



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



# Annual Report 2014-15

# Our logo

The design of our current logo was introduced in 1999. Its simple and modern look was intended to project our mission of creating a fair and level playing field for all. White lines between the blocks form the outline of the Chinese character “正”, which means fairness and justice. More subtly, the grid block shape represents a solid legal framework and the parallel bars convey the idea of equal treatment. The colours were chosen to signify clarity and openness.



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## Mission Statement

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

The SFC was established in May 1989 following the enactment of the Securities and Futures Commission Ordinance, which created a regulatory framework to address local market needs. Further reviews to improve the regulatory regime were conducted after the 1997 Asian financial crisis. The Securities and Futures Ordinance (SFO) came into effect on 1 April 2003, consolidating and modernising the 10 ordinances which previously regulated Hong Kong's securities and futures markets. The SFO and its subsidiary legislation have expanded our functions and powers to allow us to function effectively as a regulator.

## Mandates

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

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



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

## Regulatory functions

Our work can be divided into five areas:

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

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

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

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

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

The accelerated opening of the Mainland economy presents unprecedented opportunities which will help Hong Kong to strengthen its position as a leading international financial centre.

– Carlson Tong



**Carlson Tong**  
Chairman

We remain firmly committed to promoting quality markets and strengthening Hong Kong's competitiveness as an international financial centre. We are, however, acutely aware that it is more critical than ever to decisively carry out our work to ensure regulation continues to underpin investor confidence in our markets.

In the years ahead, greater capital market integration with the Mainland will be a dominant theme, together with our other important connections with the global financial system. Hong Kong's role as the major hub for financial market activity linking the Mainland with the rest of the world is unique, and its future will define Hong Kong as an international financial centre.

### **A new era in the opening of China's markets**

The launch of the Shanghai-Hong Kong Stock Connect pilot programme, which allows mutual market access between the Hong Kong and Shanghai stock exchanges, was of tremendous symbolic and practical significance. For Hong Kong, it was a milestone in our development as a financial centre with major implications for our future growth and positioning. More importantly, it reflects the accelerated pace of financial reforms in mainland China as that economy moves from a focus on exports to consumption, which has profound implications for the global economy and financial system as well as for Hong Kong.

In some respects, we are now at a more crucial juncture than two decades ago when Tsingtao Brewery listed the first H shares in Hong Kong. Media attention in the early days of Stock Connect focused on daily trading volumes, but the true measure of the programme's success will be evident in the months and years ahead.

Much of what we do is related to mainland China in one way or another and many of our top policy priorities are now informed by increasing integration with the Mainland and how this affects Hong Kong as a destination for foreign capital.

– Ashley Alder

More immediately, the accelerated pace of capital market integration with the Mainland means that a large part of our work is now related to mainland China in one way or another. As always, it is vital that we ensure high standards of investor protection and enforcement while remaining vigilant in monitoring financial stability and conduct risks. We will increasingly share responsibility for market surveillance and enforcement with our Mainland counterparts. As a consequence, closer collaboration is a priority.

Like other cross-border initiatives before it, Stock Connect, though important, is only one of a series of initiatives integrating our markets. In addition to further renminbi internationalisation and the announced expansion of Stock Connect to Shenzhen, future steps should extend to the Mutual Recognition of Funds scheme, which will allow qualified funds in the Mainland and Hong Kong to be sold directly into the other market.

### Hong Kong’s role as an international financial centre

Another dimension of our work is to develop Hong Kong’s position as a leading global financial centre. This largely hinges on our ability to provide the right environment for a wide range of financial services to be provided in Hong Kong as well as to global investors.

Hong Kong fulfils a unique role as a platform for local and international financial service providers to operate vis-à-vis the Mainland and elsewhere. Again, Stock Connect and the Mutual Recognition of Funds scheme are examples of how we will anchor Hong Kong as a major asset management centre and fund domicile. In addition, Hong Kong is now the world’s largest offshore renminbi centre and the internationalisation of the renminbi is already significantly affecting global trade, finance and investment.



Ashley Alder  
CEO

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Unlike other major financial markets such as New York, Tokyo and even London, Hong Kong is a very significant importer of financial services. As such, Hong Kong is well positioned to benefit from flows of investment capital between and into Asia Pacific markets as well as from the considerable demand for wealth and asset management services from the Mainland and the rest of Asia.

Our job is to deliver world-class regulatory outcomes which support these fast-paced, dynamic changes.

## Our approach

We always keep in mind that our approach to regulation must evolve in response to developments in external markets and emerging challenges. To achieve good outcomes for market development and investor protection, we deploy our existing suite of tools under the Securities and Futures Ordinance (SFO) in ways which recognise new challenges arising from the evolution of financial markets.

One key point we should like to re-emphasise again this year is that protecting investors and facilitating market development are symbiotic. The two objectives are complementary and inseparable as good investor protection is clearly positive for the development of quality markets.

In this vein, we are pressing ahead with regulatory enhancements to our market structure which will promote the stability of the financial system, improve market quality and strengthen investor protection. These include establishing, with other regulators, a resolution regime for financial institutions in Hong Kong, introducing a new over-the-counter derivatives regime and implementing a paperless securities market.

As part of a wider, holistic programme to advance Hong Kong as an onshore fund management hub and a preferred domicile for both public and private funds, we are now working with the Government, other local regulators and the industry on ways to enhance the regulation of the asset management industry. This will be a major theme of our work over the coming year.

We are also moving forward with a revamped supervisory approach for Hong Kong Exchanges and Clearing Limited in view of its evolving business model and to align with a global consensus which calls for strengthened supervision of financial market infrastructures. More broadly, we strive to keep our regulatory framework aligned with or ahead of international standards. We actively participate in global forums, particularly those where we can advocate for local and regional perspectives.

Identifying external risks remains another priority and we will continue with our risk assessment initiatives, including active, open dialogue with the industry on emerging risks and risk mitigation. Internally, we provide the Board with an integrated overview of risks and regulatory responses to them. Implementation of an organisation-wide risk data strategy is underway and this will help inform our regulatory priorities.

Conduct and behaviour are a major focus of our work in three key areas:

## Supervision of firms

In the context of increasingly active cross-border business and the importance of non-local firms operating locally, we are unequivocal about the need for comprehensive oversight of intermediaries. In particular, we continue to deliver a strong message that senior management must take responsibility for implementing



proper controls and maintaining appropriate standards of conduct. Global and regionally active firms operating in Hong Kong, including those originating in mainland China, should also ensure that management responsibilities are aligned at local, regional and global levels and should provide for proper accountability under Hong Kong laws and regulations.

We are proposing legislative changes so that we can enhance arrangements under supervisory memoranda of understanding (MOUs) with an aim to further our “group-wide” supervision. We are also working on clarifications for the enhanced provision of information about firms and their operations outside Hong Kong which are relevant to their activities here.

### Corporate regulator

Another major focus of our work is to increase the level of compliance among listed companies and to identify serious corporate misconduct. This calls for us to take a holistic approach to corporate regulation and exercise proactive oversight.

The statutory regime for real-time disclosure of inside information by listed companies has led to significant changes in corporate behaviour. While progress has been made, more has to be done to encourage disclosures which are more meaningful for investors.

### Enforcement actions

We continue vigorously to pursue criminal or civil actions against individuals or firms when misconduct is detected. To cope with the trend of increasing complexity and sustained growth in the number of investigations, a combination of deterrent sanctions and remedial measures is used to achieve restorative justice and to ensure fairness in our markets.

The October 2014 signing of an enforcement MOU between the SFC and the China Securities Regulatory Commission was a major breakthrough. For the first time, a benchmark for two-way regulatory cooperation was established, based on the basic principle of reciprocity, covering not just investigations but also consequential enforcement proceedings. As Stock Connect and other initiatives grow and evolve, we will take steps to ensure that we have the information we need to police our markets properly. This underscores the importance we place on our relationships with Mainland regulators as our markets integrate across multiple dimensions.

2014 saw the SFC take big steps in a number of areas, and these developments set the stage for continued progress in 2015. New opportunities bring new challenges and we stand by our commitment to ensure that our resources are used efficiently and effectively to tackle the increased complexity and expanding scope of our work.

Finally, we would like to thank our Board and all of our colleagues for their commitment and hard work over the past year. Their professionalism, dedication and expertise are essential in achieving our core objectives of protecting investors and facilitating Hong Kong’s development as a leading international financial centre.

**Carlson Tong**  
Chairman

**Ashley Alder**  
CEO

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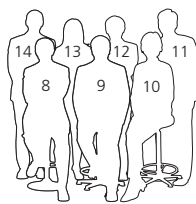
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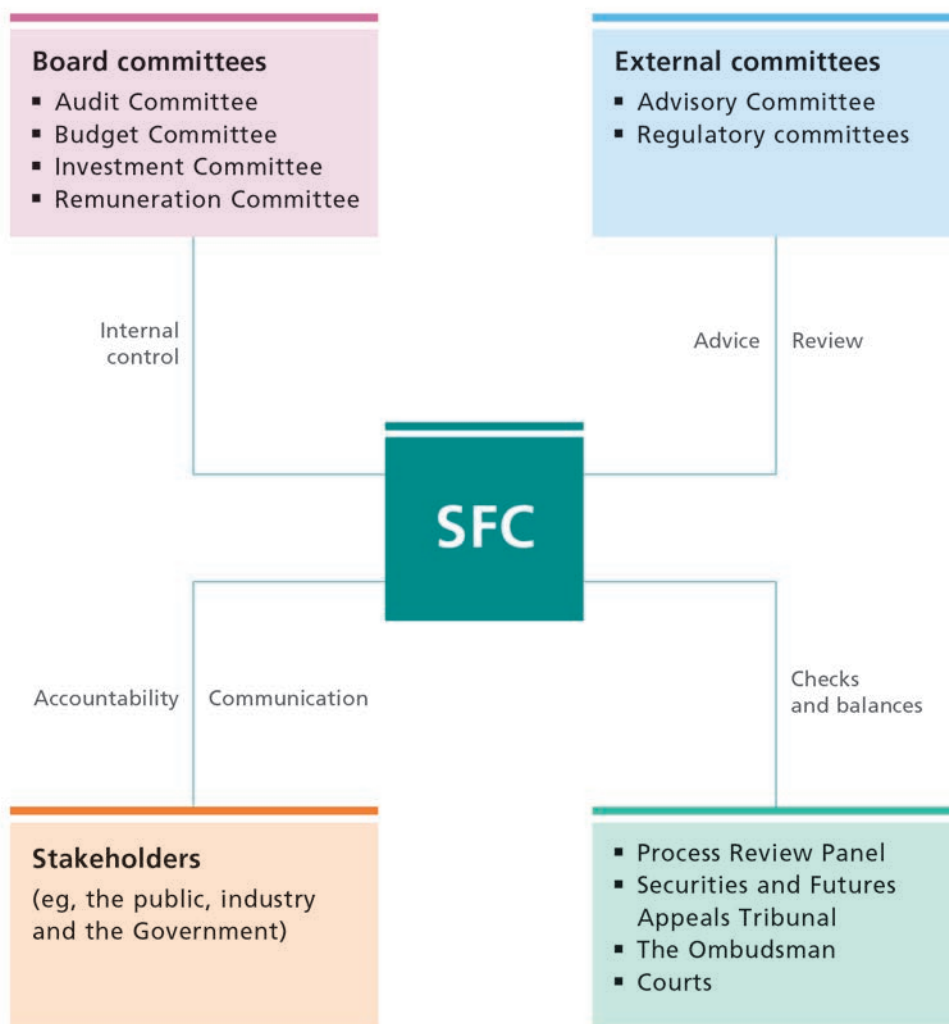
1. Ashley Alder 2. Wong Kai Man 3. Leonard Cheng 4. Teresa Ko  
5. James Shipton 6. Keith Lui 7. Kelvin Wong



8. Carlson Tong      9. Brian Ho      10. Mary Ma      11. Lawrence Lee  
12. William Wong, SC    13. Julia Leung    14. Mark Steward

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



## Board

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

## Constitution

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

As of 31 March 2015, the Board comprised six Executive Directors (EDs) (including the Chief Executive Officer) and eight Non-Executive Directors (NEDs) (including the Chairman).

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

See pages 22-26 for the full list of Board members and their biographies.

## Chairman and CEO

The major responsibilities of the Chairman and Chief Executive Officer (CEO) include:

### Chairman

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

### CEO

- Assuming executive responsibility for day-to-day operations of the SFC
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board

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

## Executive Directors and Non-Executive Directors

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

## Board meetings

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

### Off-site meetings

Clearly setting strategic priorities is crucial to carrying out our regulatory work effectively. Once a year, Board members attend a one-day off-site meeting to discuss issues including long-term strategic planning and future management priorities. Following the session, an action list is devised for execution by the executive team.

Board members consider a broader range of topics at the annual off-site session than at regular Board meetings, which usually discuss specific operational matters. At the off-site meeting this year, the Board conducted an intensive, forward-looking discussion about the organisation's strategic priorities as well as emerging trends which may affect the environment in which we operate.

Subsequently, the outcome was crystallised into a plan of action for the executive team to implement. The plan focuses on promoting the development of high-quality markets, ensuring Hong Kong's competitiveness and protecting investors. (See Direction and Outlook on pages 27-31.)

In addition, when the Board periodically conducts a self-assessment exercise to evaluate its performance, the results are discussed at the off-site meeting. This discussion helps improve the Board's meeting effectiveness.

Last year, 17 Board meetings were held with an average attendance rate of 81%. Attendance records are given on page 20.

### Governance practices

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

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

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

*We have worked to ensure that the SFC's financial statements comply with best disclosure practices and are easy to understand. Also, we enhanced the internal controls review and implemented a special review of certain management policies and operational procedures. We engaged external consultants to help with these reviews.*

**Mr Wong Kai Man, Chairman of Audit Committee**

*This year the Budget Committee, working with the management team, focused on ensuring that our budget is sustainable going forward. We need to go beyond number crunching which often neglects the human side of an organisation. The committee recognises the need for the SFC to operate effectively in a financially responsible manner.*

**Dr Kelvin Wong, Chairman of Budget Committee**

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



### Year in review

During the year, Mr Ashley Alder, JP was re-appointed as CEO for a three-year term effective 1 October 2014. Ms Julia Leung Fung-yee, SBS was appointed as ED (Investment Products) for a term of three years effective 2 March 2015.

Dr William Wong Ming-fung, SC was appointed as NED for two years effective 1 August 2014. Three NEDs were re-appointed for two-year terms: Ms Teresa Ko Yuk-yin, JP (from 1 August 2014), Dr Kelvin Wong Tin-yau, JP (from 20 October 2014) and Professor Leonard Cheng Kwok-hon, JP (from 1 January 2015).

Mrs Alexa Lam, JP and Mr Anderson Chow Ka-ming, SC (now the Hon Mr Justice Chow) stepped down as ED and NED, respectively.

### Executive Committee

As the highest executive body within the organisation, the ExCo performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. The CEO-chaired ExCo includes the other five EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director (Corporate Affairs). It meets weekly to discuss topical issues and bi-weekly to consider proposals and funding requests from different divisions of the organisation. During the year, 20 ExCo meetings were held with an average attendance rate of 81%.

### SFC committees

#### Board committees

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

*The principal objective of the Investment Committee is to improve the SFC’s investment returns, while our greatest challenge is to achieve this with an acceptable level of risk. This is far from an easy task considering the current challenges facing the world economy, such as the prevailing low-interest rate environment and increasing market volatility driven by political and economic uncertainties around the world.*

**Mr Carlson Tong, Chairman of Investment Committee**

*In order for the SFC to discharge its duties and operate effectively, it is vital to retain experienced staff and to attract new blood. Thus it is extremely important to implement fair and competitive staff remuneration packages which balance resource needs with budget considerations.*

**Mr Lawrence Lee, Chairman of Remuneration Committee**



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Committee	Membership	Responsibilities	Number of meetings
Audit Committee	Five NEDs	<ul style="list-style-type: none"> <li>Reviews annual financial statements</li> <li>Recommends the appointment of external auditors</li> <li>Coordinates the scope of the external audit and reviews audit findings</li> <li>Examines management procedures to ensure effective financial and internal controls</li> <li>Considers other matters as required, including complaints against SFC staff</li> </ul>	Two
Budget Committee	Four NEDs and two EDs <sup>1</sup>	<ul style="list-style-type: none"> <li>Examines and approves the parameters and bases used in the annual budget</li> <li>Conducts the mid-year budget review</li> <li>Reviews the annual budget and makes recommendations to the Board</li> </ul>	One
Investment Committee	Four NEDs, three EDs and a Senior Director <sup>1</sup>	<ul style="list-style-type: none"> <li>Advises on the SFC's fund management policies, strategies and investment guidelines</li> <li>Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines</li> <li>Advises on investment risk management and asset allocation and monitors the performance of investments</li> </ul>	Four
Remuneration Committee	Eight NEDs	<ul style="list-style-type: none"> <li>Reviews the structure and level of staff remuneration</li> <li>Reviews trends in remuneration packages and recommends adjustments</li> <li>Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment of certain EDs</li> </ul>	Three

<sup>1</sup> In non-voting capacity.

## External committees

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

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

Each regulatory committee specialises in a particular area such as market supervision, investment products, shareholders' rights and interests, listings, takeovers and mergers, or the compensation fund. Appointed by the Board, members include NEDs, EDs and a large external representation from the industry. There were 15 regulatory committees as at the end of March 2015.

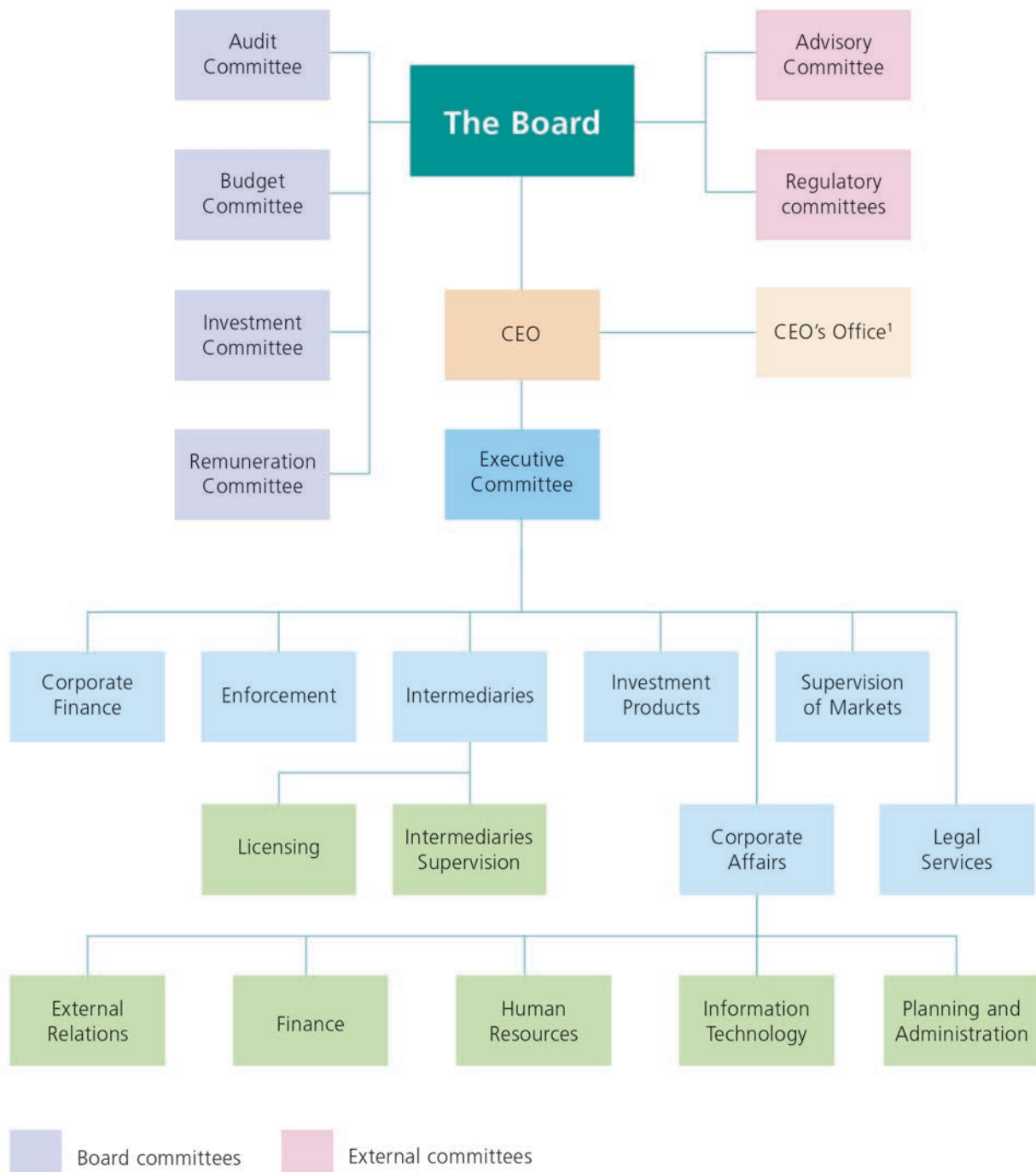
The role and functions of each of the external committees are detailed on pages 147-156.



### Organisational structure

During the year, the administration function was transferred between two departments in the Corporate Affairs Division. As a consequence, the Corporate Planning Department was renamed as Planning and

Administration, while Finance and Administration was renamed as Finance. The reorganisation helps to realise operational synergies between day-to-day facilities management and the broader SFC corporate planning function.



<sup>1</sup> CEO's Office includes the Commission Secretariat, International and China, Risk and Strategy, and Press Office.

## Standards of conduct

We require a high standard of integrity and conduct from our staff to promote and maintain public confidence. Besides complying with relevant legal obligations, staff have to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code. Failure to comply with the code may result in disciplinary action. This year, we held a briefing session to update staff members on recent revisions to these requirements as a result of a high-level review of our policies and procedures (see details under Risks on page 18).

### New Non-Executive Directors

Two Non-Executive Directors (NEDs) joined our Board recently. Ms Mary Ma, a senior corporate executive with a background in finance, private equity and Mainland business, was appointed to the Board in November 2013. Dr William Wong, SC, a Hong Kong litigator, arbitrator and expert on company and securities law, joined in August 2014. They shared some reflections on their Board service so far.

#### Making a difference



Coming from different backgrounds and wielding a wealth of expertise, the new NEDs are dedicated to the SFC's mission to make a positive difference for markets and investors over the long run as well as to preserve Hong Kong's status as a well regulated and managed trading

and financial hub. Dr Wong, SC pointed out that some recent SFC actions sent strong signals about the SFC's determination to do the right thing to protect investors and ensure a level playing field. Ms Ma noted that this was also the case with the preparations for Shanghai-Hong Kong Stock Connect, with which the Board was keenly involved.

The first thing to keep in mind about the SFC Board, Ms Ma added, is that the SFC is not a commercial organisation and therefore the role of NEDs at the SFC is different from that at profit-making companies. The SFC Board is very active and members regularly engage in lively discussions on high-level policy issues

## Accountability and transparency

As a statutory body, we put in place stringent policies and procedures to ensure that we act with credibility, fairness and transparency.

### Delegation of authority

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

which have a significant impact on the industry, both Ms Ma and Dr Wong, SC agreed. For this reason, Ms Ma emphasised, it is essential for Board members to keep on top of local market developments.

#### A deeper understanding

Ms Ma has learned a great deal since taking on her new role. Board members are provided with a large volume of papers to read for each meeting, and this helps her better understand the operations of the markets. So far, she has contributed her expertise to the Board's work mainly related to Mainland affairs and listing-related issues. Looking ahead, she expects that the Hong Kong and Mainland economies will become increasingly integrated. This will have a positive impact on both economies and foster mutual interests as well as create new opportunities for the Mainland and Hong Kong to help each other.



