage by posing key questions about Asia’s approach to regulatory change. Next, the keynote address by Mr John C Tsang, Financial Secretary of the Hong Kong Special Administrative Region, highlighted Hong Kong’s efforts to limit fallout from the crisis and strengthen its regulatory framework.

The Forum also featured five discussions with panellists from major financial firms, research institutes and regulatory authorities around the world. Forum speakers considered the current state of the financial system, looking at the roots of the crisis, whether global and local regulatory responses are addressing the causes or merely the symptoms, and ways to prevent the next crisis.

Panels centred on themes which spanned the full range of regulatory issues, covering post-crisis reforms, trends in investment product design and intervention, market integrity, investor protection, corporate conduct, the integrity of

information, board responsibilities, and new expectation of intermediaries, particularly ethical and professional standards.

One crucial question explored at the Forum was how to rebuild the public trust damaged by the crisis. Answers focused on the need to take a closer look to assess what firms and individuals can do to foster a more ethical culture, to adjust incentives and to promote the right behaviours. Speakers also concluded that international cooperation and cross-border collaboration will be essential, particularly in strengthening sanctions regimes and guarding against regulatory arbitrage. To achieve these goals, the industry should look beyond the crisis, collaborate to strengthen the resilience of both Asian and global financial markets, and build a cohesive and cooperative framework among regulators.

Mr David Wright, Secretary General of the International Organization of Securities Commissions, summed up the day’s proceedings in his closing remarks. He urged support for building a global convergent regulatory model and suggested that there are real benefits for Asia to identify shared interests and build a common Asian view.

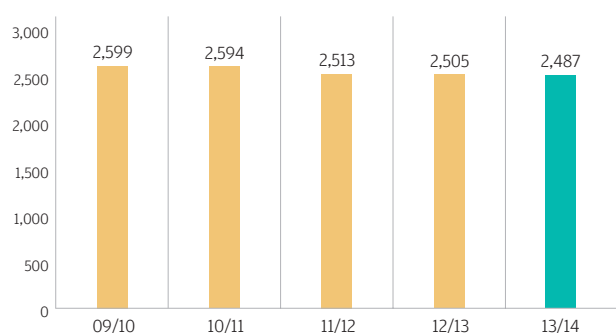
The Forum was attended by close to 500 senior regulators, policymakers, and leaders from around the world representing the industry, professional bodies and academia. The Forum programme, videos and summary of discussions are available on the SFC website.



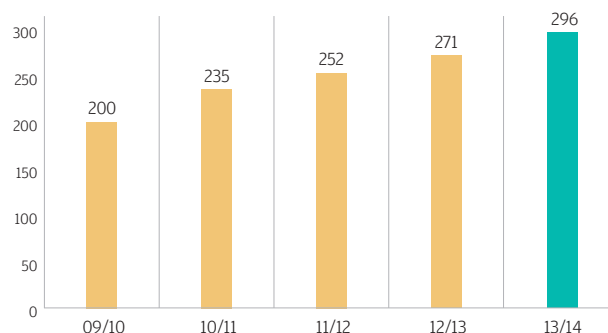
SFC activity data

These charts and tables are intended to show at a glance some top-line data on our activities, which, in turn, are a reflection of the market. For a breakdown of some of these top-line items, please see tables on pages 131-139.

Authorized collective investment schemes¹

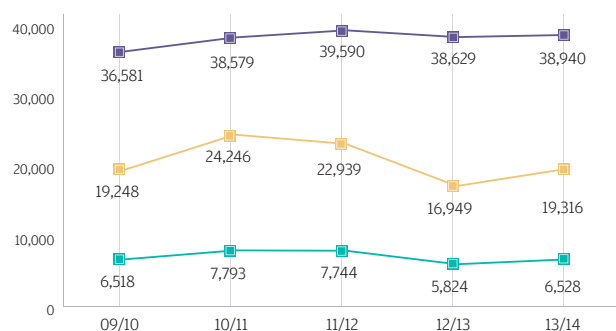


Risk-based, on-site inspections conducted



¹ This represents a snapshot view as at each financial year-end.

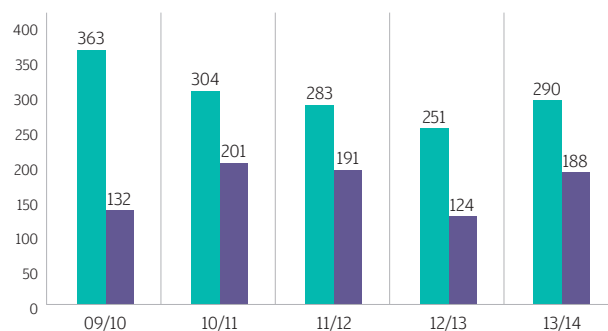
Licensing



■ Total number of SFC licensees¹
 ■ Applications to conduct new regulated activity received
 ■ Applications for SFC licences received

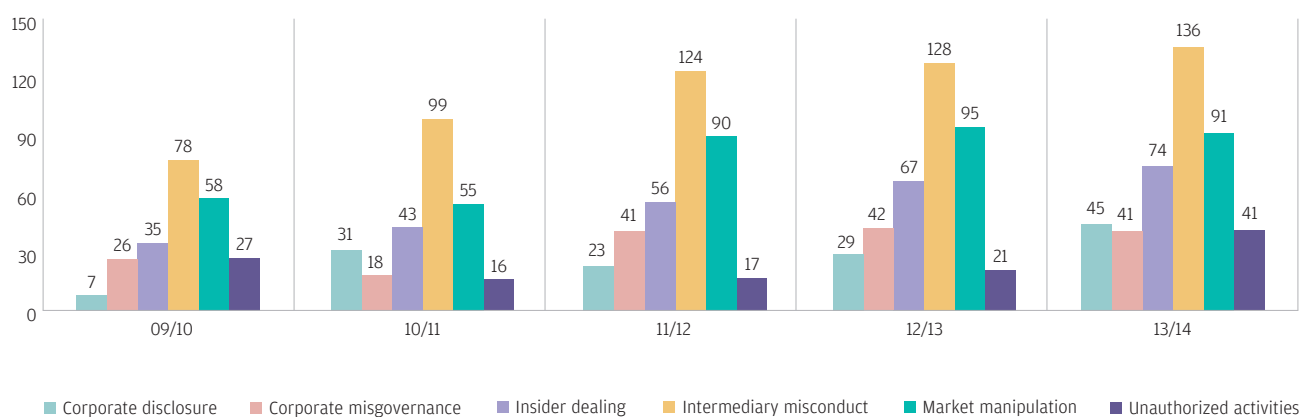
¹ This represents a snapshot view as at each financial year-end.

Market-related transactions

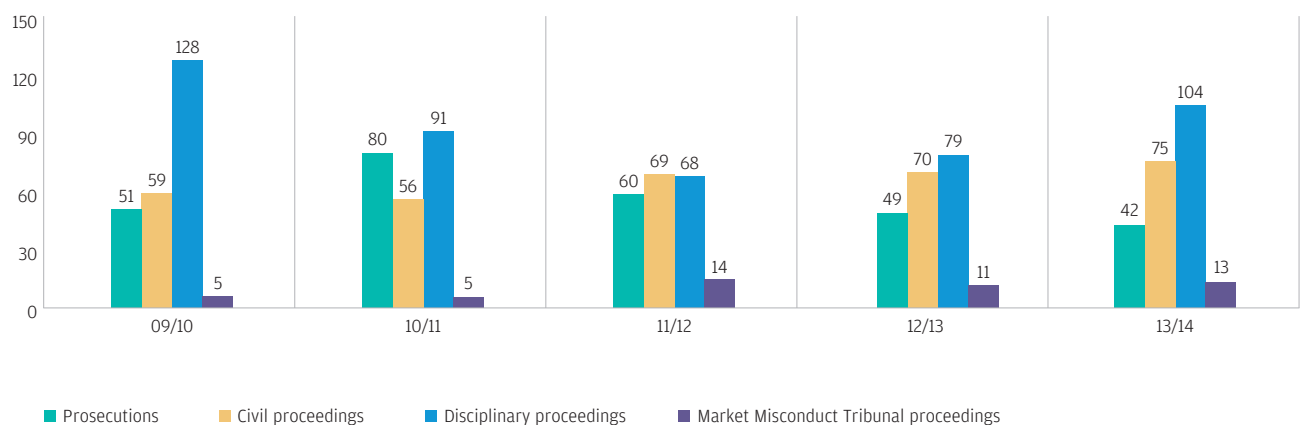


■ Takeovers and share buy-backs transactions handled
 ■ Listing applications reviewed under the dual filing regime

Investigations by nature



Persons subject to enforcement action



Corporate Social Responsibility

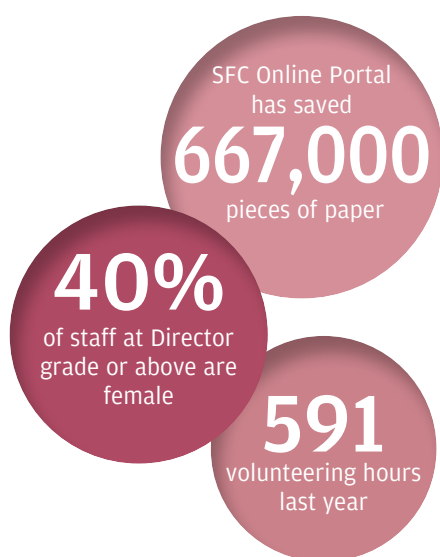


We are committed to acting as a responsible corporate citizen and an equal opportunity employer. Four key aspects of corporate social responsibility (CSR) – our marketplace, community, environment and workplace – are integrated into all our operational decisions and practices. Maintaining good CSR practices that align with our role as a statutory body involves everyone at the SFC.

CSR governance

Operating with integrity and accountability is central to our overall approach to CSR. The Chief Financial Officer and Senior Director of Corporate Affairs chairs the CSR Committee, which is made up of representatives from units with oversight of organisation-wide CSR strategies and activities. The Committee reports directly to the SFC's Executive Committee (ExCo) and its mandate is to:

- develop the CSR framework and policies in line with the SFC's vision and mission;
- adopt practices and initiatives to promote CSR;
- set targets, key performance indicators and criteria for performance measurement;
- monitor and review the effectiveness of CSR initiatives; and
- recommend improvement measures to ExCo where appropriate.



Art Jam in Ethnic Harmony 2014



Corporate Social Responsibility

In 2010, three working groups were formed under the CSR Committee. Each working group focuses on a specific area of CSR and implements CSR-themed initiatives to cater to the needs of the community, the environment and our employees.

CSR working groups and themes

Working group	Focus	2013/14	2014/15
Commission Volunteers Group 	Community	Volunteering as a social investment	Volunteer to make a better community
Green Working Group 	Environment	Achieving greener results through awareness	Keep going green
Wellness Group 	People	Maintaining a work-life balance	Wellness – Your ongoing lifestyle, our ongoing mission

In the coming year, the working groups will continue to promote a culture of volunteerism, step up the organisation's green efforts, and support the wellness of our people.

In January 2011, we inaugurated an internal quarterly e-newsletter to recap CSR events and their outcomes. To increase awareness of the need to conserve resources, the e-newsletter also provides quarterly updates on the use of ink and paper in our office to remind staff to reduce their consumption.

In January 2014, we conducted an employee survey on our CSR initiatives to identify potential areas for improvement and plan future activities. Overall feedback was highly positive. More than 90% of previous activities were rated a satisfaction score of 4 or above (with 5 being the most satisfied). The results helped the CSR working groups set out their action plans for the coming year.

Marketplace support

We introduced a number of measures at the market level to raise the industry's operational efficiency and minimise its resource consumption. We also made efforts to educate our intermediaries and retail investors.



Visit to Zero Carbon Building 2013

Reducing industry-wide paper consumption

Since its launch, the SFC Online Portal has processed approximately 213,500 annual returns and notifications. Application and other fees have been settled with online-created invoices. This green initiative has saved approximately 667,000 pieces of paper.

For submitting financial returns, an electronic financial return system (e-FRR) replaced paper submissions in November 2008. The move to the e-FRR system has helped protect the environment by saving more than 370,000 pages of paper last year.



Supervisory Cup - Basketball Competition 2013



Visit to Dream Come True Education Park 2013

To reduce wastage of paper prospectuses, we introduced the Mixed Media Offer process jointly with Hong Kong Exchanges and Clearing Limited in November 2010 to allow listing applicants to issue paper application forms together with electronic listing documents for shares and debentures or interests in an SFC-authorized collective investment scheme that will be listed on The Stock Exchange of Hong Kong Limited, provided certain conditions are fulfilled.

Promoting electronic filing

We deploy front-end technology with an objective to reducing the end-to-end processing time of applications and reports filed by the industry and the public.

With the launch of the SFC Online Portal in September 2009, submissions of licensing applications, notifications, annual returns and payments can all be made electronically. As of 31 March 2014, 95% of licensed individuals, corporations and registered institutions had activated their portal accounts.

To streamline traditional methods of dealing disclosure submissions¹ by hand, fax or email, we are developing an online submission system, which we expect to launch this year.

We also expanded our suite of e-services in June 2012 to include a short position reporting service. This enabled the public to submit their reportable short positions through our website, thereby streamlining the processing of submissions for timely publication.

Enhancing professional competence

We introduced continuous professional training (CPT) requirements² for licensees in 2001 to help promote professional competence amid rapidly changing industry developments. Our senior executives also provide direct professional and CPT-eligible training to licensees at seminars organised by various professional bodies during the year.

We remain supportive of the work of the Hong Kong Securities and Investment Institute (HKSI), many of whose objectives are aligned with our own. We funded the HKSI's development of new study manuals and additional licensing examination questions to pave the way for the over-the-counter derivatives regime and the enhanced sponsor regime.

In addition, we will collaborate with various agencies to develop training initiatives for intermediaries, particularly those which help small and medium-sized firms adjust to changing market conditions, as well as projects that seek to educate market participants to enhance market efficiency.

¹ 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.

² 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.

Community investment

Encouraging employee volunteerism is integral to our CSR values. We support our employees' commitments by offering volunteering leave and directly facilitated volunteering opportunities for employees in partnership with a number of community groups during the year. All of these events received overwhelming responses from our staff. This year, 154 employees spent 591 hours volunteering, up from 143 volunteers and 567 hours the year before.

Donations, combined with the volunteering activities of our employees, benefit projects and people in the community. This year, our staff raised \$137,026 for fundraising events, up 18% from a year ago. These fundraisers ranged from three Community Chest events³ to the Standard Chartered Hong Kong Marathon Corporate Challenge. The number of SFC athletes participating in the marathon rose 21% to 58 this year.

Volunteering events

Month	Activity	Purpose	Outcome
May 2013	Global X-perience one-day workshop (with Crossroads Foundation)	To raise staff awareness about issues of global concern through volunteering work and experiential simulation	Helped with logistics, including sorting, cleaning and packaging of donated goods; gained understanding of the lives of the visually impaired and patients with HIV/AIDS through simulated scenarios
Jun 2013	In-house Blood Donation Day (with Hong Kong Red Cross)	To emphasise the importance of giving blood to save lives and becoming a regular blood donor	About 50 donors donated blood and helped maintain a stable community blood supply
Jul 2013	Day Camp with Hong Kong Christian Service (HKCS)	To encourage local children living under the poverty line to participate in different activities	Worked with 20 primary school children to create hand-made bamboo pan flutes and dumplings and learn about the benefits of organic farming and minimising food waste through hands-on experience
Sep 2013	Visit to Dream Come True Education Park (with Hong Kong Society for the Protection of Children)	To encourage disadvantaged children to pursue their dreams	Paired up with 20 children in intensive occupation-specific training and simulations, as well as sharing of childhood dreams
Oct 2013	Bake Your Own Cakes (with Tung Wah Group of Hospitals Chan Han Nursery School)	To spend quality time with children from low-income families	Made cupcakes with 15 children in pairs as a lesson in cooperating with others and accomplishing tasks
Dec 2013	Caring for the Elderly (with Po Leung Kuk Lau Chan Siu Po Neighbourhood Elderly Centre)	To bring warmth and care to the elderly as part of Po Leung Kuk's District Elderly Campaign	Paid home visits and distributed gift food packs to 52 underprivileged elderly families around the Winter Solstice Festival
Mar 2014	Caring for the visually-impaired elderly (with Jockey Club Yee On Care and Attention Home)	To show care for the visually-impaired elderly	Visited 20 elderly, cooked and enjoyed afternoon tea with them
Mar 2014	Art Jam in Ethnic Harmony (with Hong Kong Sheng Kung Hui Lady MacLehose Centre)	To enhance cultural understanding and foster integration with ethnic minorities	Paired up with 14 children in an art jamming workshop and instilled in them a sense of achievement

³ Including the Community Chest Green Day (Jun 2013), the Community Chest Dress Casual Day (Sep 2013) and the Community Chest Love Teeth Day (Dec 2013).



Caring for the visually-impaired elderly 2014



Sharp Island geo-tour 2013

Contribution to the community

	2013/14	2012/13	2011/12
Employees participating in volunteering activities	154	143	106
Total volunteer hours	591	567	396
Amount of funds raised for community causes (\$)	137,026	115,675	19,520
Corporate sponsorships for community causes ¹ (\$)	38,000	21,000	19,000

¹ These include donations in lieu of corporate gifts to the Tung Wah Group of Hospitals, ie, making donations in the name of guest speakers invited to our in-house training seminars and talks.

We believe CSR is more than just making monetary contributions, but also about consciously creating a positive impact on society. Throughout the year, we motivated our staff to donate used items to charitable organisations as a means of both giving back to the community and recycling. These include:

- inviting our staff to join the "Love to Share, Toys Collection Programme", held jointly by the Young Men's Christian Association (YMCA) and Hong Kong Post, to give used toys to children from low-income families;
- promoting clothing donations to charitable organisations close to our office;
- encouraging staff to donate used red packets at more than 100 locations, which were then collected by Greeners Action, a charitable organisation; and

- calling for donations of toys, stationery, books and gifts for distribution to underprivileged children at volunteering events.

In recognition of our charitable contributions and community service, we were named as a "Caring Organisation" by the Hong Kong Council of Social Services for the eighth consecutive year.

Environmental protection

We seek to take environmental issues into account when carrying out our daily operations. In keeping with our internal protocol, "A Guide to Working "Green" at the SFC", we have implemented measures to improve our environmental performance and encourage environmentally-responsible behaviour.

On top of the industry-wide initiatives mentioned above, we attach great importance to reducing paper consumption in our workplace. Measures include:

- piloting an e-meeting initiative which allows electronic sharing of meeting materials using tablet PCs in the SFC's ExCo and Complaints Control Committee meetings;
- reducing the print run for this Annual Report by 23% compared to the previous year and encouraging the use of the e-version by introducing more interactive features and improving accessibility;
- continuing the "Go paperless, go inkless" campaign to raise staff awareness of wastage;

Corporate Social Responsibility



Bake Your Own Cake 2013



- providing a Christmas e-card to all staff to replace traditional greeting cards;
- promoting the use of paperless diaries such as the e-calendar in our e-mail system;
- installing editing-friendly software for portable document format (PDF) documents on all computers to minimise printouts;
- adopting internal electronic processes to save processing time and paperwork, including e-pay slips, e-leave applications, e-appraisals and performance planning forms; and
- replacing paper circulars with email when making internal administrative, information technology and human resources announcements.

Consumption and recycling

	2013/14	2012/13	2011/12
Consumption			
Paper (pieces/head)	11,863	11,235	11,470
Electricity (kWh)	3,607,287	3,913,576	3,527,280
Recycling			
Paper (kg)	21,288	51,735 ¹	24,325
Toner and printer ink cartridges (number)	936	745	686

¹ The volume of paper recycled was comparatively high in 2012-13 due to a major office relocation when large quantities of old documents were sent for recycling.

To reduce our carbon footprint, the lighting system in our workplace is energy-efficient and automatically adjusts after office hours. Room temperature controls are standardised.

In August we installed recycling bins in utility rooms on each floor for newspapers and magazines. We will collect and monitor statistics on our consumption and recycling, and to work towards further environmental improvements in our workplace.

In addition to sharing consumption data and green tips, we also engaged our staff in outdoor events to increase their environmental awareness through active learning:

- Visit to Zero Carbon Building: In August, staff visited the first zero-carbon building in Hong Kong to learn more about the latest innovations and technologies for low-carbon living.
- Sharp Island geo-tour: A visit to the Lions Nature Education Centre and Sharp Island in November helped acquaint our staff with environmental conservation and sustainable development in Hong Kong.
- Low-carbon diet workshop: Staff joined an outdoor workshop at Kadoorie Farm, a centre for conservation and education, to learn about low-carbon diets.

During the year, we continued to support the World Wide Fund's (WWF) climate change and environmental protection efforts:

- Earth Hour 2014: We joined the Earth Hour event for the fourth year in a row. Our staff collectively pledged to turn off the lights for one hour on 29 March 2014.
- No Shark Fins Policy: Since May 2012, we have adopted a No Shark Fins Policy, pledging not to serve sharks' fins at any SFC event.

Workplace quality

The SFC is an equal opportunity employer committed to creating a working environment free from discrimination. We continued to strengthen our position as an employer of choice by providing an inclusive and rewarding work environment for our staff.

As of 31 March 2014, 40% of staff at Director grade or above were female, up from 33.3% as of 31 March 2012. The number of female Board members increased from two to three.

We recognise that workplace wellness is essential for more productive, happier and healthier staff. To help employees choose healthier lifestyles and in turn increase their job satisfaction, we:

- implemented the "Adopt a Plant Programme" for the second year in June, through which about 70% of our staff received small potted plants and planting tips;

- participated in the World Cancer Research Fund (WCRF) Hong Kong's Fruity Friday in September, raising nearly \$7,000 for WCRF's research and educational programmes;
- provided a health screening programme in October, comprising body mass index and fat mass check-ups, blood tests, carbon-monoxide monitoring, and a brief report and consultation, to complement the corporate health plan;
- arranged on-site influenza vaccinations in November;
- offered in-house yoga classes in the first and fourth quarters;
- organised a health talk with WCRF in December on weight management and diet; and
- set up nursery rooms in the office to support working mothers.

The Staff Activities Committee was formed in 2010 to enrich employees' work life and strengthen their team spirit. Staff bonding and recreational events were organised outside the workplace, including the SFC Bowling Night and Badminton Tournament. This year, we participated in the Supervisory Cup Basketball Competition and the Table Tennis Supervisory Cup together with other financial regulators in Hong Kong. The SFC was the winning team in both competitions.

For more on our employee engagement and development opportunities, see Our People (pages 30-33) and Corporate Developments (pages 77-80).

CSR Activity Calendar

April –
June
2013

Adopt a Plant Programme
Badminton Tournament
Hong Kong Red Cross Blood Donation Day
Community Chest Green Day
Crossroads Global X-perience Workshop
In-house yoga sessions



July –
September
2013



Community Chest Dress Casual Day
Day camp with HKCS
Fruity Day
Recycling bins set up for newspapers and magazines
SFC Bowling Night
Visit to Dream Come True Education Park
Visit to Zero Carbon Building
WCRF Fruity Friday

October –
December
2013

Bake Your Own Cake
Basketball Supervisory Cup
Caring for the elderly
Community Chest Love Teeth Day
Handmade soap workshop
Health talk on weight management
Massage Days
On-site health screening session
Sharp Island geo-tour
Table Tennis Supervisory Cup



January –
March
2014



Art Jam in Ethnic Harmony
Caring for the visually-impaired elderly
CSR Survey 2014
Earth Hour 2014
In-house yoga sessions
Low-carbon diet workshop at Kadoorie Farm
Recycling of red packets by Greeners Action 2014

Corporate Developments

Maintaining high degrees of organisational and operational efficiency is essential to fulfil our statutory objectives and regulatory mandate. We are committed to providing an engaging and supportive workplace with a robust information technology (IT) infrastructure and appropriate professional development opportunities, as well as a range of other corporate resources needed to support a skilled and effective workforce.