For Dr Wong, SC's part, although he had considerable prior experience in handling cases related to the SFC's enforcement work, he found that serving on the Board deepened his knowledge and increased his understanding of the SFC's other operations. This has been extremely fascinating, he added. In particular, he identifies with the SFC's core values of protecting investors' interests and maintaining a level playing field, and in his new position he will focus on the further pursuit of these values.

## Control and reporting

Our financial control policies and procedures define the scope and responsibility of the administrative, financial and management functions, including appointment of contractors, fee collection, investment, expenditure and budgeting. They are designed to ensure accountability and transparency and to conform to the rigorous controls on the use of public funds. Key features include:

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

In accordance with new investment guidelines for the SFC approved by the Financial Secretary in 2013, we appointed external investment managers during the year to manage our reserves in a more active manner. The transfer of funds to the external investment managers is underway.

## Handling complaints and grievances

We have procedures in place for handling complaints and grievances. Reports of improper practices of the SFC or our staff can be made under our procedure for handling complaints against the SFC or its employees. These cover dissatisfaction with the manner in which the SFC or our staff carried out or failed to carry out our duties. We reviewed this procedure during the year to enhance the complaint handling process. Detailed procedures for lodging complaints are available on our website.

In October 2014, a staff member from the Commission Secretariat and one from External Relations, Corporate Affairs Division each won the 2014 Ombudsman's Awards for Officers of Public Organisations for outstanding performance in complaint handling<sup>1</sup>.

## Engagement and communication with stakeholders

We actively engage with key stakeholders including the Government, the financial services industry, regulatory counterparts and the general investing public through various channels<sup>2</sup>.

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

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

<sup>1</sup> See Our People on pages 32-33.

<sup>2</sup> See Stakeholder communication on pages 62-65.

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

We updated our corporate information on our website during the year. Our automated telephone enquiry service for the industry was also enhanced to make it more user-friendly and to include up-to-date information about our rules concerning licensing and supervision of intermediaries, as well as authorization of investment products.

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

## Risks

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

### External risks

Our market contingency plan sets out measures for dealing with different emergency situations which may affect Hong Kong's securities and futures markets. Rehearsing the plan on a regular basis helps us react promptly and appropriately in a coordinated manner when a crisis situation arises. While each division closely monitors and manages regulatory risk in its respective area, the Risk and Strategy unit introduces centralisation to our risk identification and strategy-setting efforts. We maintain an internal risk register to provide the ExCo and the Board with an overview of risks relevant to our operations as well as our strategies for responding to them. We are also reviewing our risk data strategy to identify data that can be collected in a methodological way and that may contribute to early risk identification<sup>3</sup>.

### Internal risks

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

Our system of internal financial controls ensures proper management of our financial resources in accordance with established policies and procedures. Each year, an external audit firm conducts a review of our internal controls to assess our adherence to them and to evaluate and enhance their adequacy. The scope of each review is approved by the Audit Committee. This year, the review focused on specific areas including overseas business travel, tendering processes, training and development, and the acceptance of gifts and hospitality, and it led to subsequent revisions to relevant policies and procedures.

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

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services. During the year, we conducted a rehearsal to simulate measures to recover and resume all of our functions in the event of a business interruption and as a consequence we implemented improvements to the plan to enhance its coverage
- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with technology changes
- Access controls protect our information and systems from unauthorized access, use or modification, and
- Office access controls safeguard against unauthorized entry to office premises

<sup>3</sup> See Risk assessment on page 58.

## Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process, and proper use of regulatory powers. In addition to

scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Function	SFC-related tasks handled
<b>Process Review Panel</b> <ul style="list-style-type: none"> <li>An independent panel established by the HKSAR Chief Executive in 2000</li> <li>Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>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)</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed 59 selected cases and published its 13th annual report in March 2015</li> </ul>
<b>Securities and Futures Appeals Tribunal</b> <ul style="list-style-type: none"> <li>Chaired by current or former judges appointed by the HKSAR Chief Executive</li> <li>Two other members drawn from a panel appointed by the Financial Secretary under delegated authority</li> </ul>	<ul style="list-style-type: none"> <li>Reviews specified decisions made by the SFC</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Received requests to review five cases of SFC regulatory decisions</li> <li>Decided on two cases</li> <li>Allowed two cases to be withdrawn (one was brought forward from 2013-14)</li> </ul>
<b>The Ombudsman</b>	<ul style="list-style-type: none"> <li>Handles public complaints against the SFC and its staff for alleged maladministration</li> </ul>	<ul style="list-style-type: none"> <li>Commenced seven preliminary inquiries</li> </ul>
<b>Courts</b>	<ul style="list-style-type: none"> <li>Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>Handled two applications for judicial review</li> </ul>

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## Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Carlson Tong	17/17	–	–	4/4	3/3	–
<b>Executive Directors</b>						
Ashley Alder	14/17	–	1/1	3/4	–	15/20
Brian Ho	15/17	–	–	–	–	18/20
Alexa Lam <sup>1</sup>	11/16	–	1/1	–	–	8/18
Julia Leung <sup>2</sup>	1/1	–	–	–	–	2/2
Keith Lui	17/17	–	–	4/4	–	17/20
James Shipton	14/17	–	–	3/4	–	17/20
Mark Steward <sup>3</sup>	13/17	–	–	–	–	17/20
<b>Non-Executive Directors</b>						
Leonard Cheng	6/17	–	0/1	–	3/3	–
Anderson Chow <sup>4</sup>	3/6	1/1	–	1/1	1/1	–
Teresa Ko	14/17	2/2	1/1	–	1/3	–
Lawrence Lee	17/17	2/2	–	–	3/3	–
Mary Ma	12/17	–	–	2/3 <sup>5</sup>	1/3	–
Wong Kai Man	14/17	2/2	1/1	4/4	1/3	–
Kelvin Wong	14/17	1/1 <sup>6</sup>	1/1	3/4	2/3	–
William Wong, SC <sup>7</sup>	10/11	1/1	–	–	1/2	–
<b>Senior Director and Chief Counsel</b>						
Andrew Wan	–	–	–	4/4	–	17/20
Andrew Young	–	–	–	–	–	19/20

<sup>1</sup> Appointment expired on 28 February 2015.

<sup>2</sup> Appointment commenced on 2 March 2015.

<sup>3</sup> Appointed as a member of the Budget Committee effective 2 March 2015.

<sup>4</sup> Appointment expired on 31 July 2014.

<sup>5</sup> Appointed as a member of the Investment Committee effective 1 August 2014.

<sup>6</sup> Appointed as Deputy Chairman of the Audit Committee effective 1 August 2014.

<sup>7</sup> Appointment commenced on 1 August 2014.

## Performance pledges

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

		Cases meeting the pledge		
		2014/15	2013/14	2012/13
<b>Applications for subordinated loan or modification/waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	99% <sup>1</sup>	100%	98%
<b>Authorization of investment products<sup>2</sup></b>				
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 <sup>3</sup> business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
<b>General enquiries</b>				
Preliminary replies	5 business days	100%	100%	99.9%
<b>Processing of licensing applications<sup>4</sup></b>				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	100%	100%	99%
Representatives (normal licences)	8 weeks	100%	100%	100%
Representatives (responsible officers)	10 weeks	99% <sup>5</sup>	97%	99%
Transfer of accreditation	7 business days	98% <sup>5</sup>	98%	99%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	99.9% <sup>6</sup>	99.9%	99.9%

<sup>1</sup> One case failed to meet the pledge due to operational issues and unexpected complications.

<sup>2</sup> 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.

<sup>3</sup> 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

<sup>4</sup> During the year, we processed 13,779 applications that were subject to performance pledges, 11,746 of which were processed within the applicable period. The completion of the vast majority of the remaining 2,033 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). To more accurately reflect our performance, these applications are not included in the percentages stated.

<sup>5</sup> 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.

<sup>6</sup> One case failed to meet the pledge.

**Carlson TONG** SBS, 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, Hong Kong Monetary Authority
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, HKEx Listing Nominating Committee
- Member, Financial Services Professional Board, Malaysia

**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** JP**Chief Executive Officer**

From 1 October 2011

Current appointment expires on 30 September 2017

**Other SFC-related positions**

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

**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 2016

**Other SFC-related positions**

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

**Current offices and public service**

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

**Past offices and public service**

- Dean of Business and Management, The Hong Kong University of Science and Technology (2009-2013)
- Director, Hong Kong Institute for Monetary Research (2010-2013)
- Member, 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, 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 CEO, other board members are listed in alphabetical order.

During the year, Mr Anderson Chow Ka-ming, SC (now the Hon Mr Justice Chow) served on the Board as Non-Executive Director from 1 April 2014 to 31 July 2014 and Mrs Alexa Lam served on the Board as Executive Director from 1 April 2014 to 28 February 2015.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 147-156 for information about SFC external committees.



**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: Advisory Committee, Committee on Real Estate Investment Trusts and Nominations Committee

**Public service**

- Member, HKEx Listing Nominating Committee

**Past SFC position**

- Senior Director, Corporate Finance (2000-2006)

**Teresa KO JP****Non-Executive Director**

From 1 August 2012

Current appointment expires on 31 July 2016

**Other SFC-related positions**

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

**Current offices and public service**

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

**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
- Member: SFC (HKEC Listing) Appeals Committee

**Current offices and public service**

- Chairman, Hong Kong, PRC, Vietnam and Korean offices, Baker & McKenzie
- Chairman, Hospital Governing Committee, Pamela Youde Nethersole Eastern Hospital
- Member, Mergers and Acquisitions Group, Baker & McKenzie

**Past public service**

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

## Julia LEUNG SBS

### Executive Director, Investment Products

From 2 March 2015

Current appointment expires on 1 March 2018

#### Other SFC-related positions

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

#### Past offices and public service

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

#### Publications

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

## Keith LUI

### Executive Director, Supervision of Markets

From 28 August 2006

Current appointment expires on 27 August 2015

#### Other SFC-related positions

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

#### Public service

- Member, HKEx Risk Management Committee

#### Past SFC positions

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

## Mary MA

### Non-Executive Director

From 15 November 2013

Current appointment expires on 14 November 2015

#### Other SFC-related positions

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

#### Current offices

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

#### Past offices and public service

- Non-Executive Director, Wumart Stores (2010-2014)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2009-2013)
- 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 positions

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

#### Public service

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

#### Past offices and public service

- Goldman Sachs (Hong Kong): Managing Director & Asia Pacific Head of Government & Regulatory Affairs (2011-2013); Managing Director & Executive Director, Securities Division (2004-2010)
- Member, the Business Advisory Council of the United Nations Economic & Social Commission for Asia & the Pacific (2011-2013)
- Board Member, Treasury Markets Association (2011-2013)
- Vice Chairman, Asian Securities Industry 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 positions

- Member: Budget Committee
- Member: Investor Compensation Fund Committee, Securities Compensation Fund Committee and 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
- Member, Financial Reporting Council
- Court and Council Member, The University of Hong Kong (HKU)
- Court Member, City University of Hong Kong
- Honorary Associate Professor, School of Business, HKU
- 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, HKU (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 2016

**Other SFC-related positions**

- Chairman: Budget Committee
- Deputy Chairman: Audit 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
- 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 offices and public service**

- Council Chairman, The Hong Kong Institute of Directors (2009-2014)
- Chairman, Hong Kong Chinese Orchestra Limited (2006-2008)
- Member, Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited (2007-2013)
- Member, SFC (HKEC Listing) Committee (2009-2013)
- Member, The Board of Review (Inland Revenue Ordinance) (2008-2013)
- Member, China Trade Advisory Committee, Hong Kong Trade Development Council (2005-2009)
- Member, Auditing and Assurance Standards Committee, Hong Kong Institute of Certified Public Accountants (2006-2008)

Note:

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

**Dr William WONG** SC**Non-Executive Director**

From 1 August 2014

Current appointment expires on 31 July 2016

**Other SFC-related positions**

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

**Current offices and public service**

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Member, Bar Council of the Hong Kong Bar Association
- Member, Hong Kong Bar Association Special Committee on Barristers Qualification Examination
- Member, Hong Kong Bar Association Special Committee on Greater China Affairs
- Director, The Hong Kong Middle Temple Society

**Past offices and public service**

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

In exercising our statutory powers under the Securities and Futures Ordinance (SFO), our main consideration is to ensure that the markets we regulate are safe, fair and efficient. We pursue enhancements to our regulatory regime which support the sustainable growth of the financial sector without compromising investor protection. In the conduct of our day-to-day work, we seek to increase operational efficiency and optimise the use of our resources.

### Our operating environment

To achieve our objectives, we must keep a close eye on the external environment and be prepared to address any risks and challenges it may present. This is essential if we are to cultivate and protect Hong Kong’s competitive advantages. Hong Kong is uniquely positioned as a hub for capital flows to and from the Mainland and it also provides a stable, well-regulated platform for a large number of global financial institutions to operate with confidence.

The launch of the Shanghai-Hong Kong Stock Connect pilot programme in November 2014 accelerated the integration of Mainland markets with the world and underpinned Hong Kong’s evolving role in the Mainland’s capital market liberalisation and opening up—a role that will become even more prominent over time. As cross-border equity investing develops through channels such as Stock Connect, it creates new opportunities as well as challenges, particularly in cross-border regulation and market oversight. Mutual and reciprocal cooperation will be essential to pave the way for the future development of the Mainland’s financial services industry.

More broadly, closer collaboration on local, regional and global levels is essential to achieve a robust regulatory framework for Hong Kong, a large and open market which is increasingly intertwined with markets in the rest of the world. We must ensure a level playing field and instil confidence that misconduct is likely to be detected and dealt with. Much of this will be achieved by taking effective approaches to regulation employing the tools already available to us under the SFO.

In view of persistent uncertainties in global markets arising from volatile fund flows and concerns about global growth, we will remain diligent in monitoring



trading activities to detect irregularities. We will also continue to emphasise risk identification and maintain active and open dialogue to inform the industry about our priorities.

We recognise that our regulatory framework must continually evolve in response to greater global connectedness along with technological advances and the rapid evolution of the financial markets. In this spirit, we are moving forward with new initiatives to uphold market integrity. In facilitating market development we believe financial regulators should focus on setting the highest standards of investor protection as a means to ensure long-term confidence in Hong Kong as an international financial centre.

### The year ahead

We are making progress in a number of initiatives which aim to address emerging threats and risks in our markets.

#### Regulation for quality markets

##### Supervisory cooperation

Hong Kong’s open markets attract large, globally-active firms whose business, risk and compliance decisions—often made in other parts of the world—affect our markets. It is therefore important for us to enlarge the scope and depth of formal cooperation with overseas regulators to better supervise such firms as well as to share information.

Our proposed amendments to the SFO for providing assistance to overseas regulators would enable greater cooperation with regulators outside Hong Kong so as to facilitate supervision and monitoring on a group-wide basis and enable licensed corporations to have access to certain overseas markets only open to jurisdictions which are parties to international cooperation arrangements. The consultation on the proposed changes ended in January 2015. We have recommended relevant legislative amendments to the Government.



### Resolution regime

Together with the Government, the Hong Kong Monetary Authority and the Insurance Authority, we conducted two joint consultations on the establishment of a resolution regime for financial institutions including financial market infrastructures in Hong Kong. A third, shorter joint consultation is planned for the second quarter of 2015. Work on drafting legislation has begun for a Bill which is proposed to be introduced into the Legislative Council (LegCo) in the fourth quarter of 2015 to implement a comprehensive resolution regime.

### Corporate regulation

We review all corporate disclosures by Hong Kong-listed companies on a daily basis. We investigate cases of apparent non-compliance with disclosure and other obligations, as well as instances of fraud and unfair treatment of shareholders and where appropriate take action.

We also issue guidance and advice to listed companies and advisors about how to improve their internal compliance culture and to provide investors with information which is relevant and timely.

### OTC derivatives

The new over-the-counter (OTC) derivatives regime, now in the legislative stage, will be implemented in phases starting with reporting and related record-keeping obligations. Relevant subsidiary legislation on phase one implementation, introduced into LegCo for negative vetting in May 2015, will commence later this year. As the new regime also introduces the licensing framework for regulating the OTC derivatives market, we target to consult the public on proposals for concomitant reforms this year.

### Uncertificated securities market

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015, enacted in March 2015, will allow investors to legally hold and transfer listed securities in a paperless form. We plan to begin a consultation on subsidiary legislation which sets out technical and operational details of the new regime in 2015.

### Alternative liquidity pools

We have issued consultation conclusions on proposals to refine and standardise our approach to regulating alternative liquidity pools (also known as “dark pools”). As the market continues to evolve, we will propose changes to ensure that market innovation goes hand in hand with suitable investor protection.

### Supervision of HKEx

We will continue to work towards implementing an enhanced supervisory approach to Hong Kong Exchanges and Clearing Limited (HKEx), including conducting on-site inspections of its business operations beyond listing, in light of its strategic plans and changing business model. In regulating listed companies, we will maintain close contact with The Stock Exchange of Hong Kong Limited in order to maximise effectiveness.

### Facilitating market development

#### Stock Connect

We have begun discussions with the China Securities Regulatory Commission (CSRC), the Shanghai Stock Exchange and HKEx on proposals to enhance Shanghai-Hong Kong Stock Connect. The programme has been founded on a solid framework for regulatory collaboration and enforcement assistance between the SFC and the CSRC, which will facilitate a proposed extension of Stock Connect to the Shenzhen Stock Exchange. We will closely monitor financial stability,

operational and financial conduct risks as the Mainland and Hong Kong markets become increasingly interconnected.

### Asset management centre

We have reached agreement with the CSRC on the key regulatory parameters of the Mutual Recognition of Funds scheme, and are working with the Mainland authorities and the fund industry to prepare for its launch. Once implemented, qualified Mainland and Hong Kong funds will be allowed to be sold directly into the other market.

We have been providing technical support to the Government in developing a legal and regulatory framework for open-ended fund companies (OFC) in Hong Kong. Following the end of a three-month public consultation in June 2014, we have assisted the Government with the legislative process for the OFC framework.

As part of our ongoing effort to strengthen Hong Kong’s position as a leading asset management centre and to promote it as a preferred fund domicile, we will enhance the regulation of the asset management industry to protect investors and keep in step with international regulatory developments. For example, we will consider the need to set out a comprehensive regulatory policy for public and private fund managers and also review the regulatory environment for a broader range of funds distribution channels.

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An efficient and effective product authorization process is pivotal for market development. The revised application lapse policy<sup>1</sup>, which reduced the time period for the lapse of applications from 12 to six months, helped shorten the average processing time for new fund applications. We will continue to seek ways to streamline the process.



## Investor protection

### Responsible ownership

Our proposed Principles of Responsible Ownership, the subject of a consultation which began in March 2015, aim to provide guidance for how investors should fulfil their ownership responsibilities in relation to their investment in a Hong Kong-listed company. Active participation by shareholders will improve the governance and performance of investee companies, and enhance the efficient operation of our capital markets.

### Client agreement requirements

We are progressing our proposed Code of Conduct<sup>2</sup> amendments regarding client agreement requirements. In late 2014, we conducted a consultation concerning a proposed new clause in relation to the contractual implications arising from the making of a solicitation or recommendation to be incorporated into all client agreements.

### Effective enforcement

To send strong deterrent messages to the markets and protect the investing public, we will continue to seek criminal, civil and disciplinary remedies and sanctions against firms and individuals—including senior management—using the full spectrum of functions and powers vested in the SFO. Our enforcement actions target both the wrongdoing and the consequences of the wrongdoing.

In recent years, the trend is towards increasing complexity and more investigations. We expect this trend to continue.

Stock Connect presents new challenges for cross-boundary regulation. The CSRC-SFC enforcement memorandum of understanding helps to strengthen regulatory cooperation and to establish an enhanced platform for information sharing, alerts, investigative assistance and joint investigations. These arrangements create a solid framework for coordinated activity and decision making. Under the new design for cross-border surveillance cooperation, firms must be prepared to respond promptly to requests about client dealings originating from Mainland authorities, and vice versa.

<sup>1</sup> This policy took effect from 1 January 2014 and covers unit trusts and mutual funds, investment-linked assurance schemes, unlisted structured investment products and real estate investment trusts.

<sup>2</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.



### Investor education

Investor education is an essential complement to financial services regulation. The Investor Education Centre (IEC), an SFC-funded subsidiary, will continue to promote better understanding of financial products and markets to help the general public make informed, sound and appropriate financial decisions. The IEC is developing a Hong Kong Strategy for Financial Literacy, which aims to address the population’s financial education needs, and expects to complete it by the end of 2015.

### Engagement with global regulators

Our active participation in global standard setting bodies helps shape the global regulatory reform agenda and policymaking, both of which have an impact on the local regulatory framework.

At the International Organization of Securities Commissions (IOSCO), we are a member of the Board, the organisation’s decision-making body. At the regional level, Mr Ashley Alder, our Chief Executive Officer, chairs the IOSCO Asia Pacific Regional Committee (APRC), an important platform for strengthening and developing cooperation amongst Asian regulators. The APRC communicates the collective concerns of its member jurisdictions and also supports capacity-building activities targeted at emerging markets.

Mr Alder also chairs the IOSCO Task Force on Cross-Border Regulation, which focuses on more joined-up regulation of cross-border securities markets activities. This is a key concern for open and dynamic international financial centres such as Hong Kong.



In addition, we actively participate in Financial Stability Board (FSB) working groups to help ensure that capital market regulators contribute to deliberations on the global financial reform agenda. We further contribute to the monitoring of financial reforms and provide policy feedback from a Hong Kong perspective through our participation in the FSB’s Standing Committee on Standards Implementation and the Regional Consultative Group for Asia. Finally, we are a member of the FSB OTC Derivatives Working Group and take part in global policy discussions relating to the reform of OTC derivatives markets.

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Attracting and retaining the right talent is essential for us to carry out our regulatory mandate and achieve our statutory objectives. We reward exceptional performance and encourage our people to strive for continuous improvement. Those who have made outstanding contributions to the organisation are recognised in our annual Employee Awards. From time to time, staff members receive recognition from outside the organisation, as in the past year when two of our colleagues were honoured with awards from Hong Kong's Ombudsman.

### Motivation

The aim of the SFC Employee Awards is to recognise individuals and teams which have consistently demonstrated our values in pursuing our vision and mission. Recent individual award recipients included Josephine Chan, a Manager in our Intermediaries Division. Chan's specialty is seeing crime buried in numbers and she has a passion for regulatory work. Since she was a child, she says, she always wanted to be involved in law enforcement. Her award commended her work on two prominent fraud cases where she combined her expertise and her determination to uncover serious misconduct.

Another recent individual award winner was Eric Yung, Counsel, Legal Services. For Yung, 2014 was a particularly satisfactory time because several cases were finally resolved after years of effort. Within a space of about seven months, the court approved the SFC's plan to seek remediation for unlawful price rigging, sanctioned its method to ring-fence valuable assets of wrongdoers to provide for future compensation to investors and resolved a number of tricky regulatory issues. Yung was pleased with these results, he said, but the most important consideration for him was how the SFC played its role in maintaining Hong Kong as an international financial centre. "We work hard for the common good and this is a driving force for me," he said.

While both Yung and Chan appreciated their awards, they also acknowledged the support and assistance of co-workers. Chan observed that her colleagues are committed to serving the wider community and



Josephine Chan and Eric Yung

this culture makes working at the SFC special. "In this organisation, the public interest and investor protection come first," she said. Everything follows from this commitment – including a positive attitude and attention to detail. Yung agreed: "my colleagues work hard for a compelling reason, not because they are told to."