Our employer brand

We promote the SFC as an employer of choice as part of our employer branding programme to attract and retain talent. We deploy the employee value proposition, “the right place for people with a purpose”, in all SFC recruitment campaigns to promote our unique positioning and vital role in the financial community, and the challenging and dynamic work environment we offer.

Our CEO regularly communicates with staff on the latest market and regulatory developments as well as organisational matters during CEO Sharing Sessions. He also addresses questions raised by staff through the “Your Voice” mailbox on the SFC intranet during these sessions.

We implement a total reward strategy in which remuneration policies and practices are reviewed every year to attract and retain the right talent. Individuals and teams making outstanding contributions to the organisation are recognised through the annual SFC Employee Awards.

Last year, we further developed the employee competency framework which we introduced in 2011. The framework includes new initiatives such as a revamp of our annual performance planning system which is being piloted in two divisions, a new competency-based training curriculum, and briefing sessions to help staff fully utilise the competency framework to facilitate career planning.

Training and e-learning

	2013/14	2012/13	2011/12
% of employees who participated in internal training ¹	93%	90%	97%
Average hours of internal training per employee ¹	42.1	31.1	43.9
Number of employees who undertook e-learning	202	188	145

¹ Including lectures, workshops and seminars.

Developing people

We adopt a multi-faceted, strategic approach to enhance the professional capabilities of our staff and to equip them with the knowledge and skills to lead the SFC forward. Staff learning focuses on structured and on-the-job learning. We also offer coaching and networking opportunities and set up cross-divisional projects to train up young professionals.

Experienced professionals

During the year, each employee spent an average of 42.1 hours on structured learning courses, including workshops, seminars and training programmes, up 35% from last year. Our staff took e-learning courses via the SFC e-Learning Portal and took advantage of our education, examination and training sponsorships to keep abreast of ever-changing market developments.

To raise our employees’ awareness of international issues and regulatory changes, we invited local and overseas regulators and industry professionals to speak on a range of topics, including global regulatory updates and the latest trends in the Mainland and overseas markets.

We launched a number of soft skills training programmes throughout the year. For instance, we ran a series of division-specific, tailor-made workshops on enhancing personal effectiveness and know-how. According to participants’ feedback, the programme was effective in cultivating our staff’s understanding of their own working styles and preferences as well as ways to work effectively with others.

Representatives from various divisions hosted three Commission Connection Series sessions this year to brief our staff on their operational approaches, strategic directions and current developments, such as the SFC’s latest enforcement actions and international engagement work.

Corporate Developments



Following up on last year's teambuilding initiative, 75% of all SFC divisions completed customised teambuilding programmes as of 31 March 2014.

This year, we organised short-term secondments with the Australian Securities and Investments Commission and the Central Bank of Ireland on the topics of intermediaries supervision, collective investment schemes, takeover matters and funds authorization. Our regular secondment programme with the China Securities Regulatory Commission (CSRC) remained popular, with 17 SFC staff seconded to the CSRC this year.

We organised a one-day visit to the Shenzhen Stock Exchange and various fund houses to enrich our employees' understanding of the Mainland securities markets. Our staff also gained new perspectives on the international regulatory landscape by participating in overseas conferences organised by the International Monetary Fund, the International Organization of Securities Commissions, and other regulators.

Graduate trainees

To grow our own talent, we recruited 15 graduate trainees through our Graduate Trainee Programme for the fifth year running. The retention rate for our young professionals remained high at 91% over the past year. Additionally, we placed 40 summer and winter interns in various SFC divisions.

This year we launched a new Buddy Programme for our graduate trainees to provide support during their transition from the campus to the workplace. To help trainees adapt to a new work environment, they are paired up with former graduate trainees who have advanced to more senior positions within the same division.

Our Mentoring Programme, now in its fourth year, matches graduate trainees with mentors at Manager grade or above from other divisions. The programme has helped young professionals expand their networks and advance their careers at the SFC.

Information services

During the year, our in-house library broadened its collection scope, revamped its Intranet portal (or e-library) and initiated monthly updates to inform staff about library services. These innovations aim to make the library service more user-friendly and enhance the sharing of information.

In addition, this year we set up an advisory committee which acts as a liaison body between the library and staff and provides a useful forum for discussing and reviewing library services.

System upgrades

We made improvements in a number of areas to enhance the efficiency of both internal and external operations.

Enhancements to the SFC Online Portal and multiple internal systems were conducted to support the new regimes on sponsors and over-the-counter derivatives, and to improve the efficiency of our licensing operations.

We upgraded our market surveillance platform to work with the new market data platform and after-hours futures trading session introduced by Hong Kong Exchanges and Clearing Limited.

Operational efficiency

We introduced secure access to emails and documents using mobile devices, including smartphones and tablets, to enable better access to information anywhere, anytime. Mobile devices were also introduced for paperless meetings. A new virtual platform was set up to facilitate the sharing of information among projects and teams within the organisation. We completed various enhancements to our human resources system to address new requirements related to staff competency.

Managing data and documents

- Our secure document management system stores over one million documents
- Over 16 gigabytes of market data are sent to us for analysis every day
- Total information storage capacity stands at 45 terabytes

Information security

In addition to regular system audits, independent testing by external consultants and disaster recovery drills, we launched an organisation-wide information security risk assessment programme with the objective of continuously monitoring and improving the security of critical information assets.

We adopted new technology to “virtualise” many of the servers that support our systems, resulting in energy and cost savings while providing enhanced stability and availability.

Managing financial performance

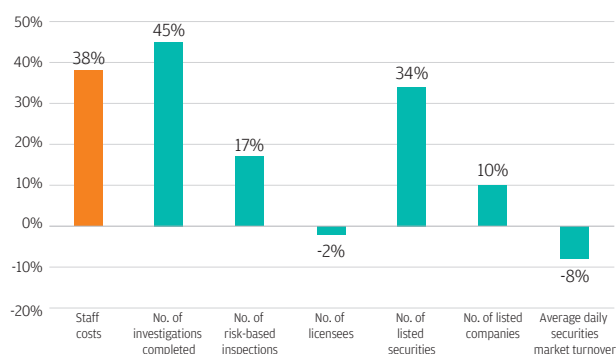
Expenditure

The costs of our operations were \$1,339 million, \$165 million below our original budget of \$1,504 million. Staff costs accounted for about 67% of our total expenditures. Over the past three years, our staff costs increased 38% whereas during the same period the number of investigations completed, risk-based inspections, listed securities and listed companies increased by 45%, 17%, 34% and 10% respectively. However, securities market turnover is 8% lower than three years ago.

Expenditure breakdown

	2013/14	2012/13	2011/12
Staff costs	66.9%	63.8%	72.1%
Premises and related expenses	16%	18.2%	11.4%
Other expenses	13.2%	13.3%	12%
Depreciation	3.9%	4.7%	4.5%

Three-year change in staff costs, regulatory activities and market statistics (2011/12-2013/14)



Funding

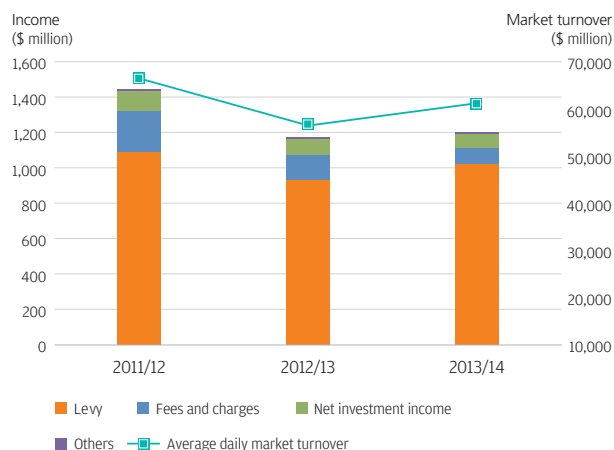
We are operationally independent of the Hong Kong Special Administrative Region (HKSAR) Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.003% for securities transactions, which is significantly less than the initial rate of 0.0125% when the transaction levy mechanism was set up. Subject to legislative amendment, we will further reduce the levy rate to 0.0027% in 2014-15. Although our fee income is below the attributable costs, we have not revised our fees and charges since 1994-95.

Funding breakdown

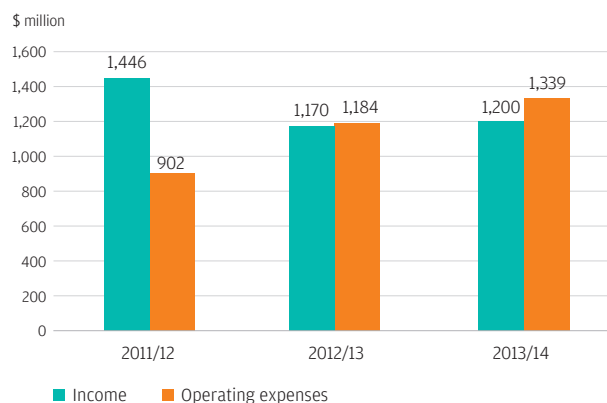
	2013/14	2012/13	2011/12
Levies	84.9%	79.5%	75.6%
Fees and charges	8%	12.5%	15.9%
Net investment income	6.4%	7.3%	8%
Others	0.7%	0.7%	0.5%

Corporate Developments

Income vs market turnover (2011/12-2013/14)



Income and operating expenses (2011/12-2013/14)



Total income for the year was \$1,200 million, up from \$1,170 million a year ago. Due to increased securities market turnover, our levy income rose by 10% to \$1,019 million in the current year. On the other hand, our income from fees and charges was reduced by 34%, from \$146 million last year to \$96 million this year, as a result of the waiver of annual licensing fees in effect for two years beginning 1 April 2012. The waiver was extended for another two years from 1 April 2014.

The ratio of average expenses to income for the past three years was 90%. In the same period, the average increase in expenses was 20% whereas our income decreased 10% on average.

Owing to an increase in operational costs, we recorded a deficit of \$139 million for the year, compared to a deficit of \$14 million last year.

As of 31 March 2014, our reserves stood at \$7.3 billion. We are obliged to manage our reserves according to the new investment guidelines approved by the Financial Secretary of the HKSAR. Our Investment Committee is in the process of appointing external investment managers to manage our reserves. To prepare for this change, proceeds from debt securities which matured during the year have been put into liquid investments such as fixed deposits.

Finances

	2013/14	Change	2012/13	Change	2011/12
Income (\$ million)	1,200	3%	1,170	-19%	1,446
Expenses including depreciation (\$ million)	1,339	13%	1,184	31%	902
(Deficit)/Surplus (\$ million)	(139)		(14)		544

Breakdown of staff

	31 March 2014		31 March 2013		31 March 2012	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	571	610	491	560	443	476
Support	182	184	177	176	168	172
Total	753	794	668	736	611	648

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 (the SFC) and its subsidiaries (together referred to as the Group) set out on pages 82 to 101, which comprise the consolidated and the SFC statement of financial position as at 31 March 2014 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the 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 the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group's affairs as at 31 March 2014 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

30 May 2014

Consolidated statement of comprehensive income

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Income			
Levies		1,018,543	929,855
Fees and charges		95,937	146,291
Investment income	5	79,470	88,289
Less: custody and advisory expenses		(1,975)	(2,662)
Investment income net of third party expenses		77,495	85,627
Recoveries from Investor Compensation Fund		4,990	4,869
Other income	6	3,089	3,329
		1,200,054	1,169,971
Expenses			
Staff costs and directors' emoluments	7	895,745	755,407
Premises			
Rent		178,432	167,471
Rates, management fees and others		35,391	48,347
Other expenses	8	176,863	157,263
Depreciation	10(a)	52,276	55,575
		1,338,707	1,184,063
Loss and total comprehensive loss for the year		(138,653)	(14,092)

The notes on pages 87 to 101 form part of these financial statements.