### Teamwork

We also recognise the collective efforts of our staff by bestowing team awards. For example, 14 colleagues from across the organisation recently received a team award for their work on the case against the former Chairman of GOME Electrical Appliances Holding Limited. This complex case was developed over five years and required close collaboration among our Enforcement, Corporate Finance and Legal Services divisions. Furthermore, it was the first case where mediation was used to resolve proceedings commenced under section 213 of the Securities and Futures Ordinance. (See Enforcement on pages 53-57.)

The case officer from the Enforcement division noted that when she was assigned to the case she was relatively junior in terms of year of service with the SFC. She quickly found that the case required a high degree of dedication and perseverance because of various challenges and legal procedural issues. To overcome these difficulties, she was able to leverage the organisation's strengths by bringing in the right people from various divisions to help the team at just the right time.

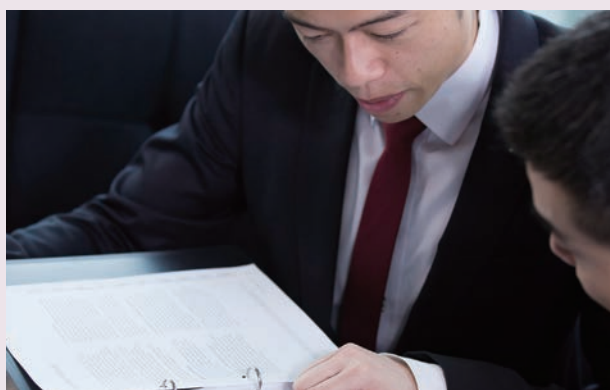
Moreover, the case was an opportunity for her to work with experienced supervisors who provided valuable insight and experience. Other team members agreed that good lines of communication among everyone involved were crucial to the outcome. Particularly when working on very complex cases under tight time and resource constraints, they noted, good communication saves vital time.

Team members also recalled that they developed an especially high degree of trust in their colleagues while working on the GOME case. "We really relied on each other," remembered a team member from Legal Services. "Everyone was keen and helpful, and we developed an understanding which made cooperation easy." The case officer agreed. Her work on the case allowed her to make connections with parts of the organisation she had not dealt with before. As a result, she related, "I now have the mindset to seek advice from colleagues, which makes every case an enjoyable learning experience."

### Interaction

Two of our staff members were recognised in the 2014 Ombudsman's Awards for Officers of Public Organisations for their outstanding work in handling complaints from the public.

The award for Ivy Lau, Manager in the Commission Secretariat, commended her patience, composure and professionalism in handling complaints against the SFC and its staff. Lau explained that it is important to understand the needs of complainants and the reasons for their emotions and at the same time to maintain effective communication with them while remaining professional and impartial.



In recent times, complainants have raised more complicated issues, and thus Lau depends a lot on assistance from colleagues from around the organisation with more specialised knowledge. She says her goal is to achieve solutions both within the organisation as well as from the complainant's perspective. "Naturally, complainants want early and definite outcomes, and we try our best to ensure that their complaints are promptly and properly handled," Lau emphasised.



The other Ombudsman's award winner was Juliana Fong, Associate Director of External Relations, Corporate Affairs, who oversees the handling of complaints against market misconduct and intermediaries. For Fong, the most important point when handling complaints for a statutory body is that fairness is paramount.

Fong agreed with Lau that cases have become more complicated, adding that complainants have also become more contentious. "A lot of time we need to coach our staff on how to handle difficult situations well," Fong noted. This means looking at the merits of each complaint without being prejudiced by the complainant's behaviour, she added.

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## April 2014

New guidance is introduced to enhance product providers' internal product design and approval process.

## June 2014

The SFC authorizes Hong Kong's first Islamic balanced fund and jointly organises a seminar on Islamic funds with the Securities Commission Malaysia.

The SFC seeks remedial orders for over 1,300 minority shareholders who purchased shares of Greencool Technology Holdings Limited.



## July 2014

The first issue of the *Corporate Regulation Newsletter* is published to highlight the work of our Corporate Regulation team.

The SFC concludes a consultation on amendments to the Code on Real Estate Investment Trusts which take effect on 29 August.

## August 2014

The SFC publishes supplemental consultation conclusions reaffirming that initial public offering sponsors are subject to existing statutory civil and criminal liability for defective prospectuses.

## September 2014

The first SFC Supervisory Briefing is held for market intermediaries to share findings noted from inspections on a number of international firms.

The SFC concludes a consultation on amendments to the professional investor regime.



## November 2014

Shanghai-Hong Kong Stock Connect is launched on 17 November. As part of preparations for the scheme, the SFC and the China Securities Regulatory Commission signed a memorandum of understanding in the previous month to strengthen cross-boundary regulatory and enforcement cooperation.



## January 2015

*Asset Management: Looking Forward*, the second report in the SFC's risk-focused industry meeting series, is published.

## February 2015

A court order to wind up China Metal Recycling (Holdings) Limited marks the first time the SFC obtained an order to liquidate a listed company to protect investors.

**中金再生清盤 證監「首例」**

涉騙造假的中國再生(02773),暫正式被高法院判令清盤,是證監會首次引用《證券及期貨條例》,成功將一間上市公司清盤。證監會指出,中國再生股東涉及一宗橫跨中港澳與美國的複雜騙局,騙局和平買賣計劃,公司自2009年發表首次公開招股章程以來,便一直誇大營業、收益及利潤,其中在2007及2009年的總收益及毛利,似乎分別被誇大46%及72%。

證監會又說,有關的造價半年7月被開法律師羅倫士獲判清盤人,未來可對中國再生...

**COURTS**

**SFC wins order to wind up metal recycling firm**

**APAC**  
The Securities and Futures Commission (SFC) has secured a landmark court order to wind up China Metal Recycling (Holdings), which said it was the mainland's largest recycler of scrap metal but was alleged by the SFC to have grossly inflated sales and profits for Hong Kong investors and institutions. In the decision the court was ruling from obtained a court order to liquidate a Hong Kong listed firm under the Securities and Futures Ordinance to protect minority shareholders' investments.

The SFC said CMRH overvalued its sales by about 46 per cent, or HK\$2 billion, and its gross profit by 72 per cent or HK\$1 billion between 2007 and 2009.

The liquidation and dissolution scheme using multiple legal jurisdictions enabled all involved the world to deceive Hong Kong investors and institutions into believing CMRH had a more solid and profitable performance than it actually had, "said SFC Commissioner of Enforcement Mark Spence.

The SFC said CMRH devised a complex scheme to inflate its sales and profits dating back to its 2009 initial public offering prospectus, using a "factory" set up as a "factory" for generating fictitious sales.

The scheme involved falsifying documents to conceal the true nature of the firm's business and its financial position, and to mislead investors into believing CMRH had a more solid and profitable performance than it actually had, "said SFC Commissioner of Enforcement Mark Spence.

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Sources: *Hong Kong Economic Journal* (top); *South China Morning Post*



## March 2015

Ms Julia Leung is appointed Executive Director of the Investment Products Division effective from 2 March.

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# Operational Review

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As a statutory body, our primary duty is to maintain competitiveness, orderliness and stability in the financial markets. This section relates how we achieved our objectives during the past year in the five principal areas of our work – intermediaries, investment products, listings and takeovers, market infrastructure and trading, and enforcement.

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The following tables summarise highlights of our work during 2014-15. More details are provided in subsequent chapters.

Regulatory standards and updates	
Investment products	Introduced new guidance in April 2014 to enhance product providers' internal product design and approval process
REIT Code	Amended the Code on Real Estate Investment Trusts (REITs) in August 2014 to introduce greater flexibility in the scope of REITs' investments
UT Code	Amended the Code on Unit Trusts and Mutual Funds (UT Code) in January 2015 to allow greater flexibility for authorized funds in making certain information public
Professional investors	Concluded a consultation on proposed amendments to the professional investor regime
Client agreements	Conducted a further consultation on client agreement requirements under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
OTC derivatives	Published consultation conclusions on the reporting rules under the new over-the-counter (OTC) derivatives regulatory regime and began a further consultation on three ancillary matters
Ownership responsibilities	Launched a public consultation on proposed Principles of Responsible Ownership
Crowd-funding	Issued a notice and related investor education materials to highlight the risks and potential regulatory issues associated with crowd-funding
Supervisory assistance	Launched a public consultation on providing assistance to overseas regulators to facilitate the supervision and monitoring of group companies operating in multiple jurisdictions

Market infrastructure	
Stock Connect	The launch of the Shanghai-Hong Kong Stock Connect pilot programme in November 2014 enabled mutual market access between the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited (SEHK)
Paperless securities market	The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015 was enacted in March 2015 to enable the implementation of a paperless regime
Trading	Approved the proposal of Hong Kong Exchanges and Clearing Limited (HKEx) to introduce the Throttle-on-Demand Scheme, allowing exchange participants to apply for temporary additional trading capacity from SEHK Approved HKEx's proposal to extend the after-hours trading session for stock index and currency futures contracts

Product development	
Funds	Authorized the first Islamic balanced fund pursuant to the mutual recognition agreement between the SFC and the Securities Commission Malaysia
ETFs	Authorized the first two stock futures-based exchange-traded funds (ETFs) in Hong Kong
Futures contracts	Approved HKEx's proposal to introduce three London Metal Exchange metal mini futures contracts and a coal futures contract



Intermediary licensing, conduct and practices	
Supervisory briefing	Held our first supervisory briefing for market intermediaries and industry participants to share findings and observations noted from inspections on a number of international firms
Licensing	Handled 7,062 licence applications. Total number of licensees and registrants in Hong Kong reached 39,969
Thematic inspections	Inspected selected licensed corporations to review senior management's oversight, governance and key processes and controls for compliance with anti-money laundering and counter-terrorist financing requirements
Selling practices	Published the findings of the SFC's second mystery shopping programme, which assessed compliance with selling practices requirements
	Published a survey on the sale of non-exchange traded investment products to individual investors by licensed corporations during the year 2013-14
Risk-focused industry meetings	Held a series of risk-focused industry meetings with asset managers which led to the publication of a report titled <i>Asset Management: Looking Forward</i>

Enforcement	
Surveillance	Made 9,752 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
Disciplinary actions	Took disciplinary action against 47 licensed corporations and individuals with total fines amounting to \$54.97 million, imposed lifetime bans on 11 individuals, and suspended and revoked the licences of 13 persons or corporations for various wrongdoing
Key cases	Made an application to seek court orders against Qunxing Paper Holdings Company Limited's former chairman and vice-chairman to compel them to provide information about its main operating company's bankruptcy proceedings in China
	In May 2014, the court ordered Ernst & Young to produce records related to its work as the reporting accountant and auditor for Standard Water Limited
	Commenced proceedings against CITIC Limited and five of its former executive directors for allegedly disclosing false or misleading information about the company's financial position, seeking compensation for 4,500 shareholders
	The court ordered GOME Electrical Appliances Holding Limited's former chairman Wong Kwong Yu and his wife to compensate the company \$420 million in May 2014
	Obtained an interim injunction to freeze up to \$1.2 billion in assets allegedly owned by Gu Chujun, former chairman and chief executive officer of Greencool Technology Holdings Limited, to preserve assets for the remedial orders which we seek for more than 1,300 minority shareholders
	In February 2015, the court ordered that China Metal Recycling (Holdings) Limited be wound up, marking the first time the SFC obtained an order to wind up a listed company to protect investors

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Listings, takeovers and corporate conduct	
Review of listing applications	Reviewed 164 listing applications received via SEHK and objected to the listing application of one company on the grounds that it would be against the interest of the investing public
Takeovers matters	Supervised 384 takeovers-related transactions and applications and referred certain matters to the Takeovers Panel – in one case, the Panel ruled that the chairman of Chevalier Group and another two persons breached the mandatory offer requirement
Corporate regulation	Monitored company announcements and raised 201 enquiries with listed companies, leading to some further disclosures and greater market transparency
	Published the first <i>Corporate Regulation Newsletter</i>

Regulatory collaboration	
IOSCO	As chair of the Asia Pacific Regional Committee (APRC) of the International Organization of Securities Commissions (IOSCO), organised IOSCO training webinars to present the SFC's work in supervising intermediaries and monitoring listed companies' disclosure, and hosted the APRC Mobile Seminar Training Programme to share approaches to regulating markets and intermediaries
	Hosted the IOSCO Assessment Committee meeting to discuss various thematic assessment programmes including those on derivative market intermediaries and disclosures by collective investment schemes
CEPA	Facilitated the signing of the supplemental Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which, among other initiatives, further relaxes market access conditions for the financial industry
MOUs	Signed a memorandum of understanding (MOU) with the China Securities Regulatory Commission in October 2014 on strengthening cross-border regulatory and enforcement cooperation under Stock Connect
	Signed an MOU with the European Securities and Markets Authority (ESMA) on cooperation arrangements for Hong Kong-established central counterparties which have applied for recognition by ESMA
International cooperation	Hosted the 46th Memorandum of Regulatory Cooperation meeting in Hong Kong to exchange views with Mainland authorities on cross-border regulatory cooperation
	With the US Financial Industry Regulatory Authority (FINRA), co-hosted the 2014 FINRA Business Conduct Roundtable in Hong Kong for various regulators to share approaches to intermediaries oversight, cybersecurity, behavioural economics, corporate culture and ethics, and other issues

We license qualified corporations and individuals to operate in our markets. We conduct on-site inspections and off-site monitoring to ensure that licensed corporations<sup>1</sup> are financially sound and that, together with their licensed representatives, they comply with relevant laws and regulatory requirements.

## Licence applications

The number of corporate and individual licensees continued to grow steadily during the year. We received 7,062 licence applications<sup>2</sup>, up 8% from the previous year. The number of licensed corporations surpassed 2,000 in July 2014. As of 31 March 2015, the total number of licensees and registrants in Hong Kong reached 39,969, a 2% rise compared to last year.

## Enhancing regulatory standards

In September 2014, we issued consultation conclusions on proposals to enhance the professional investor regime and client agreement requirements. Under amendments to the professional investor regime which will come into effect on 25 March 2016, intermediaries are not allowed to be exempt from various fundamental Code of Conduct requirements<sup>3</sup> when

servicing individual professional investors. In addition, they are required to adopt principles-based criteria to assess corporate professional investors if they wish to rely on exemptions under the Code.



Regarding client agreement requirements, we are proceeding with proposed code amendments providing that client agreements should not contain terms which are inconsistent with obligations under the Code or which misdescribe the actual services to be provided to the client. A further consultation, to invite comment on the wording of a proposed new clause to be incorporated into all client agreements as a contractual term, ended in December 2014.

## Licensees<sup>#</sup>

	Corporations		Representatives		Responsible Officers		Total		Change
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	
Stock exchange participants	449	453	10,874	10,772	1,580	1,556	12,903	12,781	1.0%
Futures exchange participants	112	111	877	877	156	141	1,145	1,129	1.4%
Stock exchange and futures exchange participants	67	67	4,764	4,879	470	475	5,301	5,421	-2.2%
Non-participants	1,440	1,339	15,189	14,671	3,873	3,599	20,502	19,609	4.6%
Total	2,068	1,970	31,704	31,199	6,079	5,771	39,851	38,940	2.3%

<sup>#</sup> 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 39,969 as of 31 March 2015.

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

<sup>2</sup> The figure does not include applications for provisional licences and registered institutions. During the year, we received 4,006 provisional licence applications compared with 3,764 in the previous year.

<sup>3</sup> Including the suitability requirement, which refers to the requirement to ensure that the suitability of a recommendation or solicitation for a client is reasonable in all circumstances.

In December 2014, we published a consultation paper on proposed amendments to the Securities and Futures Ordinance (SFO) for providing assistance to overseas regulators. The changes would enable the SFC to engage in more supervisory cooperation with regulators outside Hong Kong so as to facilitate group-wide supervision and monitoring as well as to enable licensed corporations to access certain overseas markets. The consultation period ended in January 2015.

On 15 May 2015, the SFC published consultation conclusions concerning the regulation of alternative liquidity pools<sup>4</sup> (ALPs), commonly known as “dark pools”. Our proposals aim to create a level playing field for all ALP operators, whilst achieving a proper balance between market development and investor protection. In order to allow sufficient time for the industry to prepare for the enhanced regime, the new requirements will become effective on 1 December 2015.

The European Commission announced in April 2014 that it recognised the regulatory regimes for Credit Rating Agencies (CRAs) in Hong Kong and four other jurisdictions<sup>5</sup> as equivalent to the regime in the European Union (EU). The equivalence decision allows our CRAs to apply for EU certification, enabling their ratings to be used by EU financial institutions for regulatory purposes.

## Promoting compliance

In December 2014, we published the findings of our second mystery shopping programme, which assessed compliance with the selling practices requirements set out in the Code of Conduct<sup>6</sup> and Internal Control Guidelines<sup>7</sup>. About 150 samples concerning the sale of unlisted securities and futures products were conducted on 10 selected licensed corporations, including fund management and investment advisory firms as well as brokers. The exercise revealed that certain deficiencies remained a concern, particularly in relation to suitability assessments, know-your-clients procedures and information disclosures.

Also in December 2014, we published a survey on the sale of non-exchange traded investment products to individual investors by licensed corporations during the 12 months ended 31 March 2014. According to the survey, the top 10 firms, which were also major product issuers, accounted for \$371 billion or 79% of the aggregate transaction amount for these products during the period.



## Compensation funds

	2014/15	Change	2013/14	Change	2012/13
NAV of all compensation funds (\$ million)	<b>2,285</b>	<b>0.9%</b>	2,263.9	0.3%	2,257.2
▪ Unified Exchange Compensation Fund <sup>1</sup>	<b>70</b>	<b>11.3%</b>	62.9	-1.9%	64.1
▪ Investor Compensation Fund <sup>2</sup>	<b>2,215</b>	<b>0.6%</b>	2,201	0.4%	2,193.1

<sup>1</sup> See pages 125-137 for the financial statements of the Unified Exchange Compensation Fund.

<sup>2</sup> See pages 107-124 for the financial statements of the Investor Compensation Fund.

<sup>4</sup> As of 31 March 2015, 25 corporations were licensed for Type 7 regulated activity to provide automated trading services, of which 16 operated ALPs.

<sup>5</sup> Argentina, Brazil, Mexico and Singapore.

<sup>6</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>7</sup> Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission.

In early 2015, we commenced a thematic inspection of selected licensed corporations to review their compliance with anti-money laundering and counter-terrorist financing requirements<sup>8</sup>. These inspections will run through the year. We also shared important regulatory developments in this area with the industry in meetings and seminars.

During the year, we issued a number of circulars to licensees and registrants on a variety of topics including obligations under the United States Foreign Account Tax Compliance Act and the need to maintain effective business continuity plans.

**Regulating complex markets**

Compared to a decade ago, our licensed firms and individuals engage in a much larger number of regulated activities<sup>#</sup>. The total now stands at nearly 70,000, representing a compound annual growth rate of about 7% and a cumulative increase of 80% since end-2005. For licensed firms alone, the number of regulated activities they engage in rose by 57% during the same period.

The asset management sector has grown rapidly over the past five years as the number of firms engaging in asset management doubled. The number of licensed hedge fund firms also grew significantly over the past decade, increasing by 2.6 times. Today around one-quarter of licensed firms engage in hedge fund management or advisory activities, and hedge



**Investor Compensation Fund**

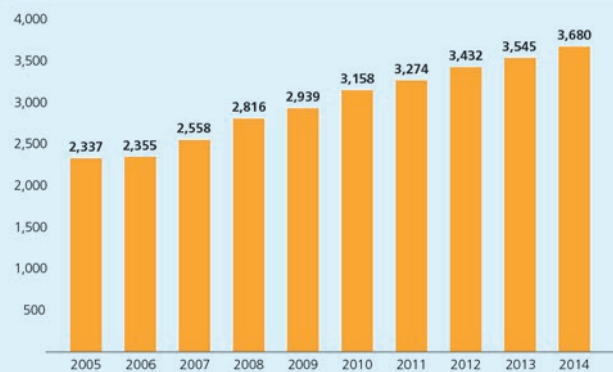
The Investor Compensation Company Limited received 430 claims during the year, including 427 against a broker on which we issued a Restriction Notice in January 2015. It also processed five claims, including the last claim related to a broker which defaulted in 2007. One claim was rejected and compensation payments were made in respect of two claims. One claim was withdrawn by the claimant.

fund managers accounted for about 40% of the 154 corporate licences we granted in 2014.

According to the findings of our fifth survey of Hong Kong’s hedge fund industry, published in March 2015, SFC-licensed hedge fund managers managed 778 hedge funds as at 30 September 2014, up from 676 in 2012. Total hedge fund assets under management increased 38.8% to US\$120.9 billion from US\$87.1 billion in 2012.

Such dramatic growth is testimony to how our markets have evolved and become a great deal more complex since the SFO took effect on 1 April 2003.

Number of regulated activities by licensed firms



<sup>#</sup> There are currently 10 types of regulated activities under the SFO, for example, dealing in securities (Type 1), advising on securities (Type 4) and asset management (Type 9).

<sup>8</sup> These requirements include, among others, management accountability, risk assessment, customer due diligence, and the identification and reporting of suspicious transactions.

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

## Authorizations

As of 31 March 2015, there were 2,622 SFC-authorized collective investment schemes (CIS) on offer to the public. During the year, we authorized 229 CIS, comprising 195 unit trusts and mutual funds, 33 investment-linked assurance schemes (ILAS) and one paper gold scheme.

For the 12 months ended 31 March 2015, we authorized 108 unlisted structured investment products for public offering. For details, please refer to Table 3 on page 139.

In addition, we authorized the registration of a rights issue prospectus of an overseas listed company which contains an offer to the Hong Kong public to subscribe for its shares.

## Renminbi products

The renminbi business in Hong Kong continued to develop rapidly this year with Mainland policy support. We play an active role in supporting renminbi internationalisation and facilitating the expansion of renminbi investment product offerings.

During the year, we authorized 37 unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and six RQFII exchange-traded funds (ETFs)<sup>1</sup>. The total number of authorized RQFII ETFs stood at 20 as of 31 March 2015.

The aggregate RQFII quota utilised by authorized RQFII funds (including unlisted funds and ETFs) amounted to RMB39.6 billion as of 31 March 2015.

After the launch of Shanghai-Hong Kong Stock Connect, various RQFII and other funds began to use the programme to obtain access to the A-share market.

With the increase in renminbi liquidity in Hong Kong as well as the expansion of related investment and risk management tools, we have started allowing overseas fund managers to offer their overseas funds in renminbi in Hong Kong subject to certain conditions.

During the year, we authorized 91 unlisted structured investment products that can be denominated in renminbi, including a gold-linked deposit, or that can be linked to renminbi-denominated reference assets. Among the 10 issuers of these 91 products, five had their first renminbi-related structured products authorized by us this year. The number of authorized renminbi-related structured products increased by 57%.

## Authorized CIS<sup>1</sup>

	2014/15	2013/14	2012/13
Unit trusts and mutual funds <sup>2</sup>	2,045	1,935	1,964
ILAS	294	264	258
Pooled retirement funds	35	35	35
MPF master trust schemes	37	40	40
MPF pooled investment funds <sup>2</sup>	185	186	182
Others <sup>3</sup>	26	27	26
<b>Total</b>	<b>2,622</b>	<b>2,487</b>	<b>2,505</b>

<sup>1</sup> This table represents a snapshot view as of each financial year-end.

<sup>2</sup> 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. For comparison purposes, adjustments have been made to these categories to reflect that 117 retail APIFs as at 31 March 2013 have been reclassified accordingly.

<sup>3</sup> Other schemes comprised 15 paper gold schemes and 11 real estate investment trusts.

<sup>1</sup> The RQFII unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.

SFC-authorized renminbi investment products<sup>1</sup>

	2014/15
RQFII/Renminbi Stock Connect unlisted funds <sup>2</sup>	68
RQFII/Renminbi Stock Connect ETFs <sup>2, 3</sup>	20
Renminbi offshore dim sum bonds/fixed income unlisted funds	15
Renminbi offshore dim sum bond ETF	1
Renminbi gold ETF <sup>4</sup>	1
Renminbi real estate investment trust	1
Paper gold scheme with renminbi features	1

<sup>1</sup> This table represents a snapshot view as of the financial year-end.