Consolidated statement of financial position

At 31 March 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Non-current assets			
Fixed assets	10(a)	100,510	112,725
Held-to-maturity debt securities	9	1,119,967	2,935,841
		1,220,477	3,048,566
Current assets			
Held-to-maturity debt securities	9	1,792,313	2,808,214
Debtors, deposits and prepayments	14	129,499	139,759
Fixed and call deposits with banks	11	4,313,927	1,602,208
Cash at bank and in hand	11	6,852	2,909
		6,242,591	4,553,090
Current liabilities			
Fees received in advance		8,543	8,262
Creditors and accrued charges		115,854	114,854
		124,397	123,116
Net current assets		6,118,194	4,429,974
Total assets less current liabilities		7,338,671	7,478,540
Non-current liabilities	13	21,695	22,911
Net assets		7,316,976	7,455,629
Funding and reserves			
Initial funding by Government	15	42,840	42,840
Accumulated surplus		7,274,136	7,412,789
		7,316,976	7,455,629

Approved and authorised for issue by the SFC on 30 May 2014 and signed on its behalf by

Carlson Tong

Chairman

Ashley Alder

Chief Executive Officer

The notes on pages 87 to 101 form part of these financial statements.

Statement of financial position

At 31 March 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Non-current assets			
Fixed assets	10(b)	100,313	112,625
Held-to-maturity debt securities	9	1,119,967	2,935,841
		1,220,280	3,048,466
Current assets			
Held-to-maturity debt securities	9	1,792,313	2,808,214
Debtors, deposits and prepayments	14	129,112	139,502
Fixed and call deposits with banks	11	4,313,927	1,602,208
Cash at bank and in hand	11	2,695	1,857
		6,238,047	4,551,781
Current liabilities			
Fees received in advance		8,543	8,262
Creditors and accrued charges		111,113	113,445
		119,656	121,707
Net current assets		6,118,391	4,430,074
Total assets less current liabilities		7,338,671	7,478,540
Non-current liabilities	13	21,695	22,911
Net assets		7,316,976	7,455,629
Funding and reserves			
Initial funding by Government	15	42,840	42,840
Accumulated surplus		7,274,136	7,412,789
		7,316,976	7,455,629

Approved and authorised for issue by the SFC on 30 May 2014 and signed on its behalf by

Carlson Tong

Chairman

Ashley Alder

Chief Executive Officer

The notes on pages 87 to 101 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2012	42,840	7,426,881	7,469,721
Total comprehensive loss for the year	-	(14,092)	(14,092)
Balance at 31 March 2013 and 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive loss for the year	-	(138,653)	(138,653)
Balance at 31 March 2014	42,840	7,274,136	7,316,976

The notes on pages 87 to 101 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Cash flows from operating activities		
Loss for the year	(138,653)	(14,092)
Adjustments for:		
Depreciation	52,276	55,575
Investment income	(79,470)	(88,289)
Exchange loss on revaluation of debt securities	3,761	23,203
(Gain)/loss on disposal of fixed assets	(31)	531
	(162,117)	(23,072)
(Increase)/decrease in debtors, deposits and prepayments	(5,144)	6,581
Increase/(decrease) in fees received in advance	281	(65,573)
Increase in creditors and accrued charges	1,000	46,966
Increase in fixed deposits other than cash and cash equivalents	(49,832)	-
(Decrease)/increase in non-current liabilities	(1,216)	7,479
<i>Net cash used in operating activities</i>	<i>(217,028)</i>	<i>(27,619)</i>
Cash flows from investing activities		
Interest received	124,938	157,633
Held-to-maturity debt securities purchased	-	(1,043,311)
Held-to-maturity debt securities redeemed at maturity	2,797,950	1,598,640
Fixed assets purchased	(40,069)	(119,517)
Fixed assets sold	39	50
<i>Net cash generated from investing activities</i>	<i>2,882,858</i>	<i>593,495</i>
Net increase in cash and cash equivalents	2,665,830	565,876
Cash and cash equivalents at beginning of the year	1,605,117	1,039,241
Cash and cash equivalents at end of the year	4,270,947	1,605,117

Analysis of the balance of cash and cash equivalents:

	2014 \$'000	2013 \$'000
Fixed and call deposits with banks	4,264,095	1,602,208
Cash at bank and in hand	6,852	2,909
	4,270,947	1,605,117

Notes to the consolidated financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (the SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (the 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, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited (HKMEx) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council. The HKMEx surrendered its authorisation to provide automated trading services with effect from 18 May 2013.
- (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

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the Group), in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). We set out below a summary of our significant accounting policies.

The IASB has issued certain new and revised IFRSs 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 21).

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by the Group entities.

We prepare the financial statements in conformity with IFRSs 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 2014
(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 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 The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited as income on an accruals 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) Investment income

We record investment 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 comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

We make accrual 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 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 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 comprehensive income on the date of retirement or disposal.

(h) Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see note 3(o)). We account for purchases and sales of debt securities on the settlement date.

Notes to the consolidated financial statements

For the year ended 31 March 2014
(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).

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 International Accounting Standard (IAS) 24.

(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 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 comprehensive income (see note 3(o)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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 immaterial, in which case they are stated at cost.

Notes to the consolidated financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(n) Investment in subsidiaries

We state an 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 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.

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 or 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 IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 20.

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 2014
(Expressed in Hong Kong dollars)

5. Investment income

	2014 \$'000	2013 \$'000
Interest income	109,534	135,813
Amortisation of premium on held-to-maturity debt securities	(30,956)	(48,802)
Amortisation of discount on held-to-maturity debt securities	892	1,278
	79,470	88,289

Interest income is derived as follows:

	2014 \$'000	2013 \$'000
Interest income from held-to-maturity debt securities	80,246	121,828
Other interest income	29,288	13,985
Total interest income on financial assets not at fair value through profit or loss	109,534	135,813

6. Other income

	2014 \$'000	2013 \$'000
Investigation costs awarded	1,361	132
FinNet managed network and support fee	648	2,142
Sale of SFC publications	482	257
Gain on disposal of fixed assets	31	-
Others	567	798
	3,089	3,329

7. Staff costs and directors' emoluments

	2014 \$'000	2013 \$'000
Salaries and allowances	813,792	681,508
Retirement benefits	50,835	43,426
Medical and life insurance	23,443	21,606
Staff functions	2,167	2,185
Recruitment	4,381	5,663
Registration and membership fees	1,127	1,019
	895,745	755,407

The total number of staff as at 31 March 2014 was 772 (753 for the SFC, 16 for the Investor Education Centre and three for the Investor Compensation Company Limited) (as at 31 March 2013: the total number of staff was 678 comprising 668 for the SFC, seven 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 2014
(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 & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2014 Total \$'000	2013 Total \$'000
Chief Executive Officer						
Ashley Alder	-	6,360	2,035	636	9,031	9,499 ²
Executive Directors						
Alexa Lam, JP	-	5,010	1,336	501	6,847	6,833
Brian Ho	-	4,491	1,192	449	6,132	5,941
James Shipton	-	3,525	846	337	4,708	-
Keith Lui	-	4,450	1,225	445	6,120	5,970
Mark Steward	-	4,730	1,441	473	6,644	6,384
	-	28,566	8,075	2,841	39,482	34,627
Non-executive Chairman						
Dr Eddy C Fong, GBS, JP (retired 19 October 2012 ³)	-	-	-	-	-	558
Carlson Tong, JP	1,012	-	-	-	1,012	454
Non-Executive Directors						
The Hon Chan Kam-lam, SBS, JP (retired 14 November 2013 ³)	157	-	-	-	157	253
Angelina PL Lee, SBS, JP (retired 31 July 2012 ³)	-	-	-	-	-	84
Lawrence Lee, JP	253	-	-	-	253	253
Wong Kai Man, BBS, JP	253	-	-	-	253	253
Anderson Chow, SC	253	-	-	-	253	253
Professor Leonard Cheng Kwok-hon, JP	253	-	-	-	253	253
Carlson Tong, JP (appointed as non-executive Chairman on 20 October 2012)	-	-	-	-	-	139
Teresa Ko, JP	253	-	-	-	253	169
Dr. Kelvin Wong Tin-yau	253	-	-	-	253	114
Mary Ma (appointed 15 November 2013)	96	-	-	-	96	-
	2,783	-	-	-	2,783	2,783
Total directors' emoluments	2,783	28,566	8,075	2,841	42,265	37,410

¹ This represents net contribution expenses accrued during the period ended 31 March 2014 in accordance with the accounting policy set out in note 3(f) on page 88. 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 2014 was \$1,726,000 (as at 31 March 2013: \$1,646,000).

² Included performance-based discretionary pay for an 18-month period from 1 October 2011 to 31 March 2013.

³ Retired having completed appointment period.

Notes to the consolidated financial statements

For the year ended 31 March 2014
(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 2013/14, representing the emoluments of the Chief Executive Officer and four Executive Directors, was \$34,774,000 (2012/13: \$34,627,000) with the breakdown as follows:

	2014 \$'000	2013 \$'000
Salaries, allowances & benefits in kind	25,041	24,394
Discretionary pay	7,229	7,795
Retirement scheme contributions	2,504	2,438
	34,774	34,627

Their emoluments are within the following bands:

	2014 No. of individuals	2013 No. of individuals
\$5,500,001 to \$6,000,000	0	2
\$6,000,001 to \$6,500,000	2	1
\$6,500,001 to \$7,000,000	2	1
\$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	1	1

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 2014
(Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (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 (2013: nil).

(ii) Executive staff

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 \$1,448,000 (2013: \$981,000) and the amount so forfeited available at the end of the reporting period was \$3,000 (2013: \$126,000).

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

	2014 \$'000	2013 \$'000
Training and development	8,292	6,783
Legal and professional services	57,558	31,278
Information and systems services	40,509	36,645
Auditor's remuneration	676	595
Funding for the Financial Dispute Resolution Centre	14,000	14,000
Funding for the Financial Reporting Council	4,862	4,631
Funding for the Hong Kong Securities and Investment Institute	2,000	-
Funding for the International Financial Reporting Standards Foundation	388	389
General office and insurance	6,569	6,511
Investor and other education programmes costs to the Investor Education Centre	20,298	15,518
Overseas travelling, regulatory meeting expenses and others	12,881	11,406
Exchange loss (see note 9)	8,830	28,976
Loss on disposal of fixed assets	-	531
	176,863	157,263

Notes to the consolidated financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

9. Held-to-maturity debt securities

The Group and the SFC

		2014 \$'000	2013 \$'000
Maturing after one year			
In the second to sixth years	- unlisted	542,982	1,409,901
	- listed outside Hong Kong	576,985	1,525,940
		1,119,967	2,935,841
Maturing within one year	- unlisted	855,759	1,396,154
	- listed in Hong Kong	-	122,256
	- listed outside Hong Kong	936,554	1,289,804
		1,792,313	2,808,214
		2,912,280	5,744,055
Amortised cost at 31 March	- unlisted	1,398,741	2,806,055
	- listed in Hong Kong	-	122,256
	- listed outside Hong Kong	1,513,539	2,815,744
		2,912,280	5,744,055
Market value at 31 March	- unlisted	1,404,612	2,823,165
	- listed in Hong Kong	-	122,634
	- listed outside Hong Kong	1,529,395	2,852,507
		2,934,007	5,798,306

The average yield to maturity of the debt securities was 0.7% as at 31 March 2014 (2013: 0.5%).

Exchange losses arising from the translation of year end held-to-maturity debt securities amounted to \$3.8 million (2013: \$23.2 million) are recognised in the statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

10. 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 2013	101,131	7,488	138,416	74,540	2,399	323,974
Additions	110	1,664	22,020	15,275	1,000	40,069
Disposals	(31)	(555)	(312)	(786)	(988)	(2,672)
At 31 March 2014	101,210	8,597	160,124	89,029	2,411	361,371
Accumulated depreciation						
At 1 April 2013	25,579	3,905	119,520	60,599	1,646	211,249
Charge for the year	19,126	1,471	16,783	14,294	602	52,276
Written back on disposals	(26)	(552)	(312)	(786)	(988)	(2,664)
At 31 March 2014	44,679	4,824	135,991	74,107	1,260	260,861
Net book value						
At 31 March 2014	56,531	3,773	24,133	14,922	1,151	100,510
Cost						
At 1 April 2012	70,666	8,091	127,086	65,071	1,599	272,513
Additions	85,851	3,448	13,910	15,508	800	119,517
Disposals	(55,386)	(4,051)	(2,580)	(6,039)	-	(68,056)
At 31 March 2013	101,131	7,488	138,416	74,540	2,399	323,974
Accumulated depreciation						
At 1 April 2012	58,671	6,074	102,743	54,368	1,293	223,149
Charge for the year	21,970	1,630	19,357	12,265	353	55,575
Written back on disposals	(55,062)	(3,799)	(2,580)	(6,034)	-	(67,475)
At 31 March 2013	25,579	3,905	119,520	60,599	1,646	211,249
Net book value						
At 31 March 2013	75,552	3,583	18,896	13,941	753	112,725

Notes to the consolidated financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

10. 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 2013	101,116	7,432	138,416	74,154	2,399	323,517
Additions	110	1,656	22,020	15,065	1,000	39,851
Disposals	(31)	(555)	(312)	(749)	(988)	(2,635)
At 31 March 2014	101,195	8,533	160,124	88,470	2,411	360,733
Accumulated depreciation						
At 1 April 2013	25,563	3,850	119,520	60,313	1,646	210,892
Charge for the year	19,126	1,469	16,783	14,175	602	52,155
Written back on disposals	(26)	(552)	(312)	(749)	(988)	(2,627)
At 31 March 2014	44,663	4,767	135,991	73,739	1,260	260,420
Net book value						
At 31 March 2014	56,532	3,766	24,133	14,731	1,151	100,313
Cost						
At 1 April 2012	70,651	8,035	127,086	64,830	1,599	272,201
Additions	85,851	3,448	13,910	15,359	800	119,368
Disposals	(55,386)	(4,051)	(2,580)	(6,035)	-	(68,052)
At 31 March 2013	101,116	7,432	138,416	74,154	2,399	323,517
Accumulated depreciation						
At 1 April 2012	58,655	6,025	102,743	54,127	1,293	222,843
Charge for the year	21,970	1,624	19,357	12,216	353	55,520
Written back on disposals	(55,062)	(3,799)	(2,580)	(6,030)	-	(67,471)
At 31 March 2013	25,563	3,850	119,520	60,313	1,646	210,892
Net book value						
At 31 March 2013	75,553	3,582	18,896	13,841	753	112,625

Notes to the consolidated financial statements

For the year ended 31 March 2014
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11. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2014 ranged from 0.2% to 2.98% (2013: 0.3% to 1.22%). These balances mature within one year as at both 31 March 2014 and 31 March 2013.

Reconciliation with the consolidated statement of financial position

	2014 \$'000	2013 \$'000
Cash at bank and in hand	6,852	2,909
Fixed and call deposits with banks	4,313,927	1,602,208
Amounts shown in the consolidated statement of financial position	4,320,779	1,605,117
Less: Amounts with an original maturity of beyond three months	(49,832)	-
Cash and cash equivalents in the consolidated statement of cash flows	4,270,947	1,605,117

12. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an issued share capital of \$2 and 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. All of the three companies are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities 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.

All of the three companies are wholly owned subsidiaries of the SFC. As at 31 March 2014, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2 (2013: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2014 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

13. 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 comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of the lease expense.

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$118,862,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2013: \$128,913,000). 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 2014 and 2013.

Notes to the consolidated financial statements

For the year ended 31 March 2014
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15. 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. 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. The SFC manages its funding requirements from its income and accumulated surplus.

16. Capital commitments

Capital commitments outstanding as at 31 March 2014 not provided for in the financial statements were as follows:

	2014 \$'000	2013 \$'000
Authorised and contracted for	24,537	37,733
Authorised but not contracted for	66,652	50,084

17. Commitment to pay rents for offices

At 31 March 2014 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017, being the rent review date as set out in the lease agreement, are as follows:

	The Group and the SFC	
	2014 \$'000	2013 \$'000
Payable next year	185,453	183,148
Payable in one to five years	447,334	617,143
Payable in more than five years	-	-
	632,787	800,291

During the year ended 31 March 2014, \$178,432,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2013: \$167,471,000).

18. 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, \$4,990,000 was recovered from the ICF for the ICC's expenses (2013: \$4,869,000). As at 31 March 2014, the amount due to the ICF from the ICC was \$304,000 (as at 31 March 2013: \$291,000).

(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.

Notes to the consolidated financial statements

For the year ended 31 March 2014
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18. Related party transactions (cont'd)

(c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount absorbed for the year was \$22,000 (2013: \$27,000) including the provision for audit fee of \$12,200 (2013: \$11,650).

(d) Legal services provided by other related parties

Prior to the appointment of a Non-Executive Director, the Group engaged him to provide legal services in respect of a number of matters. He continued to provide services in respect of matters commenced prior to his appointment. During the year, fees paid to him for such services amounted to \$613,000 (2013: \$391,000) under normal commercial terms and conditions.

19. Financial risk management

Financial instruments of the Group comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held-to-maturity and other financial liabilities.

The main financial risks of the Group arise from its investments in held-to-maturity debt securities. The Group confers upon its Executive Directors the power to act upon the advice received from an external investment adviser 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 Executive Directors report thereon to the Group on a regular basis.

(a) Credit risk

The Group's credit risk is primarily attributable to debt security investments and deposits with banks. 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 US Treasury. 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.

(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 2014, 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 \$52,468,000 (2013: \$30,458,000). As at 31 March 2014 the average duration of the Group's investment portfolio was 1.06 years (as at 31 March 2013: 1.28 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 2013.

Notes to the consolidated financial statements

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19. Financial risk management (cont'd)

(c) Exchange rate risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, United States 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 United States 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) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2014 and 2013 except for held-to-maturity debt securities as disclosed in note 9. 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 values for unlisted debt investments are based on third party quotes.

20. 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 2014, the ICF's maximum liability in respect of claims received was \$2,358,000 and the net asset value was \$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 2014, the UECF's maximum liability in respect of claims received was \$10,253,000 and the net asset value was \$62,894,000. There was no outstanding claims against the SDD, CDD and SMF as at 31 March 2014. 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. The related party relationships with these entities are disclosed in note 18 of these financial statements.

21. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 9, <i>Financial instruments</i>	1 January 2018

We are 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 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 2014.

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 surplus of the Fund for the financial year ended 31 March 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 104 to 117.

Members of the Committee

The members of the Committee during the year ended 31 March 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	
Mr Chan Ping Keung	(appointed on 1 April 2014)
Mr Tai Chi Kin	(retired on 31 March 2014)

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.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Keith Lui

Chairman

30 May 2014

Independent auditor's report to the Securities and Futures Commission

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 104 to 117, which comprise the statement of financial position as at 31 March 2014 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 (the SFC) to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 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 state of the Fund's affairs as at 31 March 2014 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

30 May 2014

Statement of comprehensive income

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Income			
Net investment income	5	18,548	107,297
Exchange difference		(1,022)	9
Recoveries		29	-
		17,555	107,306
Expenses			
Investor Compensation Company Limited expenses	7	4,990	4,869
Auditor's remuneration		113	108
Bank charges		845	815
Professional fees		3,671	3,589
		9,619	9,381
Surplus and total comprehensive income for the year		7,936	97,925

The notes on pages 108 to 117 form part of these financial statements.

Statement of financial position

At 31 March 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
- Debt securities	9	1,680,755	1,707,975
- Pooled fund	9	284,131	286,653
Interest receivable		13,705	14,350
Due from Investor Compensation Company Limited		304	292
Fixed and call deposits with banks	10	180,533	169,130
Cash at bank	10	43,126	16,525
		2,202,554	2,194,925
Current liabilities			
Provision for compensation	8	150	150
Creditors and accrued charges		1,358	1,665
		1,508	1,815
Net current assets		2,201,046	2,193,110
Net assets		2,201,046	2,193,110
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		1,097,405	1,089,469
		2,201,046	2,193,110

Approved and authorised for issue by the Securities and Futures Commission on 30 May 2014 and signed on its behalf by

Carlson Tong
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 108 to 117 form part of these financial statements.

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2014
(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 2012	994,718	108,923	991,544	2,095,185
Total comprehensive income for the year	-	-	97,925	97,925
Balance at 31 March 2013 and 1 April 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive income for the year	-	-	7,936	7,936
Balance at 31 March 2014	994,718	108,923	1,097,405	2,201,046

The notes on pages 108 to 117 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Cash flows from operating activities		
Surplus for the year	7,936	97,925
Net investment income	(18,548)	(107,297)
Exchange difference	1,022	(9)
Increase in amount due from Investor Compensation Company Limited	(12)	(207)
(Decrease)/increase in creditors and accrued charges	(307)	655
Net cash used in operating activities	(9,909)	(8,933)
Cash flows from investing activities		
Debt securities purchased	(664,319)	(801,834)
Debt securities sold or redeemed	662,164	759,248
Equity securities sold	1,682	932
Interest received	48,386	55,751
Net cash generated from investing activities	47,913	14,097
Net increase in cash and cash equivalents	38,004	5,164
Cash and cash equivalents at beginning of the year	185,655	180,491
Cash and cash equivalents at end of the year	223,659	185,655

Analysis of the balance of cash and cash equivalents

	2014 \$'000	2013 \$'000
Fixed and call deposits with banks	180,533	169,130
Cash at bank	43,126	16,525
	223,659	185,655

Notes to the financial statements

For the year ended 31 March 2014
(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 or registered with the Securities and Futures Commission (the 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. 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 the 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

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs 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 2014
(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 IFRSs which requires 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 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 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 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 comprehensive income.

Notes to the financial statements

For the year ended 31 March 2014
(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 income statement through an allowance account.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with banks and other financial institutions.

(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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(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.

(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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(l) Related parties (cont'd)

- (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).

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 IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Fund. Of these, the following development is relevant to the Fund's financial statements:

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Fund, the Fund has provided those disclosures in note 13.

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.

5. Net investment income

	2014 \$'000	2013 \$'000
Interest income from bank deposits	177	392
Interest income on financial assets designated at fair value through profit or loss	40,713	43,951
Realised gain/(loss) on disposal of equity securities	24	(1)
Realised loss on redemption/disposal of debt securities	(3,155)	(3,060)
(Loss)/gain on revaluation of equity securities	(642)	55,273
(Loss)/gain on revaluation of debt securities	(18,569)	10,742
Net investment income	18,548	107,297

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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

7. ICC expenses

The SFC formed 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 ICC. For the year ended 31 March 2014, ICC incurred costs of \$4,990,000 for its operations (2013: \$4,869,000) which were reimbursed by the Fund.

8. Provision for compensation

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at \$150,000 per claimant. The provision for compensation at 31 March 2014 was \$150,000 (31 March 2013: \$150,000). As at 31 March 2014, all provisions were expected to be paid within one year.

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

	2014 \$'000	2013 \$'000
(a) Debt securities		
(i) Listing status		
Listed - outside Hong Kong at quoted market prices	442,660	414,569
Listed - outside Hong Kong based on valuation techniques	89,440	126,329
Listed - in Hong Kong at quoted market prices	349,693	262,227
Listed - in Hong Kong based on valuation techniques	24,578	-
Unlisted	774,384	904,850
	1,680,755	1,707,975
(ii) Maturity profile		
Within one year	412,745	482,050
After one year but within two years	416,561	363,765
After two years but within five years	727,641	721,216
After five years	123,808	140,944
	1,680,755	1,707,975
(iii) The weighted average effective interest rate of debt securities on 31 March 2014 was 1.7% (2013: 1.3%).		
(b) Pooled fund - Unlisted	284,131	286,653

The pooled fund comprises mainly listed equity securities.

Notes to the financial statements

For the year ended 31 March 2014
(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 2014 ranged from 0.06% to 1.2% (2013: 0.04% to 0.9%). The balances of deposits at both 31 March 2014 and 31 March 2013 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 2014, the SFC had \$994,718,000 (2013: \$994,718,000) and \$108,923,000 (2013: \$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. During the year, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2013 (refer to notes 7 & 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 specified multilateral agencies rated AAA by Moody's or Standard & Poor's 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.

(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 repayable 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 2.5 years within its debt securities portfolio. As at 31 March 2014 the duration was 1.96 years (31 March 2013: 2.02 years).

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

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

(c) Interest rate risk (cont'd)

At 31 March 2014, 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 \$36,359,000 (2013: \$37,850,000). Further, at 31 March 2014, 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 \$4,294,000 (2013: \$4,392,000). Other components of the accumulated surplus would not be affected (2013: 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 2013.