<sup>2</sup> This category includes renminbi-denominated funds which primarily invest in Mainland securities markets through either RQFII, Stock Connect or both.

<sup>3</sup> These ETFs adopt a dual-counter model, offering investors both a Hong Kong dollar counter and a renminbi counter for secondary trading purposes.

<sup>4</sup> Only includes gold ETF denominated in renminbi.

	2014/15
Unlisted structured investment products with renminbi features	91

## Regulatory requirements

To enhance the transparency of SFC-authorized retail funds, we published various circulars and frequently asked questions (FAQs) on:

- disclosure requirements for ongoing charges and past performance;
- disclosure requirements for tracking difference and tracking error for authorized ETFs and unlisted index funds; and
- disclosure and approval requirements for investing in the Mainland market through Shanghai-Hong Kong Stock Connect.

Following the completion of a public consultation, we amended the Code on Unit Trusts and Mutual Funds (UT Code) on 30 January 2015 to give authorized funds greater flexibility in determining the means for making public their offer and redemption prices, net asset values (NAVs) and notices of dealing suspension. We also amended the UT Code to increase the frequency at which prices and NAVs are disseminated.

To comply with Insurance Authority (IA) requirements under its Guidance Note on Underwriting Class C Business effective 1 January 2015, many existing authorized ILAS products needed to be revamped and obtain SFC authorization as new applications. Such applications also needed to comply with the

SFC's Guidance on Internal Product Approval Process issued in April 2014. Together with the IA and Hong Kong Monetary Authority, we held a joint-regulator meeting with the ILAS issuers and representatives from the insurance industry in July 2014 to explain the procedures and processing criteria.



## Enhanced process efficiency

During the year, we introduced various streamlined measures via the publication of circulars and FAQs to facilitate the processing of investment product applications. We also held an industry briefing in May 2014 to provide practical guidance on "dos and don'ts" when making new fund applications. Over 100 industry participants attended the briefing.

Since the revised six-month application lapse policy<sup>2</sup> took effect from 1 January 2014, the average processing time for new fund applications was reduced by about 38%, while the number of authorized funds increased by more than a third year-on-year. As part of ongoing efforts to enhance overall efficiency, we continue to seek ways to improve the product authorization application process.

We took part in an industry seminar in December 2014 to discuss and provide guidance on compliance issues related to funds' advertising materials.



### Open-ended fund companies

We worked closely with the Government to develop a regulatory framework for open-ended fund companies, including on the Government's three-month consultation which ended in June 2014. We are also assisting the Government in preparing the legislative process.

### ETF market growth

We worked closely with the Government to amend the Stamp Duty Ordinance to implement a proposal in its 2014-15 budget to waive stamp duties on all ETF trading. The amendment legislation became effective on 13 February 2015. The waiver covers all ETFs regardless of their underlying portfolios or listing dates.

During the year, 14 new ETFs were listed for trading with market making facilities, of which five were RQFII ETFs traded in both Hong Kong dollar and renminbi counters.

In February 2015, we authorized the first two futures-based ETFs in Hong Kong. These track the Hang Seng Futures Index and Hang Seng Futures RMB FX Index respectively.

### REIT market development

Following the release of the Consultation Conclusions on the Amendments to the Code on Real Estate Investment Trusts (REITs) in July 2014, the revised REIT Code came into effect on 29 August 2014, giving REITs greater flexibility to invest in property development activities and financial instruments. Some REITs have already sought or obtained unitholders' approval to expand their investment scope accordingly.

The market capitalisation of all SFC-authorized REITs stood at approximately US\$26.8 billion as of 31 March 2015.

### Mainland-Hong Kong mutual recognition of funds

To prepare for the launch of the Mainland-Hong Kong mutual recognition of funds scheme, we worked closely with the relevant authorities and the fund industry in the Mainland and in Hong Kong on outstanding implementation issues.

### Fund Management Activities Survey

In July 2014, we released our annual Fund Management Activities Survey, which is now in its 15th year. The findings showed that Hong Kong's combined fund management business continued to trend higher, with year-on-year growth of 27.2%, hitting another record of \$16,007 billion as of 31 December 2013. Overall growth was registered across all types of fund management activities and involved an increasing number of market players.

<sup>2</sup> The time period for the lapse of applications was reduced from 12 to six months. The policy covers unit trusts and mutual funds, ILAS, unlisted structured investment products and REITs.



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

## Listing Rules enhancements

During the year, we approved changes to the Listing Rules. These include:

- amendments to Chapter 4 and Appendix 16, as well as to their equivalents in the GEM Listing Rules<sup>1</sup>, to carry out consequential changes resulting from the new Companies Ordinance and to streamline financial reporting; and
- amendments to the Corporate Governance Code and the Corporate Governance Report to enhance the management and accountability of boards of directors as well as to improve the oversight and transparency of listed companies' risk management and internal control systems.



## Review of listing applications

Under the dual filing regime, we shared our comments or concerns with SEHK on 151 of the 164 listing applications received via SEHK during the year. Five<sup>2</sup> listing applications were returned and an eight-week moratorium<sup>3</sup> was imposed because the application proofs were not substantially complete.

In January 2015, we objected to one listing application on public interest<sup>4</sup> grounds. We had concerns about the fact that the company's assets were concentrated in a jurisdiction with which we had no codified regulatory relationship.

## New listing applications

	2014/15	2013/14	2012/13
Total listing applications received <sup>1</sup>	164	188	124
Of which: cases lapsed/withdrawn/rejected during the year	13	24	34
Of which: cases returned	5	8 <sup>2</sup>	–
New listings in the year (including successful transfers from the Growth Enterprise Market (GEM) to the Main Board)	125	124	57

<sup>1</sup> These include 17 applications (2013-14: 13; 2012-13: 13) for transfer from GEM to the Main Board.

<sup>2</sup> These include one listing application which was returned after 31 March 2014.

<sup>1</sup> Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

<sup>2</sup> Including one listing application which was returned during the year subsequent to our issue of principal comments.

<sup>3</sup> Following implementation of the new IPO sponsor regime on 1 October 2013, the respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

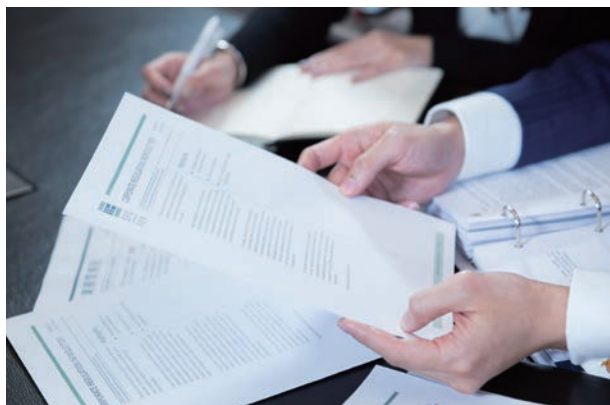
<sup>4</sup> This is set out in Section 6(2)(d) of the Securities and Futures (Stock Market Listing) Rules.

In our annual review of SEHK's performance of its regulation of listing matters for 2013, published in September 2014, we concluded that SEHK's operational procedures and decision-making processes were appropriate to fulfil its statutory obligations.

## Takeovers matters

The number of takeovers-related transactions and applications increased significantly during the year. Many involved complex deal structures and difficult legal issues. We continued to seek assurance that shareholders were being treated fairly and to maintain a fair and informed market.

In March 2015 the Takeovers Panel ruled that the chairman of Chevalier Group and two other persons breached the mandatory offer requirement under the Takeovers Code. The Takeovers Executive<sup>5</sup> alleged that between 2000 and 2002, the three actively cooperated to help the late Nina Kung obtain or consolidate control of ENM Holdings Limited and avoid triggering a mandatory general offer obligation.



In November 2014, the Court of First Instance (CFI) dismissed a judicial review of the February 2014 decision by the Chairperson of the Takeovers Panel not to defer disciplinary proceedings over an alleged breach of the Takeovers Code. In October 2013, the applicants for the judicial review had applied to the Takeovers Panel for a deferral until the completion of a criminal trial in which they were defendants. The CFI found the Chairperson of the Takeovers Panel did not err in law and was satisfied that the Chairperson's decision was not unreasonable. The criminal trial of some of the applicants commenced in March 2015. The disciplinary proceedings continue.

The Takeovers Panel met twice during the year to consider matters referred by the Executive as there were particularly novel, important or difficult points at issue. In June 2014, the Panel ruled that SouthGobi Resources Limited should be considered a "public company in Hong Kong" under the Codes on Takeovers and Mergers and Share Buy-backs and therefore the Codes should apply to it<sup>6</sup>. In October 2014, the Panel ruled that a mandatory general offer would not be triggered for the shares in China Oriental Group Company Limited on the completion of certain transactions between ArcelorMittal and various counterparties. The Panel also met once in October 2014 to consider policy issues.

In December 2014, the Executive publicly criticised the controlling shareholder of Sound Global Limited for acquiring its shares within six months after the close of an offer at above the offer price in contravention of the Takeovers Code.

<sup>5</sup> This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

<sup>6</sup> SouthGobi Resources Limited had sought the Executive's ruling that upon completion of its secondary listing, it would not be considered a "public company in Hong Kong" within the meaning of the Codes and hence the Codes would not apply to it. On 28 September 2009, the Executive ruled that SouthGobi should not be regarded as a "public company in Hong Kong" for the purposes of the Codes. It was expressly stated in the ruling that if there was any material change to the information provided or representation made, the Executive should be advised immediately so that it could determine whether the ruling should remain valid.

Since 1 July 2014, the Executive has made various changes to the process of commenting on shareholder documents under the Codes. We now focus on substantive Code issues and check compliance with the relevant Schedule requirements after the document has been despatched to shareholders, raising concerns with the parties where appropriate. We do not normally comment about compliance with the prescriptive disclosure requirements under the Schedules to the Codes. This change of approach is intended to promote self-discipline among market practitioners and enhance compliance with the Codes. It should also help to address concerns about the time required to complete a Code transaction.

## Improving corporate practices

### Oversight of listed companies

We monitor company announcements on a daily basis to identify corporate misconduct and disclosure irregularities. During the year, we raised 201 enquiries with listed companies, including through the use of our information gathering power under section 179<sup>7</sup> of the Securities and Futures Ordinance (SFO) on 69 occasions. In 70 cases, the listed companies made further announcements after our enquiries, thereby providing enhanced disclosures to the market. We issued 14 guidance letters to assist listed companies to better understand and comply with their disclosure obligations.



### Principles of Responsible Ownership

We launched a three-month consultation on our proposed Principles of Responsible Ownership, which aims to provide guidance for how investors should fulfil their ownership responsibilities in relation to their investment in a Hong Kong listed company. The consultation ended in June 2015.

### Corporate Regulation Newsletter

We launched our *Corporate Regulation Newsletter* in July 2014 as part of an initiative to enhance the quality of disclosures by listing applicants and listed companies, and to improve corporate behaviour in general. Companies have reported to us that they found the publication useful. The second issue of the newsletter was published in April 2015.

<sup>7</sup> 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.

We supervise and monitor Hong Kong's exchanges and clearing houses to ensure orderly markets and to facilitate the development of new trading and settlement channels.

### Shanghai-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect, a pilot scheme enabling mutual stock market access between the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited (SEHK), was launched on 17 November 2014. The programme allows Hong Kong and international investors to access the Shanghai stock market (northbound trading), and qualified Mainland investors to tap the Hong Kong stock market (southbound trading).

As part of preparations for the launch, we revised the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) in August 2014. The revision provides a level playing field for market participants involved in Stock Connect whose roles are similar to those which are currently eligible for an exemption from disclosure obligations.

We also signed a memorandum of understanding with the China Securities Regulatory Commission on 17 October 2014 to strengthen cross-boundary regulatory and enforcement cooperation.

### Paperless securities market

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance 2015 was enacted on 27 March 2015 to enable the implementation of a paperless securities market regime which, when implemented, will allow legal title to securities to be held and transferred without paper documents.



### OTC derivatives regulatory regime

Following the gazettal of the Securities and Futures (Amendment) Ordinance 2014 in April 2014, we continued to prepare for the introduction of a new regulatory regime governing OTC derivatives activities. The new regime will be implemented in phases starting with mandatory reporting and related record-keeping obligations.

#### OTC derivatives

Hong Kong participates in the global effort to overhaul the regulation of the over-the-counter (OTC) derivatives market. The complexity and opacity of these markets contributed to the build-up of systemic risk across financial markets around the world which led to the 2008 Global Financial Crisis. At summits in Pittsburgh in September 2009 and in Cannes in November 2011, G20 leaders introduced OTC derivatives market reforms to improve transparency, reduce counterparty risk and prevent market abuse.

These measures include:

- OTC derivatives contracts should be reported to trade repositories
- Standardised OTC derivatives contracts should be cleared through central counterparties
- Standardised OTC derivatives contracts should be traded on exchanges or electronic trading platforms, where appropriate
- Non-centrally cleared derivatives contracts should be subject to margin and higher capital requirements

Together with the Hong Kong Monetary Authority (HKMA), we conducted a joint public consultation on the details of the new reporting regime between July and August 2014. We issued consultation conclusions in November 2014 and at the same time we began a further consultation on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules. The conclusions on the further consultation were issued on 15 May 2015. The reporting rules and related subsidiary legislation were gazetted on the same day. We have been working with the HKMA and the Government to complete the necessary legislative process for implementation of the first phase of OTC derivatives regulatory regime.

We worked with OTC Clearing Hong Kong Limited, a recognised clearing house for OTC derivative transactions, on its proposal to enhance its operations and we held discussions with overseas regulators about its intention to seek recognition in foreign jurisdictions.

### Enhanced supervision of HKEx

We are in the process of enhancing our supervisory approach to Hong Kong Exchanges and Clearing Limited (HKEx) in light of its strategic plans and changing business model. The proposed approach aims to ensure that HKEx will continue to maintain the capability and capacity to implement its strategies, manage its business operations and support the orderly operation of Hong Kong’s securities and derivatives markets. The proposed approach is in line with international regulatory trends which aim to strengthen the supervision of exchange and financial market infrastructures after the global financial crisis.



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## Market data and trading

We closely monitored HKEx's launch of the second phase of the Orion Market Data platform which took place on 1 December 2014. This platform facilitates market data dissemination for the derivatives market. Market participants and information vendors can now choose, according to their respective business needs, among different market data feed services which offer a variety of content, depth and efficiency. Separately, following our October 2014 approval of HKEx's proposed amendments to the Rules of the Exchange, HKEx introduced the New Securities Trading Device for brokers to replace the existing trading terminals which had been in use for over 10 years.

In December 2014, we approved HKEx's proposal to introduce the Throttle-on-Demand Scheme for the Hong Kong securities market. The scheme, launched in January 2015, allows exchange participants to apply for temporary additional trading capacity from SEHK on a daily or monthly basis. It aims to provide more flexibility for exchange participants to meet their short-term business needs in a cost-effective way.

To further develop the Asian commodities futures market, in October 2014 we approved HKEx's proposal to introduce three London Metal Exchange metal mini futures contracts and a coal futures contract.

We also approved HKEx's proposal to extend the after-hours trading session for stock index and currency futures contracts to 11:45pm, from 11:00pm. The new trading hours became effective on 3 November 2014.



## Automated trading services

Over the past year, we approved four applications for authorizations to provide automated trading services<sup>1</sup> (ATS) under Part III of the SFO in relation to Stock Connect, and we withdrew two authorizations from overseas exchanges. The total number of Part III ATS authorizations was 32 as of 31 March 2015.

<sup>1</sup> 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.

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 send strong and clear messages across our five enforcement programmes: market manipulation, insider dealing, intermediary misconduct, corporate misgovernance and unlicensed dealing. We seek deterrent outcomes and we also seek to make wrongdoers accountable for the financial costs of misconduct.

This year saw a marked increase of 57% in the volume of cases we initiated and an even greater rise in the number and complexity of enforcement actions we started.

During the year, we laid 71 criminal charges against 12 individuals and three corporations and secured convictions against 14 persons and three corporations, including convictions on 26 counts of market manipulation. We sought disqualification and restoration orders against 11 persons and three corporations. Civil actions seeking financial redress and other remedial orders against 93 persons or corporations are pending before the court. We also initiated four cases alleging insider dealing or market manipulation before the Market Misconduct Tribunal against 17 corporations and persons and took disciplinary action against 47 intermediaries.



### Surveillance work

We monitor trading activities in the securities and futures markets to detect market misconduct. During the year, our surveillance of untoward price and turnover movements resulted in 9,752 requests for trading and account records from intermediaries. This is an increase of 71% on last year's requests. These requests produce vital "eyes and ears" data, allowing us to monitor what is happening in our markets and to detect potential and suspected misconduct in real time.

We also received and assessed 79 notifications from intermediaries<sup>1</sup> regarding suspicious trading in equities and derivatives. We posted 20 announcements on our website warning the investing public about trading in shares of companies where we detected a high concentration of shares held by a small number of shareholders.

### Costs of wrongdoing and redress for investors

To address the harm caused by market misconduct and seek redress for investors, we sought restoration, compensation and freezing orders under section 213<sup>2</sup> of the SFO.

- The Court of First Instance (CFI) ordered Wong Kwong Yu, the former Chairman of GOME Electrical Appliances Holding Limited, and his wife, Du Juan, a former director, to compensate GOME \$420 million and interest for their breaches of directors' duties. We commenced proceedings against Wong and Du in August 2009 alleging that the couple used share repurchases by GOME to repay a \$2.4 billion personal loan.
- We commenced proceedings in the Market Misconduct Tribunal (MMT) alleging that Gu Chujun, the former Chairman and Chief Executive Officer of Greencool Technology Holdings Limited, and eight other former officers of the company were involved in gross overstatements of the company's accounts.

Additionally, the CFI granted an interim freezing injunction up to \$1.2 billion in assets allegedly owned by Gu. The injunction preserves the assets pending further proceedings in which we will seek

<sup>1</sup> Intermediaries should report clients' suspected market misconduct to the SFC, in accordance with paragraph 12.5 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>2</sup> Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for an injunction and other orders under specified conditions.

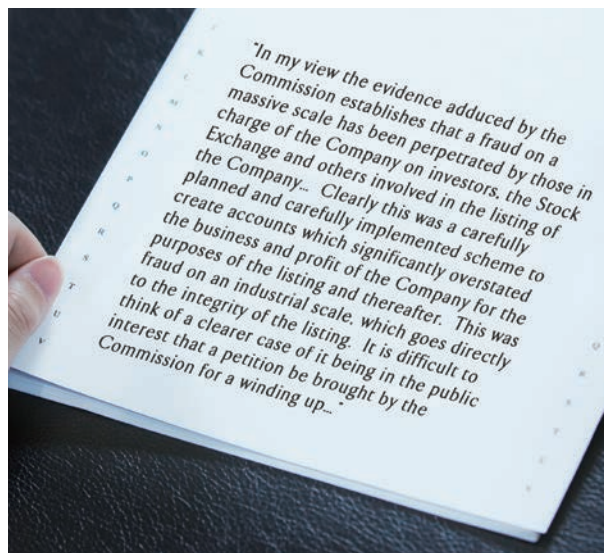
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financial remediation orders for more than 1,300 minority shareholders. This action followed a global investigation which spanned seven years across a number of continents.

- We commenced proceedings in both the CFI and the MMT against CITIC Limited (CITIC) and five of its former executive directors alleging market misconduct involving disclosure of false or misleading information about CITIC's financial position in 2008. We are seeking restoration or compensation orders in the CFI for 4,500 investors who purchased CITIC shares between the date on which we allege the false or misleading information was announced and the date the true financial position was disclosed.
- The CFI ordered three current and former directors of First China Financial Network Holdings Limited to pay the company compensation of RMB18.7 million with interest. The three breached their duties when they paid that sum to a party connected to the Chairman in 2008 on the pretext of a non-existing oral agreement.
- Following an application to appoint interim receivers and managers over Qunxing Paper Holdings Company Limited, we made an application to the CFI to seek orders against its former Chairman and Vice-Chairman to compel them to provide information about its main operating company's bankruptcy proceedings in China. The court also dismissed the application of Qunxing and its subsidiary to discharge the injunction obtained by us in December 2013 freezing approximately \$2 billion in assets.
- Interim injunctions were obtained under section 213 of the SFO, which will remain in force up until trial, against three suspected boiler room<sup>3</sup> operators, restraining them from carrying on suspected regulated activities whilst unlicensed. Interim injunctions were also obtained to freeze six bank accounts which held the proceeds of the three suspected operators.

## Winding-up order

The CFI ordered that China Metal Recycling (Holdings) Limited be wound up, marking the first time we obtained a court order to wind up a listed company under section 212<sup>4</sup> of the SFO for the purpose of protecting the company's minority shareholders, creditors and the investing public. Our proceedings, commenced in July 2013, ended a sophisticated scheme which inflated the company's financial position back to the time of its initial public offering (IPO) prospectus in 2009.



Ruling by the Hon Mr Justice Harris in the China Metal case

## Disqualification orders

We applied section 214<sup>5</sup> of the SFO to seek to disqualify senior executives of four listed companies for their misconduct.

- We obtained orders in the High Court disqualifying two former Executive Directors of Tack Fat Group International Limited<sup>6</sup>. We are also seeking similar orders against two other former Executive Directors and an order that the former Chairman pay the company \$26 million in respect of a share allotment just before the company was placed into provisional liquidation.

<sup>3</sup> Boiler rooms usually falsely claim to be licensed for regulated securities or futures business or to operate in a particular jurisdiction.

<sup>4</sup> 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 grounds that the making of a winding-up order would be just and equitable.

<sup>5</sup> 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.

<sup>6</sup> Now known as Tack Fiori International Group Limited.



- We commenced proceedings against the former Chairman, Tong Shek Lun, and two former Executive Directors of Karce International Holdings Company Limited<sup>7</sup> to seek orders that they be disqualified as company directors and pay compensation to the company. We alleged that Tong secretly pocketed US\$1 million in disposing of a subsidiary and that the two Executive Directors approved the deal without exercising due diligence.
- We commenced proceedings in the CFI seeking disqualification orders against the Chairman, two current Executive Directors and a former Executive Director of Minth Group Limited, for breach of directors' duties in two acquisitions by its subsidiary. We are also seeking an order that the Chairman pay US\$12.7 million in compensation to Minth for loss or damage caused by his alleged misconduct.
- We commenced proceedings seeking various orders including disqualification orders against the former Chairman and three former Directors of Inno-Tech Holdings Limited over alleged misconduct that caused the company to suffer losses of at least \$125 million.

### Compelling production of information

- The CFI ordered Ernst & Young (EY) to comply with five production notices issued by the SFC by producing accounting records related to its work as the reporting accountant and auditor of a listing applicant. We brought proceedings in 2012 after EY consistently failed to comply with the notices during our investigation into the listing applicant. This was a landmark case dealing with access to audit working papers concerning listed companies with Mainland businesses. The case is presently subject to an appeal.



### Unlicensed activities

- The Eastern Magistrates' Court granted an application by the Department of Justice to transfer to the District Court the first prosecution of an unlicensed dealing case involving unauthorized collective investment schemes. In May 2014, we commenced criminal proceedings against IPFUND Asset Management Limited and its sole director and shareholder Ronald Sin Chung Yin for allegedly offering and disposing of interests in 16 such schemes to investors in 2011 without an SFC licence. The case will be tried in the District Court in November 2015.
- The court fined C.L. Management Services Limited and its sole owner and director, Au Suet Ming Clarea, \$1.5 million for unlicensed activities, sentencing her to six months' imprisonment suspended for 18 months.