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the Hong Kong dollar is pegged with the US dollar, 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 19.1% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$57,110,000 (2013: a general increase/decrease of 15.1% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$38,698,000).

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 2013.

(f) Fair values of financial instruments

The following table 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 IFRS 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

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

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

(f) Fair values of financial instruments (cont'd)

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2014 and 31 March 2013.

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined 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.

	2014			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
- Listed	792,353	114,018	-	906,371
- Unlisted	387,245	387,139	-	774,384
Pooled fund				
- Unlisted	284,131	-	-	284,131
	1,463,729	501,157	-	1,964,886
	2013			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
- Listed	676,796	126,329	-	803,125
- Unlisted	379,900	524,950	-	904,850
Pooled fund				
- Unlisted	286,653	-	-	286,653
	1,343,349	651,279	-	1,994,628

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 2014
(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 \$2,208,000 (2013: \$957,000). 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 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, <i>Financial instruments</i> :	
<i>Presentation - Offsetting financial assets and financial liabilities</i>	1 January 2014
IFRS 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.

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 2014.

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 2014, the Fund has transferred HK\$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

Financial statements

The surplus of the Fund for the financial year ended 31 March 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 120 to 130.

Members of the Committee

The members of the Committee during the year ended 31 March 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam	
Mr Chow Ka Ming, Anderson, SC	
Mr Chan Ping Keung	(appointed on 1 April 2014)
Ms Mak Po Shuen	(appointed on 1 April 2014)
Mr Lo Wai Keung, David	(retired on 31 March 2014)
Mr Tai Chi Kin	(retired on 31 March 2014)

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.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Keith Lui
Chairman

19 May 2014

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 120 to 130, which comprise the statement of financial position as at 31 March 2014 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 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 state of the Fund's affairs as at 31 March 2014 and of its surplus and cash flows for the year then ended in accordance with International 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

19 May 2014

Statement of comprehensive income

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Income			
Interest income		465	578
Recoveries	5	-	(1)
		465	577
Expenses			
Auditor's remuneration		47	45
Professional fees		16	15
Sundry expenses		1	1
		64	61
Surplus and total comprehensive income for the year		401	516

The notes on pages 124 to 130 form part of these financial statements.

Statement of financial position

At 31 March 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		58	46
Fixed and call deposits with banks		74,562	73,939
Cash at bank		24	456
		74,645	74,442
Current liabilities			
Creditors and accrued charges	6	10,301	10,299
Relinquished trading rights payable to SEHK	7	1,450	-
		11,751	10,299
Net current assets		62,894	64,143
Net assets		62,894	64,143
Representing:			
Compensation fund			
Contributions from SEHK	7	48,750	50,400
Excess transaction levy from SEHK	9	353,787	353,787
Special contribution	10	3,500	3,500
Additional contribution from SEHK	11	300,000	300,000
Additional contribution from the SFC	11	330,000	330,000
Special levy surplus	12	3,002	3,002
Accumulated surplus		18,573	18,172
		1,057,612	1,058,861
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		62,894	64,143

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 19 May 2014 and signed on its behalf by

Keith Lui
Chairman

Chan Ping Keung
Committee Member

The notes on pages 124 to 130 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Compensation Fund balance as at 1 April	64,143	62,727
Net contributions (to)/from SEHK	(1,650)	900
Total comprehensive income for the year	401	516
Compensation Fund balance as at 31 March	62,894	64,143

The notes on pages 124 to 130 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Cash flows from operating activities		
Surplus for the year	401	516
Interest income	(465)	(578)
Increase in creditors and accrued charges	2	2
Increase in relinquished trading rights payable to SEHK	1,450	-
Net cash generated from/(used in) operating activities	1,388	(60)
Cash flows from investing activities		
Interest received	453	635
Net cash generated from investing activities	453	635
Cash flows from financing activities		
Net contributions (to)/from SEHK	(1,650)	900
Net cash (used in)/generated from financing activities	(1,650)	900
Net increase in cash and cash equivalents	191	1,475
Cash and cash equivalents at beginning of the year	74,395	72,920
Cash and cash equivalents at end of the year	74,586	74,395

Analysis of the balance of cash and cash equivalents

	2014 \$'000	2013 \$'000
Fixed and call deposits with banks	74,562	73,939
Cash at bank	24	456
	74,586	74,395

Notes to the financial statements

For the year ended 31 March 2014
(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 (the 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 deposits received from SEHK (2013: 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 2014
(Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs 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 break-up basis with assets stated at recoverable amounts. 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 has 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 IFRSs which requires 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 2014
(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 income statement through an allowance account.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

- (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).

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 IASB has issued several amendments to IFRSs 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 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 sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2014 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 IAS 39, *Financial Instruments: Recognition and Measurement*. According to International Financial Reporting Standards (IFRSs) 7, *Financial Instruments: disclosures*, one of these subrogated shares shall be classified as level 3 financial instruments as its fair value was determined using a valuation technique in which any significant input is not based on observable market data. The remaining 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".

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 IAS 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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

7. Contributions from 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 \$700,000 in respect of 14 new trading rights were received from SEHK and deposits of \$900,000 in respect of 18 relinquished trading rights were refunded to SEHK. As at 31 March 2014, there are 29 trading rights in total that have been relinquished but not yet refunded.

The movement of contributions from SEHK during the year was as follows:

	2014 \$'000	2013 \$'000
Balance brought forward	50,400	49,500
Add: 14 new trading rights issued (2013: 23)	700	1,150
Less: 18 relinquished trading rights refunded (2013: 5)	(900)	(250)
Less: 29 relinquished trading rights payable to SEHK (2013: 0)	(1,450)	-
Balance carried forward	48,750	50,400

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.

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.

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 2014 amounted to \$994,718,000 (2013: \$994,718,000).

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

14. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. During the year, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2013.

Other components of accumulated surplus would not be affected (2013: 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.

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 2014, 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 \$746,000 (2013: \$739,000).

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 Standard & Poor's 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.

Up to 31 March 2014, SEHK has 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:

	2014 \$'000	2013 \$'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.

Notes to the financial statements

For the year ended 31 March 2014
(Expressed in Hong Kong dollars)

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements.

Effective for accounting periods beginning on or after	
IFRS 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 funds¹ – by type

	Number	%	Total NAV ² (US\$ million)	%
Bond	355	20.53	471,483	36.55
Equity	976	56.45	596,080	46.22
Diversified	91	5.26	71,280	5.53
Money market	46	2.66	44,109	3.42
Fund of funds	91	5.26	16,506	1.28
Index	140	8.10	85,735	6.65
Guaranteed	12	0.70	430	0.03
Hedge	3	0.17	248	0.02
Other specialised ³	15	0.87	3,805	0.30
Sub-total	1,729	100	1,289,676	100
Umbrella structures	206			
Number of authorized funds	1,935			

¹ Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

² Net asset value (NAV) as of 31 December 2013.

³ Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 2 Authorized unit trusts and mutual funds¹ – by origin

	Umbrella funds	Sub-funds	Single funds	Total	%	Total NAV ² (US\$ million)	%
Hong Kong	91	311	67	469	24.24	97,565	7.57
Luxembourg	49	920	0	969	50.08	866,785	67.21
Ireland	33	249	2	284	14.68	214,374	16.62
Guernsey	1	0	0	1	0.05	0	0
United Kingdom	5	42	5	52	2.69	56,209	4.36
Other Europe	0	0	0	0	0	0	0
Bermuda	2	3	1	6	0.31	525	0.04
British Virgin Islands	0	0	0	0	0	0	0
Cayman Islands	25	92	29	146	7.54	13,024	1.01
Others	0	0	8	8	0.41	41,194	3.19
Number of authorized funds	206	1,617	112	1,935	100	1,289,676	100

¹ Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

² Net asset value as of 31 December 2013 (excluding umbrella funds).

Breakdown of SFC activity data

Table 3 Unlisted structured investment products: Authorization of offer and marketing documents

	2013/14	2012/13	2011/12
Unlisted structured investment products ¹ authorized	119	120	85
Authorizations granted under section 105 of the SFO ²	94	113	141

¹ Comprising mostly equity-linked investments and equity-linked deposits. The power for the SFC to authorize unlisted structured investment products under the SFO came into effect on 13 May 2011. The number is on a "one product per key facts statement" basis.

² Comprising offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Table 4 Takeovers activities

	2013/14	2012/13	2011/12
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under the Code on Takeovers and Mergers	33	24	29
Privatisations	4	7	9
Whitewash waiver applications	39	29	31
Other applications under the Code on Takeovers and Mergers	203	175	209
Off-market and general offer share buy-backs	5	6	2
Other applications under the Code on Share Buy-backs	6	10	3
Total	290	251	283
Executive Statements			
Sanctions imposed with parties' agreement ¹	1	1	2
Takeovers and Mergers Panel			
Meetings for review of the Codes on Takeovers and Mergers and Share Buy-backs	0	0	3
Hearings before the Panel (disciplinary and non-disciplinary)	1	2	2
Statements issued by the Panel ²	0	2	2

¹ Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

² Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 5 Breaches noted during on-site inspections

Nature of Breaches

	2013/14	2012/13	2011/12
Failure to comply with Securities and Futures (Financial Resources) Rules	15	19	13
Failure to safekeep client securities	33	14	9
Failure to maintain proper books and records	11	23	9
Failure to safekeep client money	26	15	18
Unlicensed dealing and other registration issues	8	8	2
Breach of licensing condition	1	2	6
Breach of requirements of contract notes/statements of account/receipts	47	18	17
Failure to make filing/notification	3	0	1
Breach of margin requirements	5	5	2
Marketing malpractices	1	0	1
Illegal short selling of securities	6	7	1
Dealing malpractices	0	0	2
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	226	121	80
Breach of Corporate Finance Adviser Code of Conduct	28	12	1
Breach of Fund Manager Code of Conduct	22	17	20
Breach of regulation of on-line trading	88	0	0
Non-compliance with anti-money laundering guidelines	88	13	102
Breach of other rules and regulations of the Exchanges ¹	11	14	5
Breach of other rules and regulations of the MPFA ²	2	0	0
Internal control weaknesses	342	184	93
Others	113	69	54
Total	1,076	541	436

¹ Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

² Mandatory Provident Fund Schemes Authority.

Table 6 Successful prosecutions

Insider dealing

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
CHUI Wing Nin ¹	30.1.2014	612,000; 9 months' imprisonment and disqualified from being a director in Hong Kong for 3 years	228,469

¹ Chui was convicted on 26 October 2012 after pleading not guilty to the same charges. The convictions were set aside on appeal and the Court of First Instance ordered a re-trial. On 30 January 2014, Chui pleaded guilty to those charges.

Breakdown of SFC activity data

Table 6 Successful prosecutions (cont'd)

Market manipulation

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
AU Wai Lok	8.8.2013	100 hours' community service running concurrently	14,288
LEE Lam Chong, Andrew	25.4.2013	67,000 and 1 month's imprisonment suspended for 12 months	27,658
YENN Man Han, Stephen	19.4.2013	560,000 and 3 months' imprisonment suspended for 3 years	32,879
PAK Wing Yiu	28.11.2013	180,000 and 60 hours' community service	72,810
Total: 4 cases		807,000	147,635

Unauthorized activities¹

Defendant	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
MUI Kwong Yin, Gordon	24.10.2013	3 months' imprisonment suspended for 1 year	31,601

¹ Cases where fines were below \$10,000 are not shown here.

Provision of false or misleading statements¹

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
PME Group Limited	5.8.2013	60,000	45,459

¹ Cases where fines were below \$10,000 are not shown here.

Unlawful short selling¹

Defendant	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
CHAN Chi Yuen	31.10.2013	57,200	20,772

¹ Cases where fines were below \$10,000 are not shown here.

Disclosure of interest¹

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
SIT Bun	27.6.2013	14,000	14,783
GUU Herng Chang	25.4.2013	90,000	33,075
Joint Fortune Group Limited	26.9.2013	40,000	4,072
CHANG Chiang Sen	26.9.2013	40,000	4,072
Total: 4 entities		253,200	56,002

¹ Cases where fines were below \$10,000 are not shown here.

Table 6 Successful prosecutions (cont'd)

Provision of false/misleading information to investigator

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
NG Kai Chak	13.2.2014	16,000	33,378

Table 7 Most significant disciplinary actions

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
CHEUNG Shi Gaii	8.4.2013	Trading with a concealed securities account and other conduct	Suspended for 30 months and fined \$500,000
China Everbright Securities (HK) Limited and CHAN Kam Hop	11.4.2013	China Everbright - internal control and supervisory failures Chan - supervisory and managerial failures	China Everbright - reprimanded and fined \$1.2 million Chan - reprimanded and fined \$400,000
Sun Hung Kai Investment Services Limited	22.4.2013	Internal control failures relating to an erroneous buy order	Reprimanded and fined \$1.5 million
CHOW Chun Tung	24.4.2013	Operated 33 clients' accounts on a discretionary basis without any written authorization from the clients and other conduct	Banned for 5 years
MA Tin Luk	29.4.2013	Fabricated telephone order recordings and provided false and misleading information to the SFC	Banned for 3 years
ZENG Huiyu	7.5.2013	Conducted highly suspicious shares trading in Nexen Inc.	Revoked licence and banned for 5 years
PAU Chin Hung, Andy	7.5.2013	Assisted a third party to open three nominee securities trading accounts for shares disposal and other conduct	Banned for 10 years
LAM Ka Wo	20.5.2013	Permitted a third party, without proper authorization, to open and operate a customer account in the name of another person and other conduct	Suspended for 3 years
UBS Securities Hong Kong Limited	21.5.2013	Regulatory breaches and internal control failings relating to position limit failures	Reprimanded and fined \$1.6 million
Christian DENK	21.5.2013	Trading of HSBC shares in the closing auction session	SFAT allowed the application for review
CHOW Ho Kuen, Alex	28.5.2013	Convicted of six counts of theft, six counts of fraud and three counts of dealing with property known or believed to represent proceeds of an indictable offence	Banned for life
Credit Suisse Securities (Hong Kong) Limited	11.6.2013	Regulatory breaches and internal control failings relating to position limit failures	Reprimanded and fined \$1.6 million
NG Man Chow, Michelle	18.6.2013	Misappropriated client's monies and other conduct	Banned for life
MOK Kin Hung	8.7.2013	Convicted of one count of theft	Banned for life

¹ The Securities and Futures Appeals Tribunal.

Breakdown of SFC activity data

Table 7 Most significant disciplinary actions (cont'd)

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
A One Investment Company Limited and Alysia Ann LEE	29.7.2013	Internal control failures relating to the unauthorized sale of client securities and the unauthorized transfer of more than \$7 million in client funds	A One – reprimanded and fined \$1.2 million Lee – suspended her approval to act as responsible officer for 8 months and suspended her licence for 8 months
CHING Yim Har	14.8.2013	Conducted transactions in a client's account on a discretionary basis without written authorization and other conduct	Suspended for 3 years
China Securities Holdings Limited and Stephanie LIU Suk Wai	15.8.2013	Serious deficiencies in order record keeping, employment of unlicensed dealing staff, and supervision of its dealing functions	China Securities – reprimanded and fined \$1.3 million Liu – banned for 27 months
Sun On Tat Securities Company Limited and KWONG Suk Yee	5.9.2013	Sun On Tat – internal control failings Kwong – managerial and supervisory failures	Sun On Tat – reprimanded and fined \$1.6 million Kwong – reprimanded and fined \$200,000
LAW Kwan Ming	26.9.2013	Failed to make and keep a proper record of orders received by mobile phone	Reprimand and fined \$50,000
CHAN Ka Chun	10.10.2013	Conviction of one count of conspiracy to make false instruments	Banned for life
CHO Yu Kwan, Stephen and JU You Li	25.11.2013	The duo allowed their personal bank accounts to be used for transferring funds for Mainland-based clients and other conduct	Cho – suspended for 3 years Ju – reprimanded and fined \$100,000
TANG Wai Chun	5.12.2013	Non-compliance with order recording requirements	Reprimanded and fined \$40,000
KWAN Hung Kei	12.12.2013	Convicted of one count of theft	Banned for life
KIU Koon Yee, Ivy	17.12.2013	Convicted of six counts of theft and two counts of dealing with property known or reasonably believed to represent proceeds of an indictable offence	Banned for life
HSBC Securities Brokers (Asia) Limited	19.12.2013	Provided inaccurate information to the SFC during a licence application process	Reprimanded and fined \$5 million
Cheong Lee Securities Limited	9.1.2014	Internal control failures relating to self-matching transactions	Reprimanded and fined \$2 million
Sun Hung Kai International Limited	27.1.2014	Serious deficiencies in the sponsor work relating to the listing of Sino-Life Group Limited on the Growth Enterprise Market	SFAT affirmed the SFC's decision to reprimand, fine \$12 million, and suspend its licence to provide advisory service on corporate finance for one year
LO Hoi Luen	6.2.2014	Convicted of 30 counts of forgery	Banned for life
YENN Man Han, Stephen	10.2.2014	Convicted of one count of false trading	Banned for life
TO Ka Kit	19.2.2014	Convicted of one count of copying a false instrument	Banned for 3 years
LUM Yin Ling	21.2.2014	Convicted of one count of fraud	Banned for life
YAN Cheuk Fung, Jonathan	24.2.2014	Convicted of six counts of using a document with intent to deceive his principal	Banned for life
CHOI Yuet Yan	25.2.2014	Convicted of seven counts of using false instruments and dealing with property believed to be proceeds of crime	Banned for life
CHAK Tsz Hoi	4.3.2014	Convicted of 23 counts of obtaining access to a computer with dishonest intent	Banned for life

¹ The Securities and Futures Appeals Tribunal.

Table 8 Other enforcement actions

	2013/14	2012/13	2011/12
S179 ¹ enquiries commenced	23	16	23
S181 ² enquiries commenced (number of letters sent)	220 (5,711)	176 (5,130)	175 (4,034)
S182 ³ directions issued	346	302	296
Show cause letters issued	0	1	1
Rule 8 ⁴ directions issued	1	1	1
Cases with search warrants executed	59	40	15
Compliance advice letters issued	336	330	240
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Persons summonsed (summons laid)	0 (0)	0 (0)	3 (12)
Persons involved in ongoing civil proceedings	12	17	21
Persons involved in ongoing MMT proceedings ⁵	8 ⁶	0	4
(b) Market manipulation			
Persons summonsed (summons laid)	5 (36)	3 (8)	3 (10)
Persons involved in ongoing civil proceedings	4	4	4
Persons involved in ongoing MMT proceedings ⁵	5	0	7
(c) Others			
Persons summonsed (summons laid)	32 (190)	30 (108)	32 (185)
Persons involved in ongoing civil proceedings	53	38	32
Persons involved in ongoing MMT proceedings ⁵	0	0	0
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁷ issued	55	43	39
Notices of Decision ⁸ issued (including S201 ⁹ agreement)	51	36	38
SFAT hearings			
Applications to SFAT	7	3	0
Applications/hearings completed	6	1	8

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, etc.

⁴ A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing 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 The cases were referred to the MMT by the Financial Secretary.

⁶ 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.

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 9 Comparison with overseas regulatory agencies

It is difficult to obtain detailed data, in a consistent format, for sensible comparison of key performance measures with other regulators and this is complicated further by the different mandates which each of these regulators have. Nevertheless, we have set out in this table some key data relating to the size of certain other regulators for the interest of readers.

All foreign currency amounts have been translated into Hong Kong dollars with the exchange rate on 31 March of each of the three years.

	2013/14	2012/13	2011/12
SFC (year ended on 31 March)¹			
Number of staff	753	668	611
Total expenditure (\$ million)	1,339	1,184	902
US Securities and Exchange Commission (SEC) (year ended on 30 September)²			
Number of staff	4,221 ³	4,203 ⁴	3,770
Total expenditure (\$ million)	11,354 ³	9,906 ⁴	9,161
UK Financial Conduct Authority (FCA) (year ended on 31 March)⁵			
Number of staff	2,848 ⁶	3,596 ⁷	3,502
Total expenditure (\$ million)	6,074 ⁶	6,729 ⁷	6,356
Australian Securities and Investments Commission (ASIC) (year ended on 30 June)⁸			
Number of staff	–	1,884 ⁹	1,738
Total expenditure (\$ million)	–	3,333 ⁹	3,108

¹ The SFC is an independent non-governmental statutory body funded mainly by a market levy and is responsible for regulating the securities and futures markets in Hong Kong.

² The US SEC is an independent, non-partisan, quasi-judicial regulatory government agency with responsibility for administering the federal securities laws.

³ Enacted figures extracted from FY2015 Congressional Budget Justification.

⁴ Actual figures extracted from FY2015 Congressional Budget Justification.

⁵ The Financial Services Act 2012 set out the new regulatory system for the UK. It created two new bodies – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which replaced the Financial Services Authority (FSA) on 1 April 2013. The PRA sits within the Bank of England and is responsible for promoting the safety and soundness of deposit-taking firms, insurers and systemically important investment firms. The FCA is an independent non-governmental body funded by the firms it regulates. The FCA is responsible for ensuring the well functioning of relevant markets and for the conduct supervision of financial services firms. Comparison in this table is made to the FCA for 2013/14 and to the FSA for 2012/13 and before.

⁶ Budget figures extracted from FCA Business Plan 2013/14.

⁷ Actual figures extracted from FSA Annual Report 2012/13.

⁸ The ASIC is an independent Commonwealth government body which enforces and regulates company and financial services laws to protect consumers, investors and creditors.

⁹ Actual figures extracted from ASIC Annual Report 2012/13.

Table 10 Stock market

	2013/14	2012/13	2011/12
Number of listed companies on the Stock Exchange	1,666	1,557	1,510
Main Board	1,471	1,378	1,337
Growth Enterprise Market	195	179	173
Market capitalisation (\$ billion)	23,064.8	21,953.2	19,775.3
Main Board	22,892	21,865.9	19,690.7
Growth Enterprise Market	172.8	87.3	84.6
Average daily market turnover (\$ million)	61,158.7	56,454.1	66,543.1
Main Board	60,629	56,316.6	66,328.5
Growth Enterprise Market	529.7	137.5	214.6

Table 11 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2013	As at 31.12.2012	As at 31.12.2011
Securities dealers and securities margin financiers	927	907	856
Active cash clients ²	1,079,550	1,045,751	1,042,151
Active margin clients ²	150,545	139,375	135,201
Active clients (+4%)	1,230,095	1,185,126	1,177,352
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	286,388	269,912	294,981
Amounts receivable from margin clients ⁴	85,794	58,812	50,171
Amounts receivable from clients and other dealers arising from dealing in securities	146,898	149,865	99,286
Proprietary positions	189,300	175,191	114,284
Other assets	176,858	169,357	142,096
Total assets (+8%)	885,238	823,137	700,818
Amounts payable to clients and other dealers arising from dealing in securities	366,299	349,854	252,342
Total borrowings from financial institutions	67,358	85,348	61,430
Short positions held for own account	101,044	64,444	62,492
Other liabilities	109,737	97,878	96,764
Total shareholders' funds	240,800	225,613	227,790
Total liabilities and shareholders' funds (+8%)	885,238	823,137	700,818
	12 months to 31.12.2013 (\$ million)	12 months to 31.12.2012 (\$ million)	12 months to 31.12.2011 (\$ million)
Profit and loss			
Total value of transactions ⁵	53,538,483	47,658,360	57,159,686
Net securities commission income	20,096	18,331	25,953
Gross interest income	7,666	7,213	6,399
Other income ⁶	86,107	76,829	77,524
Total operating income (+11%)	113,869	102,373	109,876
Total overheads and interest expense	105,746	102,783	103,764
Total operating profit (+2,081%)	8,123	(410)	6,112
Net profit on proprietary trading	8,579	8,050	3,671
Net profit for the period (+119%)	16,702	7,640	9,783

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 from these computations.

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 \$144,068 million (31.12.2012: \$127,378 million).