<sup>7</sup> Now known as Sinogreen Energy International Group Limited.

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## Market manipulation

Three individuals were convicted of market manipulation. Chan Wing Fai was sentenced to one month's imprisonment for false trading. Fan Kwong Hung Ernest and Wong Pok Wang were both fined and sentenced to community service for manipulating prices during pre-opening sessions.



## Market Misconduct Tribunal

- In October 2014, the MMT determined that Tiger Asia Management LLC and its two senior officers, Hwang Sung Kook Bill and Raymond Park, engaged in market misconduct in Hong Kong. This was the first case we directly presented to the MMT<sup>8</sup>. The MMT ordered that Tiger Asia and Hwang be banned from trading securities in Hong Kong for four years without permission of the court and issued cease and desist orders<sup>9</sup> against both of them. It made no order against Park who suffers from a serious health problem.
- In February 2015, the MMT made a two-year disqualification order<sup>10</sup> against Yu Lai Si Salina, the former CEO of Water Oasis Group Limited, and made a disgorgement order against her of an amount equal to the loss avoided by her through insider dealing.

- We commenced MMT proceedings against Andrew Left, the head of Citron Research, a US-based publisher of research reports on listed companies, alleging that in June 2012 Left published a report online that contained false and misleading information about Evergrande Real Estate Group Limited after he had short sold the company's shares. The case will be heard in February 2016.

## Disciplinary actions

We took disciplinary action against 47 licensed corporations and individuals. Total fines<sup>11</sup> amounted to \$54.97 million.

We imposed lifetime bans on 11 individuals and suspended and revoked the licences of 13 persons or corporations for various wrongdoing. See Table 7 on pages 142-144 for more details.

- ICBC International Capital Limited and ICBC International Securities Limited were reprimanded and fined a total of \$25 million in relation to their role in the IPO of Powerlong Real Estate Holdings Limited in 2009. In addition, Ma Tor Fuk Dick, a former responsible officer, was suspended for eight months.



<sup>8</sup> 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.

<sup>9</sup> Under section 257(1)(c) of the SFO, a cease and desist order specifies that the person shall not again perpetrate any such market misconduct.

<sup>10</sup> Under section 257(1)(a) of the SFO, a disqualification is an order that the person shall not be a director of a listed corporation or in any way, directly or indirectly, be concerned or take part in the management of a listed corporation for the period specified.

<sup>11</sup> Fines paid to or recovered by the SFC go into the general revenue of the Government.



## Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal (SFAT) heard two appeals during the year and affirmed our decisions in the two cases:

- The Royal Bank of Scotland PLC was reprimanded and fined \$6 million for internal control failures relating to the detection and prevention of unauthorized trading activities.
- Deutsche Bank Aktiengesellschaft was reprimanded and fined \$1.6 million for failing to disclose to The Stock Exchange of Hong Kong Limited the changes to its percentage holdings in the issued share capital of a stock and to implement adequate internal controls.
- Ping An of China Securities (Hong Kong) Company Limited was reprimanded and fined \$6 million for serious internal control deficiencies. He Zhi Hua, former CEO, was banned from engaging in any regulated activities for 12 months.

- The SFAT upheld our decision in the case of Chan Pik Ha Jenny, a former account executive of ICBC International Securities Limited, who failed to record and maintain a proper audit trail for client orders. Her licence was suspended for four months. The SFAT highlighted that internal controls prescribed by licensed corporations are not purely private guidelines between employers and employees, but an integral part of the regulatory system that governs the securities industry. A breach of such internal controls may be the subject of disciplinary action.
- The SFAT also affirmed our 12-month suspension of the licence of Peter Leung, a former responsible officer of China Securities Holdings Limited. Leung was responsible for his employer's order record failure and unlicensed activities by certain staff.
- The SFAT refused an application from Moody's Investors Service Hong Kong Limited asking it to hold its hearing in private when it reviews our decision to take disciplinary action in relation to the publication of a report entitled *Red Flags for Emerging-Market Companies: A Focus on China*. The public hearing will be held in September 2015.

### Enforcement activities

	2014/15
Trading inquiries issued under S181 <sup>1</sup>	9,752
Investigations started	553
Investigations completed	362
Investigations completed within seven months (%)	252 (70%)
Persons charged in criminal proceedings	15 <sup>2</sup>
Criminal charges laid	71 <sup>2</sup>
Notices of Proposed Disciplinary Action <sup>3</sup>	36
Decision Notices <sup>4</sup>	46
Persons/corporations subject to ongoing civil proceedings	93
Compliance advice letters issued	302

<sup>1</sup> 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.

<sup>2</sup> The SFC brought a total of 71 criminal charges against 12 persons and three corporations.

<sup>3</sup> 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.

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

To promote safer, fairer and more efficient markets, we engage in active and open dialogue on emerging risks and risk mitigation with financial institutions and global standard-setting bodies.

### Global dialogue: Risk identification and assessment

We take an active part in the International Organization of Securities Commissions (IOSCO) Committee on Emerging Risks (CER). We co-lead its Workstream on Emerging Risks and also lead the Workstream on the Risk Data Survey.

The CER aims to develop and maintain a detailed research methodology for the identification, monitoring and mitigation of systemic risks which can be used by securities regulators around the globe.

In October 2014, the CER published *IOSCO Securities Markets Risk Outlook 2014-15*, the second in a series of forward-looking reports. We actively contributed to this report, which aims to identify potential systemic risks in securities markets and assess whether they threaten the financial system as a whole<sup>1</sup>.



### Local dialogue: Asset management

We continued a series of non-supervisory, risk-focused industry meetings to keep abreast of the evolution of the asset management industry, including its opportunities, challenges and risk governance, as well as to identify new risks and emerging risk trends.

From March to November 2014, we engaged in dialogues with the asset management industry during meetings with a representative sample of global, local and Mainland asset managers. Senior officers and heads of business, risk management and compliance attended these meetings<sup>2</sup>.

The results of these dialogues, supplemented by our independent research and analysis, were published in a January 2015 report titled *Asset Management: Looking Forward*<sup>3</sup>. The report aims to help asset managers develop their own risk and compliance governance frameworks.

### Internal dialogue: Risk data strategy

We commenced a review of our long-term risk data strategy during the year. The review focuses on identifying data that can be collected in a methodological fashion and that may contribute to the early identification of risk, as well as to the setting of strategic, policy and supervisory priorities.

<sup>1</sup> The first report in the series, entitled *IOSCO Securities Markets Risk Outlook 2013-14*, was issued in October 2013.

<sup>2</sup> In our second meeting series, we engaged with more than 195 participants, including 140 senior officers from 14 asset managers and four asset owners, as well as 55 representatives from industry associations, consultancies, stock exchanges, prime brokers, pension funds, sovereign wealth funds, family offices and individual investors.

<sup>3</sup> The first report in the series was entitled *Risk-focused Industry Meeting Series: G-SIFI Trends in Risk and Risk Mitigation* and was published in December 2013.

Active participation in global regulatory policymaking helps keep Hong Kong's regulatory framework aligned with international standards. We work closely with local, regional and global regulators to strengthen cooperation.

## International

### IOSCO

As a member of the Board of the International Organization of Securities Commissions (IOSCO), the SFC takes an active part in all eight IOSCO policy committees and its key task forces. These cover investment products, enforcement, supervision, secondary markets, issuer regulation, credit rating agencies and hedge funds.

- Mr Ashley Alder, Chief Executive Officer, was re-elected as Chair of the IOSCO Asia Pacific Regional Committee (APRC) in September 2014 for a two-year term. Under the SFC's chairmanship, the APRC continues to strengthen regulatory cooperation amongst the 23 IOSCO member jurisdictions in the Asia Pacific region.

APRC members have developed a roadmap to provide the APRC with a strategic framework for making meaningful contributions to the region's development. A working group comprising 11 APRC member jurisdictions will take this initiative forward.

We hosted two APRC webinars as part of an inaugural IOSCO training initiative. In November 2014, Mr Stephen Po, Senior Director of Intermediaries Supervision, presented on the risk-based supervision of market intermediaries, and then in January 2015, Mr Michael Duignan, Senior Director of Corporate Finance, spoke on the disclosure of inside information by listed companies. Each webinar was attended by about 300 participants from regulators in 30 jurisdictions.

Together with IOSCO, we organised the December 2014 APRC Mobile Seminar Training Programme in Hong Kong. SFC executives and overseas experts

from Australia, Malaysia, Singapore and the IOSCO Secretariat discussed practical approaches to regulating markets and intermediaries. Regulators from 14 overseas jurisdictions attended.

- Mr Alder continues to chair the IOSCO Task Force on Cross-Border Regulation<sup>1</sup>. By April 2014, the task force had surveyed 37 regulators in both emerging and mature markets to gather information about cross-border regulatory techniques and the challenges in implementing them. It hosted industry roundtables on cross-border issues in April 2014 in Hong Kong, London and Washington D.C. After discussions in Zürich and Rio de Janeiro in September 2014, the task force submitted an interim progress report to the G20 Finance Ministers. The task force also began a three-month public consultation in November on the use of cross-border regulatory tools and other issues.
- Mr Stephen Po chairs IOSCO's Committee on Regulation of Market Intermediaries. As part of its ongoing work, the committee published a final report titled *A Comparison and Analysis of Prudential Standards in the Securities Sector* and a *Report on the IOSCO Social Media and Automation of Advice Tools Surveys*.
- Mrs Alexa Lam, former Deputy CEO, Executive Director of Investment Products, International and China, co-chaired the Working Group on Margining Requirements for Non-centrally Cleared Derivatives (WGMR) set up by the Basel Committee on Banking Supervision and IOSCO. The Monitoring Group under WGMR, which she also co-chaired, released a progress report in November 2014.
- We hosted a meeting in Hong Kong of IOSCO's Assessment Committee in December 2014 and attended the committee's March 2015 meeting in Pretoria, South Africa to discuss various thematic assessment programmes including those on derivatives market intermediaries, disclosures by issuers and collective investment schemes (CIS), money market funds and incentive alignment regimes for securitisation.

<sup>1</sup> The IOSCO Task Force on Cross-Border Regulation was set up in response to the introduction of various national and regional regulatory approaches and reforms which have implications for the supervision and conduct of cross-border business activities. It comprises 22 member jurisdictions from the Americas, Asia Pacific and Europe.

- Under IOSCO Committee on Investment Management, we took part in discussions and a survey conducted by a working group formed to review the safekeeping of assets by CIS custodians. We also contributed to the second consultative document on the Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions<sup>2</sup> issued in March 2015.
- Ms Bénédicte Nolens, Senior Director of Risk and Strategy, is an active member of the IOSCO Committee on Emerging Risks. She leads the Workstream on the Risk Data Survey and co-leads the Workstream on Emerging Risks under the committee<sup>3</sup>.
- As a member of IOSCO's Committee on Credit Rating Agencies, we participated in the drafting group for revising the IOSCO code of conduct for credit rating agencies. IOSCO subsequently published a final consultation report titled *Code of Conduct Fundamentals for Credit Rating Agencies* in March 2015.

### Financial Stability Board

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

The SFC is a member of and is actively involved in the FSB's Standing Committee on Standards Implementation (SCSI), which plays a significant role in monitoring the implementation of financial reforms by national authorities under the G20 mandate. We participate in the Implementation Monitoring Network and the Expert Group under SCSI<sup>4</sup>. In March 2015, we attended a meeting of the SCSI held in Bern, Switzerland on monitoring the implementation of financial reforms.

In the same month, we presented on the progress and challenges of implementing over-the-counter (OTC) derivatives market reforms in Hong Kong and related cross-border regulatory issues at events in the

Philippines organised by the FSB Regional Consultative Group for Asia, of which the SFC is a member.

### Others

- We entered into a memorandum of understanding (MOU) with the European Securities and Markets Authority (ESMA) on cooperation arrangements regarding Hong Kong central counterparties. This fulfilled a precondition under the European Market Infrastructure Regulation for ESMA to recognise Hong Kong central counterparties as eligible to provide services to clearing members or trading venues established in the European Union. The MOU took effect in December 2014.
- Together with the Securities Commission Malaysia (SC), we jointly organised a seminar in Hong Kong in June 2014 to explore Hong Kong's potential as an Islamic fund platform. Over 100 policy makers, regulators and industry participants from the region attended.



SFC-SC Joint Seminar on Islamic Funds

- In November 2014, the SFC and the US Financial Industry Regulatory Authority (FINRA) co-hosted the 2014 FINRA Business Conduct Roundtable in Hong Kong. Representatives from overseas regulators, the HKMA and the SFC exchanged views and shared best practices on oversight, cybersecurity, behavioural economics, intermediaries' business models, corporate culture and ethics, and other issues.

<sup>2</sup> A public consultation paper on the Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions was jointly published by the Financial Stability Board and IOSCO in January 2014.

<sup>3</sup> See Risk assessment on page 58.

<sup>4</sup> The SCSI Implementation Monitoring Network conducts an annual exercise to monitor the implementation of global financial reforms. The Expert Group under SCSI encourages adherence to regulatory and supervisory standards on international cooperation and information exchange.

- We participated in the OTC Derivatives Regulators' Group, which made further progress during the year in implementing previous understandings on equivalence and substituted compliance determinations as well as timely consultations on clearing determinations. It also worked to resolve cross-border issues in OTC derivatives reform and updated the G20 Leaders on its progress.

## Mainland China

We collaborate closely with various Mainland authorities to secure support for policies which benefit the development of Hong Kong's financial market.

We worked closely with Mainland authorities to prepare for the November 2014 launch of Shanghai-Hong Kong Stock Connect. We signed an MOU with the China Securities Regulatory Commission (CSRC) on strengthening cross-boundary regulatory and enforcement cooperation, and concluded cooperation arrangements and procedures for handling contingency situations and investor complaints<sup>5</sup>.

In October 2014, we hosted the 46th Memorandum of Regulatory Cooperation meeting in Hong Kong. Representatives from the SFC, the CSRC, Hong Kong Exchanges and Clearing Limited, Shanghai Stock Exchange, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited discussed how to enhance cross-border cooperation.

We also visited the Shanghai Free Trade Zone, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and Dalian Commodity Exchange to explore potential collaboration opportunities with regional authorities.

## Requests for regulatory cooperation

	2014/15		2013/14		2012/13	
	Requests received	Requests made	Requests received	Requests made	Requests received	Requests made
Enforcement-related requests for assistance	94	111	107	113	112	146
Licensing-related requests for assistance	110	1,058	103	1,081	96	953

## CEPA

A supplemental agreement relating to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed between the Government of the Hong Kong Special Administrative Region and the Ministry of Commerce of the People's Republic of China in December 2014. The agreement would liberalise the trade in services between Hong Kong and Guangdong Province by adopting the approach of pre-establishment national treatment and a negative list.

During the year, we held extensive discussions with Mainland authorities in formulating the new CEPA measures regarding the securities sector. Breakthroughs were made in CEPA XI, including the relaxation of qualification requirements for Hong Kong shareholders to hold interests in Mainland-Hong Kong joint venture futures companies as well as other initiatives to facilitate Hong Kong financial institutions' access to the Mainland's capital markets.

## Others

In December 2014, we hosted the sixth MOU meeting with the Taiwan Financial Supervisory Commission. The discussion covered the supervision of secondary public offerings, financial reporting requirements for listed companies suspended from trading, amendments to the professional investor regime in Hong Kong, and Taiwan's newly established fund-raising platform for small local companies.

<sup>5</sup> See Market infrastructure and trading on pages 50-52.

We maintain an organisation-wide stakeholder engagement programme to promote more concerted, timely and effective outreach. The aim is to help stakeholders better understand our work and the rationale behind it as well as to keep them abreast of our rules and the most up-to-date regulatory information. Our engagement efforts also seek to address stakeholders' concerns and enquiries.

We engage a wide range of stakeholders in a proactive, timely and effective manner through multiple channels and platforms.



### Industry participants

Keeping industry participants well informed of regulatory developments and understanding their concerns are both crucial to our work. In September 2014, we held our first supervisory briefing for market intermediaries to share major findings and observations noted from inspections on a number of international firms. The briefing focused on senior management's responsibilities for implementing proper controls,



The SFC's first supervisory briefing

maintaining appropriate standards of conduct and adhering to proper procedures. More than 200 senior executives of investment banks, as well as regulatory practice advisers, attended the half-day event.

During the year, we organised meetings with local broker associations to discuss intermediaries supervision and licensing-related matters, and we held a series of risk-focused meetings mainly for senior managers from the asset management industry.

In addition to maintaining constant dialogue with industry associations, professional bodies and other market participants on various topics, we consult the industry on proposed rule changes before implementation. During the year we published eight consultations and six consultation conclusions.

To provide a more in-depth account of topical issues, we published 15 thematic publications during the year, ranging from periodic newsletters to market reviews and surveys. Among them was the new *Corporate Regulation Newsletter*, which discusses matters concerning disclosure by listing applicants and listed companies<sup>1</sup>.

We issue circulars and post frequently-asked questions (FAQs) on our corporate website to provide information on matters which require our licensees' attention or action, and give guidance to the industry when necessary. We issued 48 circulars during the year.

<sup>1</sup> See Listings and takeovers on pages 47-49.



Our senior executives speak at industry conferences to share our regulatory focus and explain our approach. In the past year we were involved in nearly 100 speaking engagements on various topics including corporate governance and regulation, fund management, enforcement, supervision of intermediaries and investor education. We also supported six seminars or events organised by industry bodies.

In the past year, we enhanced our automated telephone enquiry service for the industry to provide additional information concerning licensing and supervision of intermediaries as well as investment product authorization.



### General public

Addressing public concerns and enquiries regarding the markets we regulate is important to maintain good stakeholder communication. We received a total of 5,883 general enquiries by phone or in writing this year.

Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, which comprises senior executives from across the organisation. Where appropriate, the

Committee allocates complaints to responsible divisions for assessment. In the past year, we handled 2,119 complaints of which 1,070 were allocated to our various divisions for further review. Of these, 383 were investigated by our Enforcement Division. In addition, 242 complaints were referred to Hong Kong Exchanges and Clearing Limited (HKEx) or other financial regulators. We reviewed our internal procedures to enhance the complaint handling process during the year.

We regularly brief visiting groups and delegations on our regulatory work. This year, we received 336 visitors from professional groups, universities and media organisations. In addition, key messages are disseminated to the public through media interviews conducted with our senior executives.

Our corporate website provides our stakeholders with up-to-date information. Upon the launch of Shanghai-Hong Kong Stock Connect, we added a dedicated section to our website about the programme. We also updated the corporate information on our website during the year. To inform the public of the latest regulatory actions and other SFC news, we published our annual and quarterly reports and issued 137 press releases.



- About Us
- Message from Chairman and CEO
- Corporate Governance
- Direction and Outlook
- Our People
- Highlights of the Year
- Operational Review
- Corporate Social Responsibility
- Corporate Developments
- Financial Statements
- Supplementary Information

## Government

We attend meetings of the Legislative Council to keep legislators informed of our policy initiatives, explain our regulatory rationale, and answer questions. These include meetings of the Panel on Financial Affairs and relevant Bills Committees.

We maintain close communication with the Financial Services and the Treasury Bureau (FSTB). Through regular meetings and reports, we provide the FSTB with updates on our regulatory agenda. We also provide assistance and information to other government bureaux and departments on various issues.

Furthermore, we respond to enquiries and complaints which have been raised or referred to us by Legislative Council members or other government agencies.

Our Senior Director of Risk and Strategy, Ms Bénédicte Nolens, was appointed as a member of the Government's Steering Group on Financial Technologies, which was established on 30 March 2015 to advise the Financial Secretary on developing Hong Kong as a financial technologies hub.



Receiving visitors and delegations

## Reporting efforts recognised

In our annual reports, we strive to provide concise information to help stakeholders better understand our regulatory work and the rationale behind it. Our efforts in this respect were recognised during the year in two annual report award competitions. In the Hong Kong Management Association's Best Annual Reports Awards 2014, our Annual Report 2013-14 won a Gold Prize for the twelfth time. It also won a Gold award, public sector category, in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2014, marking the eleventh time we have won an award in that competition.

The judges for the two competitions commended the report's overall clarity and readability. In particular, they noted that the publication clearly presents focused information related to our corporate governance, future outlook, corporate social responsibility and financial position, as well as about various aspects of our operational work.

## Regulatory counterparts

We take part in initiatives for international regulatory cooperation through our involvement with the International Organization of Securities Commissions and the Financial Stability Board<sup>2</sup>. This year, we signed three memoranda of understanding to strengthen cooperation with other authorities.

We maintain regular contact with other local, Mainland and overseas market regulators on a wide range of policy matters. During the year, we held more than 35 meetings with various regulatory counterparts under our respective memoranda of understanding as well as over 40 liaison meetings for the Shanghai-Hong Kong Stock Connect programme. We also received about 70 visitors and delegates from mainland China and overseas authorities and exchanges. Our staff exchange programmes with Mainland and local regulators promote the sharing of expertise and experience across regulatory bodies and broaden our staff members' perspectives.

<sup>2</sup> See Global regulatory engagement on pages 59-61.

Complaints against intermediaries and market activities<sup>1</sup>

	2014/15	2013/14	2012/13
Conduct of licensees	672	309	251
Conduct of registered institutions	30	33	25
Listing-related matters and disclosure of interests	532	403	433
Market misconduct <sup>2</sup>	277	311	295
Product disclosure	1	11	7
Unlicensed activities	80	89	81
Breach of offers of investments	40	9	2
Other financial activities	487	483	327
<b>Total</b>	<b>2,119</b>	<b>1,648</b>	<b>1,421</b>

<sup>1</sup> New categories were added for this year's report to better reflect the nature of the complaints.

<sup>2</sup> Includes market manipulation and insider dealing.

## Publications and other communications

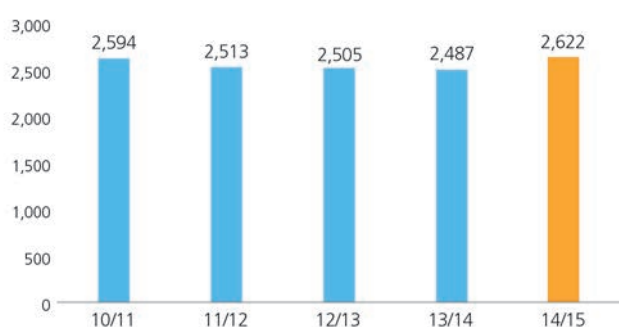
	2014/15	2013/14	2012/13
Press releases	137	117	130
Consultation papers	8	4	4
Consultation conclusions	6	1	6
Industry-related publications	15	11	5
Codes and guidelines	7	5	10
Circulars	48	46	40
Corporate website average daily page views <sup>1</sup>	44,954	42,908	31,764 <sup>2</sup>
General enquiries	5,883	7,333	7,746

<sup>1</sup> The average number of web pages browsed per day during the reporting period.

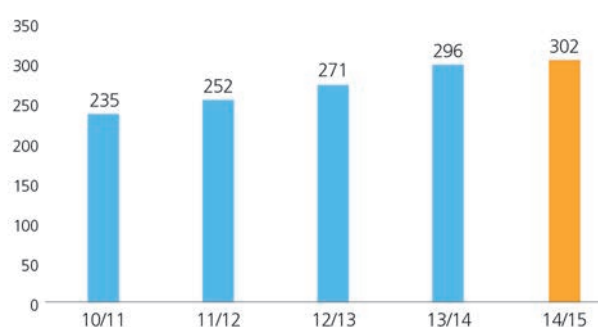
<sup>2</sup> The corporate website underwent a re-design in 2012. The figure covers the period from 8 August 2012, the launch date of the revamped website, to 31 March 2013.

These charts 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, see Breakdown of SFC activity data on pages 138-146.