⁴ As at 31.12.2013, the average collateral coverage was 3.9 times (as at 31.12.2012: 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 Other income comprises 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. This section relates the responsibilities and memberships of these committees and panels. For information on the Audit Committee, Budget Committee, Investment Committee, Remuneration Committee and Executive Committee, see our discussion in the Corporate Governance chapter on pages 7-24.

SFC Committees

Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
TONG Carlson, JP	
Members	
ALDER Ashley Ian	LI Brian David Man Bun
Dr AU, King-lun, MH (from 1.6.2013)	Dr LIN Yong
CHEONG, Ying Chew Henry	LEUNG, Margaret, JP (to 31.5.2013)
CHEUNG Katherine Marn Kay (to 31.5.2013)	LO Peter Chi Wai
CHEW Fook Aun (to 31.5.2013)	SHIPMAN, Mark Graham (from 1.6.2013)
CHRISTIANSON, Sun Wei (from 1.6.2013)	TSANG Frederick Sui Cheong
DUHAMEL, Vincent (from 1.6.2013)	WINTER Richard David (from 1.6.2013)
EU Andrew Douglas (to 31.5.2013)	WONG, Anna Wai-kwan
GRAHAM, David (from 1.6.2013)	WU Thomas Jefferson (to 31.5.2013)
LAM CHEUNG, Alexa, JP	
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.

During the year, the Committee met once to consider a number of matters, including an application for approval as a recognised institution for providing continuous professional training and the launch of two licensing examination papers by the Hong Kong Securities and Investment Institute for the enhanced sponsor regulatory regime.

Chairman	
TISDALL Stephen Clifford	
Members	
Prof CHAN Chi Fai, Andrew, SBS, JP	Dr MAK Sui Choi, Billy
CHOW Yuen Yee	PICKERELL Blair Chilton
KEE Nicholas Min Kwan	SO Yuk Sing, Christine
Prof LAU Hing Ling, Amy	YUEN Ho Duen, Judith
Prof LUI Ting Ming, Francis	
Secretary	
TUNG Ka Shun, Sam	
Number of meetings: 1	Average attendance rate: 90%

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 discuss the proposed amendments to the Code on Real Estate Investment Trusts to allow for greater flexibility in the investment scope of REITs.

Chairman	
LAM CHEUNG, Alexa, JP	
Members	
CHAN Duen, Grace (from 22.10.2013)	LEUNG Kar Cheung, Catherine
CHENG Wai Meng, Milton	LIM Chai Geok
Prof CHENG Yu Shek, Joseph, JP	LO Chi Wai
Dr CH'EN Kuo Fung, Raymond, GBS, CBE, JP	LUI Yin Tat
CHOI Fung Yee, Christina	LYNN Sui Yuen, Robert
HO Yin Tung, Brian	MAGUIRE John Martin
KONG YAO FAH Sew Youne, Marie-Anne	NIGHTINGALE Anthony John Liddell, CMG, SBS, JP
Dr KWOK Chi Piu, Bill, JP	Prof PANG Tsan Wing, SBS
Secretary	
CHAN Duen, Grace (to 22.10.2013)	TSE Lok Min (from 23.10.2013)
Number of meetings: 1	Average attendance rate: 82.4%

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 commenced under the Codes on Takeovers and Mergers and Share Buy-backs with a member of this Committee acting as Chairman.

Members	
CHAN King Sang, Edward, SC	NG Kar Fai, Peter, SC
HO Ambrose, SC	WONG Yuk Lun, Horace, SC
LI Gladys Veronica, SC	
Number of meetings: 0	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	
CHOW Ka Ming, Anderson, SC	TAI Chi Kin
LAM CHEUNG, Alexa, JP	
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 Nominations Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

Ex-officio Members	
ALDER Ashley Ian (Chairman)	HO Yin Tung, Brian
CLARK Stephen Edward	
Members	
CHOW Ka Ming, Anderson, SC	TONG Carlson, JP
Alternate members to CLARK Stephen Edward	
CHAN Yuk Sing, Freeman	MAGUIRE John Martin
KO, Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
Number of meetings: 1	Average attendance rate: 80%

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 strategies and major initiatives for further development of Hong Kong as an asset management centre.

Chairman	
LAM CHEUNG, Alexa, JP	
Members	
CHAN Duen, Grace (from 14.6.2013)	LUK Kin Yu, Peter
CHAN King Cheung, BBS	LUO Jiabin
Prof CHEUNG Yan Leung, Stephen, BBS, JP	MAHOMED Ferheen
CHOI Fung Yee, Christina	MASSEY LI Susan Hong
CHOW Ka Leung, Louis	McSHANE Darren Mark
DEBRUYNE Lieven M.O.	MURRAY Alastair Elliot
FUNG Hau Chung, Andrew, JP	NORONHA Virginia
FUNG Ka Shing, Bernard	NOYES Keith Samuel
GOOD Nicholas Michael Whateley	RICHARDSON David Alexander
HSU David	SHIU Barbara
HUI Mei Ying	STEEL Roger David (to 14.6.2013)
LAU Ka Shi, Betsy, BBS	TSANG Jacob Chung
LEE Chi Kee, Trevor	WONG Wai Sum, Wilfred
LEE Siu Chuen (from 14.6.2013)	WONG Wan Ming, Rosa
Prof LIU Pak Wai, SBS, JP	YIP Chi Leung
Secretary	
POON Wing Yee, Loreen	
Number of meetings: 1	Average attendance rate: 72.2%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met two times and discussed a number of issues, including the new audit oversight regime and issues relating to improving the offer process.

Chairman	
HO Yin Tung, Brian	
Members	
CHAN Chi Keung, Raymond	RICE James Andrew
CHEN Yang Chung Roy	SHAH Asit Sudhir
LAU Ka Shi, Betsy, BBS	Prof SO Wai Man Raymond
PHADNIS Dhananjay Shrikrishna	van Rijn Arnout
PULLING Edward	YE Xiang
Number of meetings: 2	Average attendance rate: 68%

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 dealt with other administrative matters.

Chairman	
LUI Kei Kwong, Keith	
Members	
CHOW Ka Ming, Anderson, SC	LO Wai Keung, David
LAM CHEUNG, Alexa, JP	TAI Chi Kin
Number of meetings: 1	Average attendance rate: 100%

SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime.

During the year, the Group met once to advise on one listing application where the applicant's principal operations and assets are located in a jurisdiction with legal uncertainties.

Members	
BROWN Stephen James	KERR William Walter Raleigh (to 23.9.2013)
CHAN Yuk Sing, Freeman	LEE Carmelo Ka Sze
CLARK Stephen John	LUNG Hak Kau
HANNING Matthew Paul	WANG Elizabeth Lily Chiang
IP Koon Wing, Ernest	WECHSLER Joshua
JOHNSON Nicholas Regan	
Number of meetings: 1	Average attendance rate: 54.5%

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
ALDER Ashley Ian	PHENIX Paul Anthony
BROWN Melissa	STEWART Mark Robert
KEYES Terence Francois	TISDALL Stephen Clifford
LAM CHEUNG, Alexa, JP	YEUNG Eirene
LEE Carmelo Ka Sze	YOUNG Andrew John
LUI Kei Kwong, Keith	YU Ka Po Benita
Number of meetings: 0	Average attendance rate: N/A

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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
The Hon CHAN Kam Lam, SBS, JP (up to 14.11.2013)	MA Xuezheng, Mary (from 15.11.2013)
Prof CHENG K., Leonard, JP	TONG Carlson, JP
CHOW Ka Ming, Anderson, SC	WONG Kai Man, BBS, JP
KO, Teresa Yuk Yin, JP	Dr WONG Tin Yau, Kelvin JP, DBA, FHKIoD
LEE Kam Hung, Lawrence, JP	
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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
TANG Yuen Shun, Cynthia	
Deputy Chairman	
LIU Yun Bonn	
Members	
CHAN, Wei Ting Barbara	MA, Ka Ming Teresa
DENNY Roger Michael	WANG Elizabeth Lily Chiang
KONG YAO FAH Sew Youne, Marie-Anne	WECHSLER Joshua
KWOK Tun Ho, Chester	YUEN, Ka Fai
Number of meetings: 0	Average attendance rate: N/A

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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Committees, Panels and Tribunal

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Executive 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 (Codes) 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, two disciplinary proceedings were commenced under the Codes on Takeovers and Mergers and Share Buy-backs.

Chairman		
CLARK Stephen Edward		
Deputy Chairmen		
CHAN Yuk Sing, Freeman	MAGUIRE John Martin	
KO, Teresa Yuk Yin, JP	WEBB David Michael	
LIU Chee Ming		
Members		
BROWN Melissa	LIU Che Ning	SABINE Martin Nevil
CHARLTON Julia Frances	LIU Swee Long, Michael	SCHWILLE Mark Andrew
CHEUNG Yuk Tong	LIU Yun Bonn	SWIFT, Christopher Lee
DENNY Roger Michael	LO Kin Ching Joseph	TORTOISHELL Andrew
DESAI Kalpana	LUNG Hak Kau	VAS CHAU Lai Kun Judy
IP Koon Wing, Ernest	MA, Ka Ming Teresa	WINTER Richard David
KWOK Tun Ho, Chester	NESBITT Gavin Paul	YU Ka Po Benita
LAM Sung Lai, Edward	NORMAN David Michael	
LEE Pui Ling, Angelina, SBS, JP	NORRIS Nicholas Andrew	
Number of meetings: 1		Average attendance rate: N/A

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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Members		
BROWN Melissa	LEE Pui Ling, Angelina, SBS, JP	NORRIS Nicholas Andrew
CHAN Yuk Sing, Freeman	LIU Che Ning	SABINE Martin Nevil
CHARLTON Julia Frances	LIU Chee Ming	SCHWILLE Mark Andrew
CHEUNG Yuk Tong	LIU Swee Long, Michael	SWIFT, Christopher Lee
CLARK Stephen Edward	LIU Yun Bonn	TORTOISHELL Andrew
DENNY Roger Michael	LO Kin Ching Joseph	VAS CHAU Lai Kun Judy
DESAI Kalpana	LUNG Hak Kau	WEBB David Michael
IP Koon Wing, Ernest	MA, Ka Ming Teresa	WINTER Richard David
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin	YU Ka Po Benita
KWOK Tun Ho, Chester	NESBITT Gavin Paul	
LAM Sung Lai, Edward	NORMAN David Michael	
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.

During the year, no new cases were received and there was no outstanding case as at 31 March 2014.

Chairman	
CHAN Siu Chung, Justin	
Deputy Chairman	
LAM Yuk Kun, Lawrence	
Members	
CHAN Kang Muk, Woody	LEE Pui Shan, Rosita
LAU Cheuk Hang, Philip	

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 for 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, OBE, JP	
Members	
CHAN Kam Wing, Clement	LEE Pui Shan, Rosita
CHOW Yuen Yee	LEE Wai Wang, Robert
Prof HO Yan Ki, Richard	Dr LEUNG Mei Fun, Priscilla, JP
Dr HU Zhanghong	MAK Chi Ming, Alfred
Dr LAM Kit Lan, Cynthia	
Ex-officio Members	
LAI Ying Sie, Benedict, SBS, JP	TONG Carlson, JP

Committees, Panels and Tribunal

Securities and Futures Appeals Tribunal

Reviews a range of regulatory decisions made under the SFO by the SFC and to determine 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		
STUART-MOORE Michael, GBS		
WRIGHT Alan Raymond, SBS		
Members		
CHAN Kam Wing, Clement	HO Chiu Ping, Dennis	Prof LOW Chee Keong
CHAN Yuen Fan, Florence	Dr HU Zhanghong	MURRAY Alastair Elliot
Prof CHANG Chieh, Eric	KWAN Pak Chung, Edward	PAN San Kong, Terry
CHEONG Ying Chew, Henry	KWOK Pui Fong, Miranda	TANG Yuen Shun, Cynthia
CHEUNG Wing Han, Ivy	Dr LAM Kit Lan, Cynthia	TSANG Sui Cheong, Frederick
CHIN Vincent	LAM Sze Cay, Kevin	WONG Wai Kwan, Anna
CHU Koh Ann	LIM Wai Tin, Cynthia	YUNG Wen Yee, Wendy
CHUI Yik Chiu, Vincent	LIN C, James	
DING Chen	LIU Swee Long, Michael	

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