**Authorized collective investment schemes#**

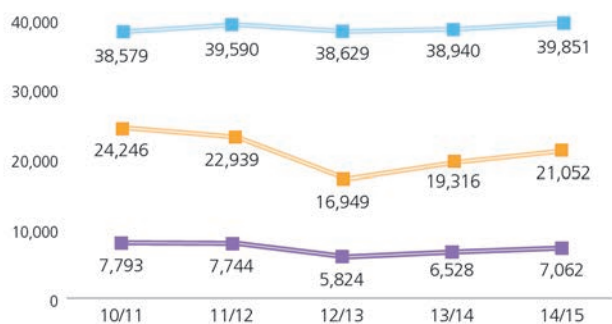


**Risk-based, on-site inspections conducted**

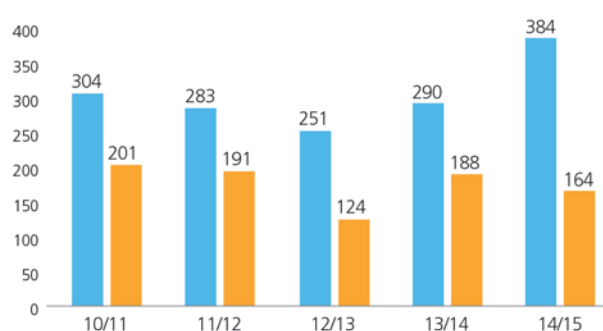


# Figures represent a snapshot view as at each financial year-end.

**Licensing**



**Market-related transactions**



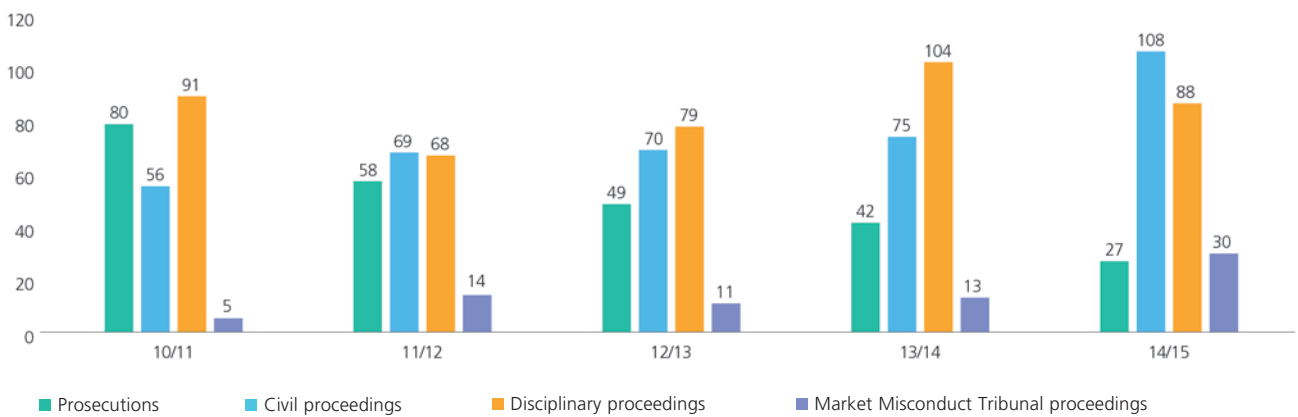
■ Total number of SFC licensees as at each financial year-end  
 ■ Applications to conduct new regulated activity received  
 ■ Applications for SFC licences received

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

Investigations by nature

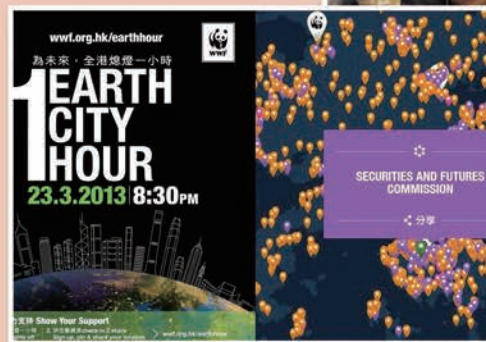


Persons/corporations subject to enforcement action



# Corporate Social Responsibility

We are committed to acting as a responsible corporate citizen and an equal opportunity employer in a way which aligns with our role as a statutory body.





We integrate our corporate social responsibility (CSR) principles into all of our operational decisions and practices. Our CSR initiatives focus on four areas: promoting sustainability, caring for the community, protecting the environment and fostering a safe and congenial workplace.

### Governance

To promote the effectiveness of our CSR policies, we have established a dedicated committee to guide and implement our CSR vision, strategy and activities. Chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, the CSR Committee is made up of representatives from divisions across the organisation and reports directly to the SFC’s Executive Committee (ExCo). The CSR Committee is charged with:

- formulating and developing the SFC’s CSR vision, principles, framework and policies;
- adopting practices and organising initiatives to promote CSR;
- setting CSR objectives, targets, key performance indicators and other measures to ascertain performance;
- monitoring and reviewing the effectiveness of our CSR initiatives; and
- making recommendations to the ExCo where appropriate.

Under the CSR Committee, three working groups are each charged with implementing a specific thematic initiative (see table). The working groups establish annual priorities and plans for their respective themes.

### CSR working groups and themes

Working group	Focus	2014/15	2015/16
Commission Volunteers Group 	Community	Volunteer to make a better community	Stay connected by volunteering
Green Working Group 	Environment	Keep going green	Keep sustaining green
Wellness Group 	People	Wellness – Your ongoing lifestyle, our ongoing mission	Stay healthy and spread the word

Our corporate website has a designated section to explain our CSR vision and principles and to describe the types of CSR activities we engage in. On our intranet, there is a special section about our CSR policy and related information for internal use. In addition, since January 2011, an internal quarterly e-newsletter provides regular updates to staff about our CSR activities and their outcomes. Staff are invited to provide comments and suggestions on CSR initiatives. The e-newsletter highlights comments from participants in our CSR programmes as a means to provide our staff with first-hand accounts of these activities.



## Marketplace support

Our regulatory policies and actions have a direct impact on markets. Over the years, we have taken steps to increase the industry's operational efficiency and minimise its resource consumption. For example, both of these objectives have been served by reducing the end-to-end processing time for applications and certain reports submitted to us by the industry and the public.

### Paper consumption and electronic filing

In May 2014, we launched the Rule 22 Dealing Disclosure online submission system under the Takeovers Code. All parties were required to use the online system to make relevant dealing disclosures starting 1 July 2014. The new system streamlined the submission and posting process for these disclosures, and resulted in improved efficiency.

Since September 2009, licensing applications, notifications and other documents can be submitted, and payments can be made, through the SFC Online Portal electronically. Apart from licensing applications and fee payment, about 270,000 notifications and annual returns have been processed through the portal, saving approximately 840,000 pages of paper. (See more details in sidebar on the right.)

In addition, use of our electronic financial return submission system during the year saved another 380,000 pages of paper from licensed firms' financial returns alone.

Since June 2012, investors have been able to electronically report short positions<sup>1</sup> through our website. In addition, the processing of these submissions was streamlined to allow for more timely publication.

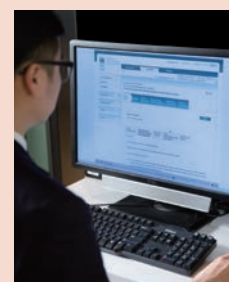
Another measure which advocates reduction of paper prospectuses was the introduction of the Mixed Media Offer process with Hong Kong Exchanges and Clearing Limited in February 2011. This process allows listing applicants and listed companies to issue paper

application forms together with electronic listing documents for certain securities<sup>2</sup> that will be listed on The Stock Exchange of Hong Kong Limited, provided certain conditions are fulfilled.

### Industry embraces paperless filing

The SFC Online Portal provides market participants with the option of filing documents and paying fees electronically. For example, certain required statutory reporting and the submission of licence applications, notifications and annual returns can all be done online via the portal. This service was first introduced in September 2009 as a measure to improve efficiency and promote environmental conservation. Since then, over 2,000,000 pages of paper have been saved through the use of electronic filing.

When the portal was first launched, it mainly handled licensing-related matters. Over the past six years, we made a number of major enhancements to the portal and expanded its scope to include other regulatory areas.



SFC Online Portal

### Faster, more streamlined processes

Today, the portal makes it easy for market participants to report short positions, file takeovers-related dealing disclosures and submit financial returns as well as brokers' reports on trading information, as required by the law or relevant code. For licensing matters, the portal now offers the option to complete forms online and have them validated through our internal workflow system, which reduces our end-to-end turnaround time. In addition, electronic payments help streamline our payment processes.

Industry participation in this sustainability initiative has been high. As of 31 March 2015, over 95% of all licensed individuals, corporations and registered institutions had activated their portal accounts. Electronic filing is mandatory for financial returns and short position reporting. Over the year, about 55,000 annual returns and notifications were submitted online, up 5% from the previous year.

<sup>1</sup> The Securities and Futures (Short Position Reporting) Rules require investors to report net short positions which reach or exceed a specified reporting threshold on a weekly basis.

<sup>2</sup> Include shares and debentures in a company or interests in an SFC-authorized collective investment scheme.

### Professional competence and financial literacy

The rapid pace of market developments means it is crucial to maintain the professional competence of industry practitioners. We impose continuous professional training (CPT) requirements<sup>3</sup> for licensees to keep their technical knowledge and professional skills up to date. We have offered professional training to the industry directly or through seminars organised by various professional bodies. This year, our senior executives provided 46.5 CPT-eligible hours to licensees.

We continued to support the work of the Hong Kong Securities and Investment Institute including funding its development of examinations for the new regime regulating over-the-counter derivatives. We also provided initial funding for the Institute to develop an Advanced Learning Platform to deliver training to market practitioners and small and medium-sized firms.

As part of our efforts to educate retail investors, we provide funding to the Investor Education Centre, our wholly-owned subsidiary, to promote financial education for investors across a broad range of financial products and services.

### Community care

We participate in charitable and community activities. For the ninth consecutive year, we were named as a "Caring Organisation" by the Hong Kong Council of Social Services in recognition of our contributions in this area.

We encourage our staff to take part in community service by organising self-funded initiatives and events with community groups and by offering volunteering leave. This year, 134 employees spent 558 hours volunteering.

### Volunteering events

Month	Activity	Purpose	Outcome
May 2014	Home Visit to Singleton Elders	To care for the elderly as part of Po Leung Kuk's (PLK) District Elderly Campaign	Paid home visits to 50 singleton and underprivileged elders in Lam Tin and presented PLK's gift packs
Jul 2014	Golf Day with Intellectually Challenged Adults (with Hong Chi Association)	To provide opportunities for socialisation	Paired up with 24 intellectually challenged adults from Hong Chi Association to play golf
Aug 2014	In-house Blood Donation Day (with Hong Kong Red Cross)	To emphasise the importance of giving blood regularly to help maintain a stable blood supply	50 donors donated blood, up 11% from last year
Sep 2014	Lok Sin Tong Benevolent Society Kowloon (LST) Buddy Mid-Autumn Volunteer Event	To care for the elderly	Visited and delivered lucky bags to 15 elderly in Yau Tsim Mong District
Oct 2014	Eco-tour to The Chinese University of Hong Kong (CUHK) (with PLK's children section)	To help children learn more about ecological sustainability and green living	Visited the Jockey Club Museum of Climate Change and the campus of CUHK with 20 children from PLK with CUHK's student guides
Dec 2014	Ma On Shan Barbecue (with Hong Kong Children & Youth Services)	To support underprivileged children by interacting with them	Had barbecue with 15 children followed by games and hiking
Mar 2015	Beach Clean-up	To raise awareness of environmental protection	19 colleagues cleaned up refuse at Silverstrand Beach in Sai Kung

<sup>3</sup> 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.

Our staff also make donations for charity as well as for supporting our community service. During the year, we raised \$128,980 for charity, including our participation in two Community Chest events<sup>4</sup>. We also raised funds through our participation in this year's Standard Chartered Hong Kong Marathon Corporate Challenge, where for the first time we won the Highest Team Participation award with 20 teams comprising 68 SFC athletes taking part, an increase of 17% from the previous year. These fundraising initiatives benefit the community and help those in need.

**Contributions**

	2014/15	2013/14	2012/13
Number of employees participating in volunteering activities	134	154	143
Total volunteer hours	558	591	567
Funds raised for community causes (\$)	128,980	137,026	115,675
Corporate sponsorships for community causes <sup>1</sup> (\$)	12,000	38,000	21,000

<sup>1</sup> 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.



Our Dragon Boat team paddles hard to show team spirit

*We were happy to visit the elders and learn about their interesting experiences. They were all glad to have people visit and bring them some joy. Although the singleton elders live alone, some of them enjoy busy social lives. It was also a nice opportunity to hear their "secret recipe" for staying young and healthy.*

**Polly Ng, Manager and Jim Yeung, Graduate Trainee**

As a means of both giving back to the community and reducing wastage, we encourage the practice of donating used items to charitable organisations whenever possible. This year, we donated our obsolete computers and accessories to Caritas Hong Kong for recycling in support of its computer refurbishment project, which aims to reduce computer dumping and to promote youth employment opportunities by providing computer courses and on-the-job training.



Outing with children from Hong Kong Children & Youth Services

In September 2014, we hosted an education seminar organised by Women in Finance Asia (WiFA), a volunteer organisation for women in the financial services industry, to foster mutual support and develop their personal and professional skills. The event helped WiFA members learn more about environmental, social and corporate governance issues.

*This was the first volunteering event serving the needs of intellectually challenged adults since I joined the SFC. I had a very enjoyable day playing golf with my designated teammate. We encouraged each other every time one of us made a good shot. I appreciate the efforts of the Commission Volunteers Group to target new communities.*

**Cherrie Cheng, Associate**

<sup>4</sup> Including the Community Chest Dress Casual Day (September 2014) and Community Chest Love Teeth Day (January 2015).

## Environmental protection

As an environmentally conscious organisation, we have launched a number of initiatives to raise “green” awareness among our staff and our stakeholders and to reduce our resource consumption and carbon footprint. Our internal protocol, “A Guide to Working ‘Green’ at the SFC”, focuses on four principles – reuse, recycle, reduce and repair.

Apart from the industry-wide initiatives mentioned above, we implement in-house measures to minimise consumption and waste, including:

- A “Go paperless, go inkless” campaign to raise staff awareness of environmental protection;
- Internal electronic processes to save processing time and paperwork, including e-pay slips, e-leave applications, e-appraisals and performance planning forms; this year the scope of this initiative was expanded to expense claims and overseas travel records;
- E-meeting initiatives to allow electronic sharing of meeting materials using tablet PCs in internal meetings;
- Electronic internal circulars to make administrative, information technology and human resource announcements;
- Paperless diaries such as the e-calendar in our e-mail system; and
- Providing a Christmas e-card to all staff to replace traditional greeting cards.



E-meeting using tablet PCs

*The beach clean-up event definitely made me more aware of beach pollution. This was my first time joining with colleagues to clear litter and waste from the shore and I found it very meaningful and fulfilling. I highly recommend that colleagues participate in similar events in the future – let's protect our environment together!*

Lawrence Wong, Associate

Energy saving is another one of our environmental initiatives. The lighting system in our workplace is energy-efficient and automatically adjusts after office hours. In addition, during the year we were able to reduce electricity usage in our data centre by raising the room temperature.

We also promoted reuse and recycling initiatives throughout the year. In addition to providing more recycling bins for cans and bottles in our offices to help reduce wastage, we collected used red packets for recycling. We disposed of our outmoded crockery by selling it to staff, at the same time raising funds to support our volunteering activities.

As the plastic shopping bag charging scheme was fully implemented in Hong Kong on 1 April 2015, we promoted the habit of “bringing your own bag” by distributing our own environmentally-friendly bags to staff.

## Consumption and recycling

	2014/15	2013/14	2012/13
<b>Consumption</b>			
Paper (pieces/head)	12,191	11,863	11,235
Electricity (kWh)	3,973,481	3,607,287	3,913,576
<b>Recycling</b>			
Paper (kg)	25,933	21,288	51,735 <sup>1</sup>
Toner and printer ink cartridges (number)	1,035	936	745

<sup>1</sup> 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.



Ma Shi Chau geo-tour



Recycling red packets

Our environmental protection efforts are not confined to our work environment. We also support the World Wide Fund's (WWF) global warming prevention and environmental conservation causes:

- No Shark Fins Policy: We have adopted an organisation-wide No Shark Fins Policy since May 2012, pledging not to serve sharks' fins at any SFC event.
- Earth Hour 2015: Participating in the WWF's Earth Hour event for the fifth year, our staff pledged to turn off lights for one hour on 28 March 2015.

For our staff to learn more about sustainable development as well as the geology and biodiversity of Hong Kong, we organised a geo-tour to Ma Shi Chau and Aviary Pagoda, a relatively untouched natural landscape, where staff increased their environmental awareness through active outdoor learning.

## Workplace quality

As an equal opportunity employer, we encourage employment practices which foster diversity and respect for employees' rights. Providing a safe, quality work environment is also paramount.

As at 31 March 2015, 42% of staff at Director grade or above were female. This was the third year in a row this proportion has increased. We will soon launch an SFC women's group to foster connectivity and engagement as well as to enhance the professional development of women in our workplace. To support families, we set up nursery rooms for post-natal employees and provided male employees with five days of paternity leave.

## Employee statistics

	2014/15	2013/14	2012/13
Male	258	253	222
Female	535	500	446
Female staff			
At Senior Manager grade or above	57%	54%	55%
At Director grade or above	42%	40%	37%
Average years of service	7	6.8	6.4

We also attach great importance to the health and wellness of our people and this year we launched a number of initiatives to promote living well:

- Talks on stress management and on neck and back care to help colleagues develop healthier living habits;
- An on-site influenza vaccination and health screening programme to complement the corporate health plan;
- An introductory Tai Chi class and a hiking day to promote physical fitness;
- A Yogurt Day to encourage a healthy diet; and
- A Massage Day to soothe body tension and help improve physical health.

To further promote staff wellness and environmental awareness at work, we implemented the "Adopt a Plant Programme" for the third year. As part of this initiative, over 190 colleagues purchased small potted plants. The programme not only brightened our office decor and improved indoor air quality, but also raised over \$2,000 to fund our volunteering activities.

We also promote efforts to help maintain work-life balance. During the year, the Staff Activities Committee coordinated or organised a number of sports events and staff bonding activities for colleagues to promote work-life balance and team spirit among employees.

These included the Hong Kong Special Administrative Region Charity Football Invitation Tournament, Stanley International Dragon Boat Championships and movie nights, all of which were well received by staff. We also joined other local financial regulators in the Supervisory Cup Basketball Competition where this year our men's team was first runner-up and our women's team was second runner-up.

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

## CSR Activity Calendar

### April – June 2014

- **Adopt a Plant Programme**
- Back and neck care talk
- Home Visit to Singleton Elders
- In-house Tai Chi introductory class
- Staff sale of used cup sets
- Stress management talk



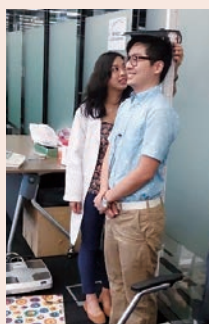
### July – September 2014

- Community Chest Dress Casual Day
- Golf Day with Intellectually Challenged Adults
- **Hong Kong Red Cross Blood Donation Day**
- LST Buddy Mid-Autumn Volunteer Event
- Women in Finance Asia seminar
- Yogurt Day



### October – December 2014

- Eco-tour to CUHK
- Ma On Shan Barbecue with Hong Kong Children & Youth Services
- Ma Shi Chau geo-tour
- **On-site health screening session**
- On-site influenza vaccination



### January – March 2015

- **Beach Clean-up**
- Community Chest Love Teeth Day
- Earth Hour 2015
- Hiking Day
- Massage Day
- Recycling of red packets
- Standard Chartered Hong Kong Marathon 2015



We strive to build a high-performance organisation, driven by an effective and engaged workforce, as well as a sophisticated information technology infrastructure which enhances communication and efficiency. During the year, we provided a range of development opportunities for our staff and continued to invest in new technologies and systems.

### Engaging leaders, engaged employees

Creating a workplace where we live our core value of “people count” requires that our leaders keep staff engaged, enhance communication and foster collaboration. During the year, we launched new training programmes aimed to equip our people managers with the right set of leadership skills and behaviours. We also rolled out an enhanced organisation-wide Performance Planning System which emphasises leadership qualities and includes a competency-based training curriculum.

Our CEO communicates important organisational matters and regulatory developments and addresses staff questions at regular CEO Sharing Sessions. During the year, representatives from various units spoke at five sessions of our Commission Connection Series to share updates on their projects and operational approaches with colleagues from across the organisation.

Building on the results of our 2013 employee engagement survey, a cross-divisional team was set up to explore ways to increase staff engagement. These include involving more junior professional staff in cross-divisional projects and introducing an internal mentorship programme.

### Training and e-learning

	2014/15	2013/14	2012/13
Percentage of employees who participated in internal training <sup>1</sup>	91%	93%	90%
Average hours of internal training per employee <sup>1</sup>	32.1	42.1	31.1
Number of employees who undertook e-learning	164	202	188

<sup>1</sup> Including lectures, workshops and seminars.

We operate a total reward strategy in which remuneration policies and practices are reviewed yearly to attract and retain talent. Individuals and teams that make outstanding contributions are recognised through the annual SFC Employee Awards. (See Our People on pages 32-33.)



### Developing people

We provide staff with multiple development opportunities, ranging from structured learning to on-the-job training. We offer customised courses to cater to various operational needs.

This year, our employees spent an average of 32.1 hours on structured learning courses. Many staff members also took e-learning courses via our intranet or used our education, examination and training sponsorships to further develop their knowledge and skills.

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

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To promote teamwork, we followed up on last year’s tailor-made workshops on personal effectiveness and know-how by providing further training sessions to our staff.

We held regular workshops on China-related issues. This year, 18 staff members were seconded to the China Securities Regulatory Commission (CSRC), compared with 17 the year before. To provide our employees with a better understanding of the Mainland securities market, we continued to organise one-day visits to the Shenzhen Stock Exchange, the CSRC and China Securities Depository and Clearing Corporation Limited.

We recruited 11 graduate trainees for our Graduate Trainee Programme, now in its sixth year. We also welcomed 48 summer and winter interns who assisted us in various divisions.



### Information technology

To support our operations as financial markets become increasingly complex, we reviewed our information technology strategy, existing infrastructure and systems, and developed a five-year plan to meet future needs. Our on-going risk assessment programme helps to identify information security risks and ensures that corresponding mitigation measures are in place.

The amount of data needed for market surveillance is set to surge with extended trading hours and the increasing number of investment products. We have employed advanced technologies to process data in a more efficient and cost-effective way. A technical infrastructure was developed to monitor market activities related to Shanghai-Hong Kong Stock Connect.



Our intranet is designed to support the sharing and transfer of knowledge and to facilitate collaboration across the organisation. For example, staff can now learn about important court cases via the intranet where they can find a brief synopsis of the facts of key cases and excerpts from significant court judgements.

### Managing financial performance

#### Expenditure

The costs of our operations were \$1,457 million, \$214 million below our original budget of \$1,671 million. During the year our costs rose 9%, which was less than the 13% increase in the previous year. We compare our expenditures to changes in key indicators for our work as well as to quantitative trends in our markets.

#### Expenditure breakdown

	2014/15	2013/14	2012/13
Staff costs	<b>68.3%</b>	66.9%	63.8%
Premises and related expenses	<b>15.9%</b>	16%	18.2%
Other expenses	<b>12%</b>	13.2%	13.3%
Depreciation	<b>3.8%</b>	3.9%	4.7%



## Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. We reduced our levy rate by 10% in November 2014. The current rate is 0.0027% for securities transactions, which is significantly less than the initial rate of 0.0125% when the transaction levy mechanism was set up. Although our fee income is below the attributable costs, we have not revised our fees and charges since 1994. In addition, we have offered waivers for annual licensing fees three times since 2009. The current waiver is in effect for two years beginning 1 April 2014.

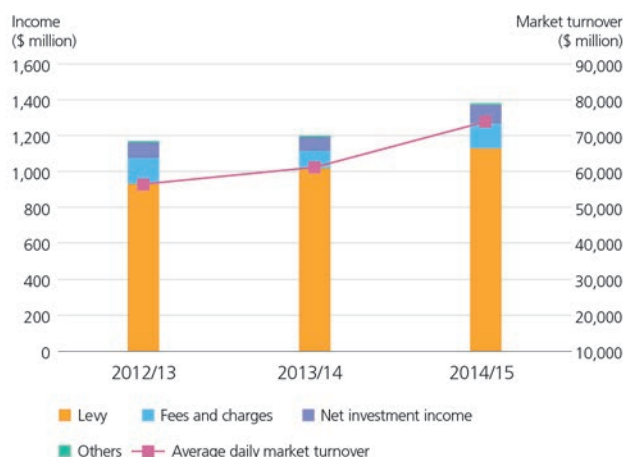
## Funding breakdown

	2014/15	2013/14	2012/13
Levies	<b>81.7%</b>	84.9%	79.5%
Fees and charges	<b>10%</b>	8%	12.5%
Net investment income	<b>7.6%</b>	6.4%	7.3%
Others	<b>0.7%</b>	0.7%	0.7%

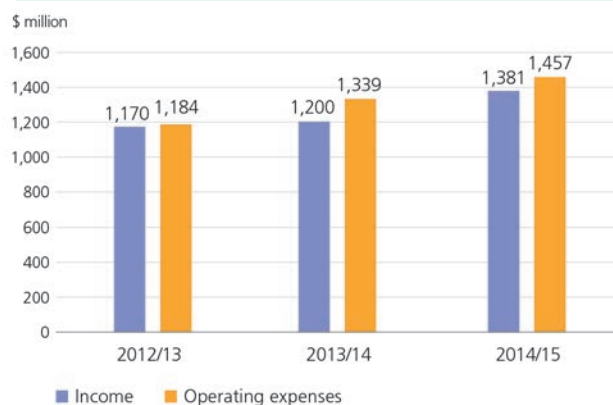
Total income for the year was \$1,381 million, up from \$1,200 million a year ago. Due to increased securities market turnover, our levy income rose by 11% to \$1,129 million in the current year. Our income from fees and charges increased by 44%, from \$96 million last year to \$138 million this year, mainly attributable to a rise in the amount of takeovers and mergers document fees received.

The ratio of average expenses to income for the past three years was 106%. The average increase in income and expenses was 8.8% and 11% respectively.

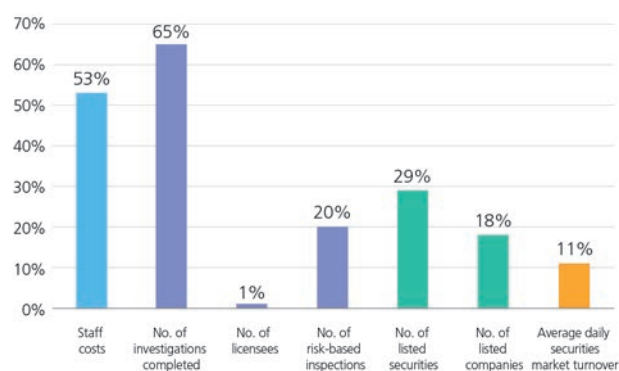
## Income vs market turnover (2012-2015)



## Income and operating expenses (2012-2015)



## Three-year change in staff costs, regulatory activities and market statistics (2012-2015)



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Despite the increase in income, we recorded a deficit of \$76 million for the year, compared to \$139 million last year.

As of 31 March 2015, our reserves stood at \$7.2 billion. We are obliged to manage our reserves according to the investment guidelines approved by the Financial Secretary of the Hong Kong Special Administrative Region. We continued to put the proceeds from debt securities which matured during the year into liquid investments such as fixed deposits, as the process for appointing external investment managers is still in progress.



### Finances

	2014/15	Change	2013/14	Change	2012/13
Income (\$ million)	<b>1,381</b>	<b>15%</b>	1,200	3%	1,170
Expenses including depreciation (\$ million)	<b>1,457</b>	<b>9%</b>	1,339	13%	1,184
Deficit (\$ million)	<b>(76)</b>		(139)		(14)

### Breakdown of staff

	31 March 2015		31 March 2014		31 March 2013	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	<b>608</b>	<b>666</b>	571	610	491	560
Support	<b>185</b>	<b>186</b>	182	184	177	176
Total	<b>793</b>	<b>852</b>	753	794	668	736

## Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (SFC) and its subsidiaries (together referred to as the Group) set out on pages 82 to 106 which comprise the consolidated and the SFC statements of financial position as at 31 March 2015, 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 consolidated financial statements

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

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group as at 31 March 2015 and of the Group's result and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### KPMG

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

28 May 2015

## Consolidated statement of comprehensive income

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Income</b>			
Levies		1,128,535	1,018,543
Fees and charges		138,414	95,937
Investment income	5	107,268	79,470
Less: custody and advisory expenses		(2,090)	(1,975)
Investment income net of third party expenses		105,178	77,495
Recoveries from Investor Compensation Fund		5,323	4,990
Other income	6	3,459	3,089
		1,380,909	1,200,054
<b>Expenses</b>			
Staff costs and directors' emoluments	7	995,034	895,745
Premises			
Rent		192,596	178,432
Rates, management fees and others		39,594	35,391
Other expenses	8	174,258	176,863
Depreciation	11(a)	55,210	52,276
		1,456,692	1,338,707
<b>Loss and total comprehensive income for the year</b>		<b>(75,783)</b>	<b>(138,653)</b>

The notes on pages 87 to 106 form part of these financial statements.

## Consolidated statement of financial position

At 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Non-current assets</b>			
Fixed assets	11(a)	89,139	100,510
Held-to-maturity debt securities	9	493,936	1,119,967
		<b>583,075</b>	1,220,477
<b>Current assets</b>			
Held-to-maturity debt securities	9	618,436	1,792,313
Financial assets designated at fair value through profit or loss	10	715,140	–
Debtors, deposits and prepayments	15	143,574	129,499
Fixed and call deposits with banks	12	5,322,706	4,313,927
Cash at bank and in hand	12	10,465	6,852
		<b>6,810,321</b>	6,242,591
<b>Current liabilities</b>			
Fees received in advance		8,777	8,543
Creditors and accrued charges		122,057	115,854
		<b>130,834</b>	124,397
<b>Net current assets</b>			
		<b>6,679,487</b>	6,118,194
<b>Total assets less current liabilities</b>			
		<b>7,262,562</b>	7,338,671
<b>Non-current liabilities</b>			
	14	21,369	21,695
<b>Net assets</b>			
		<b>7,241,193</b>	7,316,976
<b>Funding and reserves</b>			
Initial funding by Government	16	42,840	42,840
Accumulated surplus		7,198,353	7,274,136
		<b>7,241,193</b>	7,316,976

Approved and authorized for issue by the SFC on 28 May 2015 and signed on its behalf by

**Carlson Tong**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 87 to 106 form part of these financial statements.

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## Statement of financial position

At 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Non-current assets</b>			
Fixed assets	11(b)	89,020	100,313
Held-to-maturity debt securities	9	493,936	1,119,967
		<b>582,956</b>	1,220,280
<b>Current assets</b>			
Held-to-maturity debt securities	9	618,436	1,792,313
Financial assets designated at fair value through profit or loss	10	715,140	–
Debtors, deposits and prepayments	15	147,677	129,112
Fixed and call deposits with banks		5,322,706	4,313,927
Cash at bank and in hand		2,718	2,695
		<b>6,806,677</b>	6,238,047
<b>Current liabilities</b>			
Fees received in advance		8,777	8,543
Creditors and accrued charges		118,294	111,113
		<b>127,071</b>	119,656
<b>Net current assets</b>		<b>6,679,606</b>	6,118,391
<b>Total assets less current liabilities</b>		<b>7,262,562</b>	7,338,671
<b>Non-current liabilities</b>	14	<b>21,369</b>	21,695
<b>Net assets</b>		<b>7,241,193</b>	7,316,976
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>	16	<b>42,840</b>	42,840
<b>Accumulated surplus</b>		<b>7,198,353</b>	7,274,136
		<b>7,241,193</b>	7,316,976

Approved and authorized for issue by the SFC on 28 May 2015 and signed on its behalf by

**Carlson Tong**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 87 to 106 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive income for the year	–	(138,653)	(138,653)
Balance at 31 March 2014 and 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive income for the year	–	(75,783)	(75,783)
Balance at 31 March 2015	42,840	7,198,353	7,241,193

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The notes on pages 87 to 106 form part of these financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Loss for the year		(75,783)	(138,653)
Adjustments for:			
Depreciation		55,210	52,276
Investment income		(107,268)	(79,470)
Exchange difference		1,304	3,761
Loss/(gain) on disposal of fixed assets		2	(31)
		(126,535)	(162,117)
Increase in debtors, deposits and prepayments		(16,524)	(5,144)
Increase in fees received in advance		234	281
Increase in creditors and accrued charges		6,203	1,000
Decrease in non-current liabilities		(326)	(1,216)
<i>Net cash used in operating activities</i>		(136,948)	(167,196)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(3,179,015)	(49,832)
Interest received		106,557	124,938
Purchase of financial assets held at fair value through profit or loss		(697,956)	–
Sale of financial assets held at fair value through profit or loss		266	–
Held-to-maturity debt securities redeemed at maturity		1,784,314	2,797,950
Fixed assets purchased		(43,842)	(40,069)
Fixed assets sold		1	39
<i>Net cash (used in)/generated from investing activities</i>		(2,029,675)	2,833,026
<b>Net (decrease)/increase in cash and cash equivalents</b>		(2,166,623)	2,665,830
<b>Cash and cash equivalents at beginning of the year</b>		4,270,947	1,605,117
<b>Cash and cash equivalents at end of the year</b>	12	2,104,324	4,270,947

### Analysis of the balance of cash and cash equivalents

	2015 \$'000	2014 \$'000
Fixed and call deposits with banks	2,093,859	4,264,095
Cash at bank and in hand	10,465	6,852
	2,104,324	4,270,947



## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

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

### 2. Income

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

- (a) levies collected by The Stock Exchange of Hong Kong Limited, 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 authorization 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 Hong Kong Financial Reporting Standards (HKFRSs) (including applicable Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). In previous years, we prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards (IASs) and Interpretations) issued by the International Accounting Standards Board (IASB).

Although HKFRSs have been fully converged with IFRSs in all material respects since 1 January 2005, these financial statements are the first published financial statements in which the Group makes an explicit and unreserved statement of compliance in accordance with HKFRSs. Therefore, in preparing these financial statements we have given due consideration to the requirements of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*. For this purpose the date of the Group's transition to HKFRSs was determined to be 1 April 2013, being the beginning of the earliest period for which the Group presents full comparative information in these financial statements.

With due regard to the Group's accounting policies in previous periods and the requirements of HKFRS 1, we have concluded that no adjustments were required to the amounts reported under IFRSs as at the date of transition to HKFRSs or in respect of the year ended 31 March 2014. Accordingly, these financial statements include for the first time a statement of compliance with HKFRSs, without adjustment to the Group's and the SFC's financial position, the Group's financial performance or cash flows either at the date of transition to HKFRSs or at the end of latest period presented in accordance with IFRSs.

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (a) Statement of compliance (cont'd)

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

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

#### (b) Basis of preparation

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

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

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

#### (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 and Hong Kong Futures Exchange Limited as income on an accrual basis.

##### (ii) Fees and charges

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

##### (iii) Interest income

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

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

#### (g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of 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

##### (i) Initial recognition

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

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

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Investments (cont'd)

##### (i) Initial recognition (cont'd)

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

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

##### (ii) Fair value measurement principles

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

##### (iii) Derecognition

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

##### (iv) Offsetting

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

#### (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).

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (i) Related parties (cont'd)

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

#### (j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of 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 material, in which case they are stated at cost.

#### (n) Investment in subsidiaries

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

#### (o) Impairment

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

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (o) Impairment (cont'd)

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

#### (p) Provisions and contingent liabilities

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

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

#### (q) Changes in accounting policies

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

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

### 4. Taxation

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 5. Investment income

	2015 \$'000	2014 \$'000
Interest income	104,108	109,534
Gain on revaluation of equity funds	17,760	–
Amortisation of premium on held-to-maturity debt securities	(15,052)	(30,956)
Amortisation of discount on held-to-maturity debt securities	452	892
	<b>107,268</b>	79,470
Interest income is derived as follows:		
Interest income from held-to-maturity debt securities	42,415	80,246
Other interest income	61,693	29,288
Total interest income on financial assets not at fair value through profit or loss	<b>104,108</b>	109,534

### 6. Other income

	2015 \$'000	2014 \$'000
Investigation costs awarded	3,026	1,361
FinNet managed network and support fee	–	648
Sale of SFC publications	339	482
Gain on disposal of fixed assets	–	31
Others	94	567
	<b>3,459</b>	3,089

### 7. Staff costs and directors' emoluments

	2015 \$'000	2014 \$'000
Salaries and allowances	901,227	813,792
Retirement benefits	56,417	50,835
Medical and life insurance	26,403	23,443
Staff functions	1,963	2,167
Recruitment	7,557	4,381
Registration and membership fees	1,467	1,127
	<b>995,034</b>	895,745

The total number of staff as at 31 March 2015 was 817 (793 for the SFC, 21 for the Investor Education Centre and three for the Investor Compensation Company Limited) (as at 31 March 2014: the total number of staff was 772 comprising 753 for the SFC, 16 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 2015 (Expressed in Hong Kong dollars)

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions <sup>1</sup> \$'000	2015 Total \$'000	2014 Total \$'000
<b>Chief Executive Officer</b>						
Ashley Alder, JP	-	6,582	2,172	658	9,412	9,031
<b>Executive Directors</b>						
Alexa Lam, JP (retired 1 March 2015 <sup>2</sup> )	-	4,964	1,206	469	6,639	6,847
Brian Ho	-	4,491	1,198	449	6,138	6,132
James Shipton (appointed 19 June 2013)	-	4,500	1,111	450	6,061	4,708
Julia Leung, SBS (appointed 2 March 2015)	-	362	-	-	362	-
Keith Lui	-	4,450	1,230	445	6,125	6,120
Mark Steward	-	4,730	1,448	473	6,651	6,644
	-	30,079	8,365	2,944	41,388	39,482
<b>Non-executive Chairman</b>						
Carlson Tong, SBS, JP	1,012	-	-	-	1,012	1,012
<b>Non-Executive Directors</b>						
The Hon Chan Kam-lam, SBS, JP (retired 14 November 2013 <sup>2</sup> )	-	-	-	-	-	157
Lawrence Lee, JP	253	-	-	-	253	253
Wong Kai Man, BBS, JP	253	-	-	-	253	253
Anderson Chow (resigned 31 July 2014)	84	-	-	-	84	253
Professor Leonard Cheng Kwok-hon, JP	253	-	-	-	253	253
Teresa Ko, JP	253	-	-	-	253	253
Dr Kelvin Wong Tin-yau, JP	253	-	-	-	253	253
Mary Ma (appointed 15 November 2013)	253	-	-	-	253	96
Dr William Wong Ming-fung (appointed 1 August 2014)	169	-	-	-	169	-
	2,783	-	-	-	2,783	2,783
<b>Total directors' emoluments</b>	2,783	30,079	8,365	2,944	44,171	42,265

<sup>1</sup> This represents net contribution expenses accrued during the year ended 31 March 2015 in accordance with the accounting policy set out in note 3(f) on page 89. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2015 was \$1,940,000 (as at 31 March 2014: \$1,726,000).

<sup>2</sup> Retired having completed appointment period.



## Notes to the consolidated financial statements

For the year ended 31 March 2015 (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 2014-15, representing the emoluments of the Chief Executive Officer and four Executive Directors, was \$34,965,000 (2013-14: \$34,774,000) with the breakdown as follows:

	2015 \$'000	2014 \$'000
Salaries, allowances and benefits in kind	25,217	25,041
Discretionary pay	7,254	7,229
Retirement scheme contributions	2,494	2,504
	<b>34,965</b>	<b>34,774</b>

Their emoluments are within the following bands:

	2015 No. of individuals	2014 No. of individuals
\$6,000,001 to \$6,500,000	2	2
\$6,500,001 to \$7,000,000	2	2
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	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 2015 (Expressed in Hong Kong dollars)

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

#### Employee benefits (cont'd)

#### (a) ORSO Scheme

##### (i) General grade staff

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2014: 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 \$2,987,000 (2014: \$1,448,000) and the amount so forfeited available at the end of the reporting period was \$659,000 (2014: \$3,000).

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

	2015 \$'000	2014 \$'000
Training and development	6,900	8,292
Legal and professional services	54,757	57,558
Information and systems services	44,987	40,509
Auditor's remuneration	702	676
Funding for the Financial Dispute Resolution Centre	10,500	14,000
Funding for the Financial Reporting Council	6,990	4,862
Funding for the Hong Kong Securities and Investment Institute and other training initiatives	7,800	2,000
Funding for the International Financial Reporting Standards Foundation	388	388
General office and insurance	7,484	6,569
Investor and other education programme costs to the Investor Education Centre	19,528	20,298
Overseas travelling, regulatory meeting expenses and others	12,318	12,881
Exchange loss (see note 9)	1,902	8,830
Loss on disposal of fixed assets	2	–
	<b>174,258</b>	<b>176,863</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 9. Held-to-maturity debt securities

#### The Group and the SFC

		2015 \$'000	2014 \$'000
Maturing after one year in the second to sixth years	– unlisted	415,440	542,982
	– listed outside Hong Kong	78,496	576,985
		<b>493,936</b>	1,119,967
Maturing within one year	– unlisted	123,805	855,759
	– listed outside Hong Kong	494,631	936,554
		<b>618,436</b>	1,792,313
		<b>1,112,372</b>	2,912,280
Amortised cost at 31 March	– unlisted	539,245	1,398,741
	– listed outside Hong Kong	573,127	1,513,539
		<b>1,112,372</b>	2,912,280
Market value at 31 March	– unlisted	542,753	1,404,612
	– listed outside Hong Kong	577,455	1,529,395
		<b>1,120,208</b>	2,934,007

The average yield to maturity of the debt securities was 0.6% as at 31 March 2015 (2014: 0.7%).

Exchange losses arising from the translation of year end held-to-maturity debt securities amounted to \$1 million (2014: \$3.8 million) are recognised in the statement of comprehensive income.

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

	2015 \$'000	2014 \$'000
Equity funds – unlisted	715,140	–

The equity funds comprise mainly listed equity securities.

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 11 Fixed assets

#### (a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2014	101,210	8,597	160,124	89,029	2,411	361,371
Additions	17,478	1,568	13,079	11,717	–	43,842
Disposals	–	(335)	(276)	(1,145)	–	(1,756)
At 31 March 2015	118,688	9,830	172,927	99,601	2,411	403,457
Accumulated depreciation						
At 1 April 2014	44,679	4,824	135,991	74,107	1,260	260,861
Charge for the year	22,977	1,716	16,131	13,936	450	55,210
Written back on disposals	–	(332)	(276)	(1,145)	–	(1,753)
At 31 March 2015	67,656	6,208	151,846	86,898	1,710	314,318
Net book value						
At 31 March 2015	51,032	3,622	21,081	12,703	701	89,139
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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 11 Fixed assets (cont'd)

#### (b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
At 1 April 2014	101,195	8,533	160,124	88,470	2,411	360,733
Additions	17,478	1,568	13,079	11,651	–	43,776
Disposals	–	(335)	(276)	(1,145)	–	(1,756)
At 31 March 2015	118,673	9,766	172,927	98,976	2,411	402,753
<b>Accumulated depreciation</b>						
At 1 April 2014	44,663	4,767	135,991	73,739	1,260	260,420
Charge for the year	22,977	1,714	16,131	13,794	450	55,066
Written back on disposals	–	(332)	(276)	(1,145)	–	(1,753)
At 31 March 2015	67,640	6,149	151,846	86,388	1,710	313,733
<b>Net book value</b>						
At 31 March 2015	51,033	3,617	21,081	12,588	701	89,020
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Net book value</b>						
At 31 March 2014	56,532	3,766	24,133	14,731	1,151	100,313

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 12. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2015 ranged from 0.4% to 4.65% (2014: 0.2% to 2.98%). These balances mature within one year as at both 31 March 2015 and 31 March 2014.

#### Reconciliation with the consolidated statement of financial position

	2015 \$'000	2014 \$'000
Cash at bank and in hand	10,465	6,852
Fixed and call deposits with banks	5,322,706	4,313,927
Amounts shown in the consolidated statement of financial position	5,333,171	4,320,779
Less: Amounts with an original maturity of beyond three months	(3,228,847)	(49,832)
Cash and cash equivalents in the consolidated statement of cash flows	2,104,324	4,270,947

### 13. 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 wholly owned subsidiaries of the SFC and 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. FinNet has not commenced business since incorporation and has been deregistered on 25 July 2014.

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

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

As at 31 March 2015, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2014: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

### 14. Non-current liabilities

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

### 15. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$134,449,000 receivables classified as loans and receivables in accordance with the determination of HKAS 39, *Financial instruments: Recognition and measurement* (2014: \$118,862,000). 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 2015 and 2014.

### 16. Initial funding by Government

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 17. Capital commitments

Capital commitments outstanding as at 31 March 2015 not provided for in the financial statements were as follows:

	2015 \$'000	2014 \$'000
Authorized and contracted for	13,301	24,537
Authorized but not contracted for	44,736	66,652

### 18. Commitment to pay rents for offices

At 31 March 2015 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	
	2015 \$'000	2014 \$'000
Payable next year	208,002	185,453
Payable in one to five years	294,173	447,334
Payable in more than five years	–	–
	502,175	632,787

During the year ended 31 March 2015, \$192,596,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2014: \$178,432,000).

### 19. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

#### (a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$5,323,000 was recovered from the ICF for the ICC's expenses (2014: \$4,990,000). As at 31 March 2015, the amount due to the ICF from the ICC was \$157,000 (as at 31 March 2014: \$304,000).

#### (b) Remuneration of key management personnel

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

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

Prior to the appointment of a Non-Executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED continued to provide services in respect of matters commenced prior to his appointment and has resigned with effect from 1 August 2014. During the year, fees paid to the NED up to the date of his resignation for such services amounted to \$30,000 (2014: \$613,000) under normal commercial terms and conditions.

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 20. Financial risk management and fair values

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

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

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

#### (a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in high-quality dated securities, rated A or above. Investment in unit trusts and mutual funds authorized 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 2015, 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 \$56,787,000 (2014: \$52,468,000). As at 31 March 2015 the average duration of the Group's investment portfolio was 1.03 years (as at 31 March 2014: 1.06 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 2014.

#### (c) Exchange rate risk

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



## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

#### (d) Market risk

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

The Group invests in units of equity funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia Free ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (10.6%) in the corresponding period, it is estimated that a general increase/decrease of such 10.6% would increase/decrease the Group's investment income and the accumulated surplus by approximately \$79,401,000 (2014: nil).

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

#### (e) Fair value measurement

##### (i) Financial assets measured at fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

#### (e) Fair value measurement (cont'd)

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

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

	2014			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Equity funds				
– Unlisted	–	–	–	–

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

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

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

#### (e) Fair value measurement (cont'd)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2015 and 2014 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

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

	Carrying amount at 31 March 2014 \$'000	Fair value at 31 March 2014 \$'000	2014		
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Held-to-maturity debt securities	2,912,280	2,934,007	2,934,007	–	–

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

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

## Notes to the consolidated financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 21. Sponsored unconsolidated structured entities

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

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2015, the ICF's maximum liability in respect of claims received was \$45,759,000 (2014: \$2,358,000) and the net asset value was \$2.2 billion (2014: \$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 2015, the UECF's maximum liability in respect of claims received was \$10,253,000 (2014: \$10,253,000) and the net asset value was \$70,013,000 (2014: \$62,894,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2015. 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 (2014: nil). The related party relationships with these entities are disclosed in note 19 of these financial statements.

### 22. Funding and reserve management

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

### 23. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortization</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018

We are in the process of making an assessment of what the impact of these amendments 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.

## 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 2015.

### 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 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 109 to 124.

### Members of the Committee

The members of the Committee during the year ended 31 March 2015 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)
Mr Mark Steward	(appointed on 20 March 2015)
Mr Chow Ka Ming, Anderson	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Mrs Alexa Lam, JP	(retired with effect from 1 March 2015)

### Interests in contracts

No contract of significance to which the Fund was a party, and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditor

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

By order of the Committee

**Keith Lui**  
Chairman

28 May 2015

## 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 109 to 124, which comprise the statement of financial position as at 31 March 2015, 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 (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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2015 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### KPMG

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

28 May 2015

## Statement of comprehensive income

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Income</b>			
Net investment income	5	68,548	18,548
Exchange difference		(732)	(1,022)
Recoveries		–	29
		<b>67,816</b>	<b>17,555</b>
<b>Expenses</b>			
Investor Compensation Company Limited expenses	7	5,323	4,990
Compensation expenses	8	43,856	–
Auditor's remuneration		119	113
Bank charges		905	845
Professional fees		3,838	3,671
		<b>54,041</b>	<b>9,619</b>
<b>Surplus and total comprehensive income for the year</b>		<b>13,775</b>	<b>7,936</b>

The notes on pages 113 to 124 form part of these financial statements.

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## Statement of financial position

At 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,887,972	1,680,755
– Pooled fund	9	304,967	284,131
Interest receivable		12,900	13,705
Due from Investor Compensation Company Limited		157	304
Fixed and call deposits with banks	10	46,258	180,533
Cash at bank	10	7,787	43,126
		<b>2,260,041</b>	2,202,554
<b>Current liabilities</b>			
Provision for compensation	8	43,808	150
Creditors and accrued charges		1,412	1,358
		<b>45,220</b>	1,508
<b>Net current assets</b>		<b>2,214,821</b>	2,201,046
<b>Net assets</b>		<b>2,214,821</b>	2,201,046
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		1,111,180	1,097,405
		<b>2,214,821</b>	2,201,046

Approved and authorized for issue by the Securities and Futures Commission on 28 May 2015 and signed on its behalf by

**Carlson Tong**

Chairman of the SFC

**Ashley Alder**

Chief Executive Officer of the SFC

The notes on pages 113 to 124 form part of these financial statements.



## Statement of changes in equity

For the year ended 31 March 2015 (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 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 and 1 April 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive income for the year	–	–	13,775	13,775
Balance at 31 March 2015	994,718	108,923	1,111,180	2,214,821

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The notes on pages 113 to 124 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	13,775	7,936
Net investment income	(68,548)	(18,548)
Exchange difference	732	1,022
Decrease/(increase) in amount due from Investor Compensation Company Limited	147	(12)
Increase in provision for compensation	43,658	–
Increase/(decrease) in creditors and accrued charges	54	(307)
Net cash used in operating activities	(10,182)	(9,909)
<b>Cash flows from investing activities</b>		
Debt securities purchased	(729,765)	(664,319)
Debt securities sold or redeemed	522,612	662,164
Equity securities sold	1,472	1,682
Interest received	46,249	48,386
Net cash (used in)/generated from investing activities	(159,432)	47,913
Net (decrease)/increase in cash and cash equivalents	(169,614)	38,004
Cash and cash equivalents at beginning of the year	223,659	185,655
<b>Cash and cash equivalents at end of the year</b>	<b>54,045</b>	<b>223,659</b>

### Analysis of the balance of cash and cash equivalents

	2015 \$'000	2014 \$'000
Fixed and call deposits with banks	46,258	180,533
Cash at bank	7,787	43,126
	<b>54,045</b>	<b>223,659</b>

## Notes to the financial statements

For the year ended 31 March 2015 (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 (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 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 has prepared its financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs) (including applicable Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). In previous years, the Fund prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards (IASs) and Interpretations) issued by the International Accounting Standards Board (IASB).

Although HKFRSs have been fully converged with IFRSs in all material respects since 1 January 2005, these financial statements are the first published financial statements in which the Fund makes an explicit and unreserved statement of compliance in accordance with HKFRSs. Therefore, in preparing these financial statements the Fund has given due consideration to the requirements of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*. For this purpose the date of the Fund's transition to HKFRSs was determined to be 1 April 2013, being the beginning of the earliest period for which the Fund presents full comparative information in these financial statements.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (a) Statement of compliance (cont'd)

With due regard to the Fund's accounting policies in previous periods and the requirements of HKFRS 1, we have concluded that no adjustments were required to the amounts reported under IFRSs as at the date of transition to HKFRSs or in respect of the year ended 31 March 2014. Accordingly, these financial statements include for the first time a statement of compliance with HKFRSs, without adjustment to the Fund's financial position, the Fund's financial performance or cash flows either at the date of transition to HKFRSs or at the end of latest period presented in accordance with IFRSs.

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

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see note 3(e)).

We prepare the financial statements in conformity with HKFRSs which 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.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (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.

##### (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.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (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.

#### (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.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (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.
- (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 HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, none of the developments are relevant to the Fund's financial statements.

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

### 4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 5. Net investment income

	2015 \$'000	2014 \$'000
Interest income from bank deposits	155	177
Interest income on financial assets designated at fair value through profit or loss	40,991	40,713
Realised gain on disposal of equity securities	13	24
Realised loss on redemption/disposal of debt securities	(1,873)	(3,155)
Gain/(loss) on revaluation of equity securities	22,456	(642)
Gain/(loss) on revaluation of debt securities	6,806	(18,569)
Net investment income	68,548	18,548

### 6. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005.

### 7. ICC expenses

The SFC formed 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 2015, ICC incurred costs of \$5,323,000 for its operations (2014: \$4,990,000) which were reimbursed by the Fund.



## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 8. Provision for compensation

	\$'000
Balance as at 1 April 2013, 31 March 2014 and 1 April 2014	150
Add: compensation expenses during the year ended 31 March 2015	44,006
Less: compensation write-backs during the year ended 31 March 2015	(150)
Less: compensation paid during the year ended 31 March 2015	(198)
Balance as at 31 March 2015	43,808

We maintained provision for liabilities arising from claims received resulting from two default cases. ICC has published a notice calling for claims for one of these default cases pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 March 2015 was \$43,808,000 (31 March 2014: \$150,000). As at 31 March 2015, all provisions were expected to be paid within one year.

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

	2015 \$'000	2014 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	583,193	442,660
Listed – outside Hong Kong based on valuation techniques	72,829	89,440
Listed – in Hong Kong at quoted market prices	566,888	349,693
Listed – in Hong Kong based on valuation techniques	–	24,578
Unlisted	665,062	774,384
	<b>1,887,972</b>	1,680,755
(ii) Maturity profile		
Within one year	439,009	412,745
After one year but within two years	288,727	416,561
After two years but within five years	1,127,817	727,641
After five years	32,419	123,808
	<b>1,887,972</b>	1,680,755
(iii) The weighted average effective interest rate of debt securities on 31 March 2015 was 1.6% (2014: 1.7%).		
(b) Pooled fund – Unlisted	304,967	284,131

The pooled fund comprises mainly listed equity securities.

## Notes to the financial statements

For the year ended 31 March 2015 (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 2015 ranged from 0.01% to 1.15% (2014: 0.06% to 1.2%). The balances of deposits at both 31 March 2015 and 31 March 2014 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 2015, the SFC had \$994,718,000 (2014: \$994,718,000) and \$108,923,000 (2014: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

### 12. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2014 and 2015 (refer to notes 7 and 11).

### 13. Financial risk management and fair values

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

The main financial risks of the Fund arise from its investments in debt securities and units in the pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign currency risk. The external investment managers report thereon to the SFC on a regular basis.

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

#### (a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of US Treasuries, any issuances by the Hong Kong Government and the Government of the People's Republic of China and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the Policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above Policy. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

#### (b) Liquidity risk

The Fund's policy is to regularly monitor its liquidity requirement to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

All financial liabilities are due within one year or payable on demand.

#### (c) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 5 years within its debt securities portfolio. As at 31 March 2015 the duration was 1.98 years (31 March 2014: 1.96 years).

At 31 March 2015, 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 \$37,887,000 (2014: \$36,359,000). Further, at 31 March 2015, 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 \$2,814,000 (2014: \$4,294,000). Other components of the accumulated surplus would not be affected (2014: 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 2014.

#### (d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar and renminbi foreign exchange exposure. As at 31 March 2015, the Fund has exposure to US dollar, 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 15.7% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$47,880,000 (2014: 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).

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

#### (e) Market risk (cont'd)

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 2014.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2015 and 2014.

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.

#### (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 HKFRS 13, Fair value measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

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

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

	2015			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Assets</b>				
Trading securities				
– Listed	1,150,081	72,829	–	1,222,910
– Unlisted	377,641	287,421	–	665,062
Pooled fund				
– Unlisted	304,967	–	–	304,967
	<b>1,832,689</b>	<b>360,250</b>	<b>–</b>	<b>2,192,939</b>

	2014			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Assets</b>				
Trading securities				
– Listed	792,353	114,018	–	906,371
– Unlisted	387,245	387,139	–	774,384
Pooled fund				
– Unlisted	284,131	–	–	284,131
	<b>1,463,729</b>	<b>501,157</b>	<b>–</b>	<b>1,964,886</b>

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 2015 (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 \$1,951,000 (2014: \$2,208,000). 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 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

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

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

## 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 2015.

### 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 2015, the Fund has transferred \$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 2015 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 127 to 137.

### Members of the Committee

The members of the Committee during the year ended 31 March 2015 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	(appointed on 1 April 2014)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)
Mr Mark Steward	(appointed on 20 March 2015)
Mr Chow Ka Ming, Anderson	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Mrs Alexa Lam, JP	(retired with effect from 1 March 2015)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditor

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

By order of the Committee

**Keith Lui**  
Chairman

19 May 2015

## Independent auditor's report to the Securities and Futures Commission

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 127 to 137, which comprise the statement of financial position as at 31 March 2015, 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2015 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Fund is in the process of terminating its business and operations. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements.

### KPMG

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

19 May 2015



## Statement of comprehensive income

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Income</b>			
Interest income		634	465
Recoveries	5	7,203	–
		<b>7,837</b>	465
<b>Expenses</b>			
Auditor's remuneration		50	47
Professional fees		17	16
Sundry expenses		1	1
		<b>68</b>	64
<b>Surplus and total comprehensive income for the year</b>		<b>7,769</b>	401

The notes on pages 131 to 137 form part of these financial statements.

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## Statement of financial position

At 31 March 2015 (Expressed in Hong Kong dollars)

	Note	2015 \$'000	2014 \$'000
<b>Current assets</b>			
Equity securities received under subrogation		1	1
Interest receivable		59	58
Fixed and call deposits with banks		82,182	74,562
Cash at bank		175	24
		<b>82,417</b>	74,645
<b>Current liabilities</b>			
Creditors and accrued charges	6	10,304	10,301
Relinquished trading rights payable to SEHK	7	2,100	1,450
		<b>12,404</b>	11,751
<b>Net current assets</b>		<b>70,013</b>	62,894
<b>Net assets</b>		<b>70,013</b>	62,894
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK	7	48,100	48,750
Excess transaction levy from SEHK	9	353,787	353,787
Special contributions	10	3,500	3,500
Additional contributions from SEHK	11	300,000	300,000
Additional contributions from the SFC	11	330,000	330,000
Special levy surplus	12	3,002	3,002
Accumulated surplus		26,342	18,573
		<b>1,064,731</b>	1,057,612
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		<b>70,013</b>	62,894

Approved and authorized for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 19 May 2015 and signed on its behalf by

**Keith Lui**  
Chairman

**Lee Kwok Keung**  
Committee Member

The notes on pages 131 to 137 form part of these financial statements.

## Statement of changes in equity

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	2015 \$'000	2014 \$'000
Compensation Fund balance as at 1 April	62,894	64,143
Net contributions to SEHK	(650)	(1,650)
Total comprehensive income for the year	7,769	401
Compensation Fund balance as at 31 March	70,013	62,894

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The notes on pages 131 to 137 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>		
Surplus for the year	7,769	401
Interest income	(634)	(465)
Increase in creditors and accrued charges	3	2
Net increase in relinquished trading rights payable to SEHK	650	1,450
Net cash generated from operating activities	7,788	1,388
<b>Cash flows from investing activities</b>		
Interest received	633	453
Net cash generated from investing activities	633	453
<b>Cash flows from financing activities</b>		
Net contributions to SEHK	(650)	(1,650)
Net cash used in financing activities	(650)	(1,650)
Net increase in cash and cash equivalents	7,771	191
Cash and cash equivalents at beginning of the year	74,586	74,395
<b>Cash and cash equivalents at end of the year</b>	<b>82,357</b>	74,586

### Analysis of the balance of cash and cash equivalents

	2015 \$'000	2014 \$'000
Fixed and call deposits with banks	82,182	74,562
Cash at bank	175	24
	<b>82,357</b>	74,586

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

### 2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from SEHK (2014: 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 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies

#### (a) Statement of compliance

The Fund has prepared its financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs) (including applicable Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). In previous years, the Fund prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards (IASs) and Interpretations) issued by the International Accounting Standards Board (IASB).

Although HKFRSs have been fully converged with IFRSs in all material respects since 1 January 2005, these financial statements are the first published financial statements in which the Fund makes an explicit and unreserved statement of compliance in accordance with HKFRSs. Therefore, in preparing these financial statements the Fund has given due consideration to the requirements of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*. For this purpose the date of the Fund's transition to HKFRSs was determined to be 1 April 2013, being the beginning of the earliest period for which the Fund presents full comparative information in these financial statements.

With due regard to the Fund's accounting policies in previous periods and the requirements of HKFRS 1, we have concluded that no adjustments were required to the amounts reported under IFRSs as at the date of transition to HKFRSs or in respect of the year ended 31 March 2014. Accordingly, these financial statements include for the first time a statement of compliance with HKFRSs, without adjustment to the Fund's financial position, the Fund's financial performance or cash flows either at the date of transition to HKFRSs or at the end of latest period presented in accordance with IFRSs.

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

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 17).

#### (b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a 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 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease as these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which 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.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (b) Basis of preparation (cont'd)

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.

#### (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.

#### (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.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (i) Changes in accounting policies

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

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

### 4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong Profits Tax.

### 5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2015 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in HKAS 39, *Financial instruments: Recognition and measurement*. According to HKFRS 13, *Fair value measurement*, 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".



## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 6. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in HKAS 39 unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

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

	2015 \$'000	2014 \$'000
Balance brought forward	48,750	50,400
Add: new trading rights issued	500	700
Less: relinquished trading rights refunded	(500)	(900)
Less: relinquished trading rights payable to SEHK	(650)	(1,450)
Balance carried forward	48,100	48,750

### 8. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 5), will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

### 9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy.

### 7. Contributions from SEHK

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 \$500,000 in respect of 10 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK. As at 31 March 2015, there are 42 trading rights in total that have been relinquished but not yet refunded.

### 10. Special contributions

In October 1993, a member of SEHK made a special contribution to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities.

### 11. Additional contributions from SEHK and the SFC

As a result of the relaxation of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years 1998 to 2001.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 12. Special levy surplus

In November 2000, the former Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

### 13. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2015 amounted to \$994,718,000 (2014: \$994,718,000).

### 14. Material related party transactions

The Fund has related party relationships with the ICF 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 2014 and 2015.

### 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 2015, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$822,000 (2014: \$746,000). Other components of accumulated surplus would not be affected (2014: Nil) by the changes in interest rates. The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

### 16. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

## Notes to the financial statements

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

### 16. Replenishments from SEHK (cont'd)

Up to 31 March 2015, 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:

	2015 \$'000	2014 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: Recoveries received for compensation paid up to \$8 million	(29,946)	(29,946)
Add: Recoveries re-distributed to claimants	16,385	16,385
Less: Replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,816	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

### 17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

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

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

Table 1 Authorized unit trusts and mutual funds<sup>1</sup> – by type

	Number	%	Total NAV <sup>2</sup> (US\$ million)	%
Bond	394	21.60	458,487	34.68
Equity	1,011	55.40	626,328	47.37
Diversified	107	5.86	109,394	8.27
Money market	47	2.58	19,355	1.46
Fund of funds	92	5.04	15,556	1.18
Index	153	8.38	90,374	6.84
Guaranteed	3	0.16	105	0.01
Hedge	3	0.16	162	0.01
Other specialised <sup>3</sup>	15	0.82	2,318	0.18
Sub-total	1,825	100.00	1,322,079	100.00
Umbrella structures	220			
<b>Number of authorized funds</b>	<b>2,045</b>			

<sup>1</sup> 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.

<sup>2</sup> Net asset value (NAV) as of 31 December 2014.

<sup>3</sup> Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 2 Authorized unit trusts and mutual funds<sup>1</sup> – by origin

	Umbrella funds	Sub-funds	Single funds	Total	Total NAV <sup>2</sup> % (US\$ million)	%	
Hong Kong	111	412	71	594	29.05	118,186	8.94
Luxembourg	51	949	0	1,000	48.90	909,878	68.82
Ireland	32	244	2	278	13.59	162,661	12.30
Guernsey	0	0	0	0	0.00	0	0.00
United Kingdom	5	42	17	64	3.13	80,013	6.05
Other Europe	0	0	0	0	0.00	0	0.00
Bermuda	2	2	1	5	0.24	388	0.03
British Virgin Islands	0	0	0	0	0.00	0	0.00
Cayman Islands	19	49	27	95	4.65	13,709	1.04
Others	0	0	9	9	0.44	37,244	2.82
<b>Number of authorized funds</b>	<b>220</b>	<b>1,698</b>	<b>127</b>	<b>2,045</b>	<b>100</b>	<b>1,322,079</b>	<b>100</b>

<sup>1</sup> 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.

<sup>2</sup> Net asset value (NAV) as of 31 December 2014 (excluding umbrella funds).

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

	2014/15	2013/14	2012/13
Unlisted structured investment products <sup>1</sup> authorized	108	119	120
Authorizations granted under section 105 of the SFO <sup>2</sup>	94	94	113

<sup>1</sup> 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.

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

**Table 4 Takeovers activities**

	2014/15	2013/14	2012/13
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>			
General and partial offers under Code on Takeovers and Mergers	55	33	24
Privatisations	7	4	7
Whitewash waiver applications	31	39	29
Other applications under Code on Takeovers and Mergers	279	203	175
Off-market and general offer share buy-backs	3	5	6
Other applications under Code on Share Buy-backs	9	6	10
<b>Total</b>	<b>384</b>	290	251
<b>Executive Statements</b>			
Sanctions imposed with parties' agreement <sup>1</sup>	1	1	1
<b>Takeovers and Mergers Panel</b>			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	1	0	0
Hearings before the Panel (disciplinary <sup>2</sup> and non-disciplinary)	4	1	2
Statements issued by the Panel <sup>3</sup>	2	0	2

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

<sup>2</sup> The Panel sat for six full days and three half days for these disciplinary hearings.

<sup>3</sup> 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	2014/15	2013/14	2012/13
Failure to comply with Securities and Futures (Financial Resources) Rules	18	15	19
Failure to safekeep client securities	40	33	14
Failure to maintain proper books and records	22	11	23
Failure to safekeep client money	28	26	15
Unlicensed dealing and other registration issues	18	8	8
Breach of licensing conditions	7	1	2
Breach of requirements of contract notes/statements of account/receipts	79	47	18
Failure to make filing/notification	5	3	0
Breach of margin requirements	5	5	5
Marketing malpractices	2	1	0
Illegal short selling of securities	0	6	7
Dealing malpractices	2	0	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	236	226	121
Breach of Corporate Finance Adviser Code of Conduct	9	28	12
Breach of Fund Manager Code of Conduct	48	22	17
Breach of regulation of on-line trading	97	88	0
Non-compliance with anti-money laundering guidelines	117	88	13
Breach of other rules and regulations of the Exchanges <sup>1</sup>	4	11	14
Breach of other rules and regulations of the MPFA <sup>2</sup>	0	2	0
Internal control weaknesses	307	342	184
Others	65	113	69
<b>Total</b>	<b>1,109</b>	<b>1,076</b>	<b>541</b>

<sup>1</sup> Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

<sup>2</sup> Mandatory Provident Fund Schemes Authority.

Table 6 Successful prosecutions

## Market manipulation

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
CHAN Wing Fai	11.4.2014	One month imprisonment	109,808
FAN Kwong Hung, Ernest	30.4.2014	59,430 and 200 hours' community service and six months' cold shoulder order not to deal in futures in Hang Seng Index or Mini-Hang Seng Index in the pre-market opening period without permission of the court	57,857
WONG Pok Wang	22.7.2014	16,320 and 180 hours' community service	18,937
Total:		75,750	186,602

## Unauthorized activities

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
<b>Unlicensed corporate finance advising</b>			
C.L. Management Services Limited	29.4.2014	900,000	7,956
AU Suet Ming, Clarea	29.4.2014	600,000 and six months' imprisonment suspended for 18 months	7,956
<b>Unlicensed investment advising</b>			
TAM Kwok Pui	25.9.2014	10,000	77,197
Total:		1,510,000	93,109

Note: Cases with fines below \$10,000 are not shown here.

## Provision of false/misleading information to investigator

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
NG Kai Shing	28.5.2014	40,000	17,665

## Disclosure of interests

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
LEE Siu Fong	24.4.2014	12,000	29,676
LAI Suk Yin	24.7.2014	10,000	7,639
Shiny Reach Limited	22.1.2015	15,000	9,424
LEE Cheuk Yue Ryan	22.1.2015	15,000	9,424
Total:		52,000	56,163

Note: Cases with fines below \$10,000 are not shown here.

Table 7 Most significant disciplinary actions

Company/Name	Date of action	Conduct	Action/SFAT <sup>1</sup> decision
MAK Shu Pan	1.4.2014	Failed to carry out know-your-client procedures, made false declarations in the account opening forms, allowed a third party to operate an account without authorization and other conduct	Banned for three years
The Royal Bank of Scotland Public Limited Company	22.4.2014	Internal control failures relating to the detection and prevention of unauthorized trading activities and the conduct of its Emerging Markets Rates business in Hong Kong	Reprimanded and fined \$6 million
CHOY Cheuk Tung	2.5.2014	Convicted of three counts of theft and three counts of dealing with property known or reasonably believed to represent proceeds of an indictable offence	Banned for life
Kaiser Futures Limited and Kaiser Securities Limited	7.5.2014	Conducted unauthorized financial activities in breach of the laws of Macau	Reprimanded and fined a total of \$1.7 million
CHOW Hoi Ching, Helen	7.5.2014	Convicted of one count of fraud	Banned for life
Citigroup Global Markets Asia Limited	14.5.2014	Failure to ensure certain securities orders executed through its algorithmic trading system would not cause undue price impact to the market	Reprimanded
ICBC International Capital Limited and ICBC International Securities Limited	21.5.2014	Failures in relation to their role in the IPO of Powerlong Real Estate Holdings Limited	Each reprimanded and fined \$12.5 million
Deutsche Bank Aktiengesellschaft	22.5.2014	Regulatory breaches and internal control failings in relation to disclosure of interest in its shareholding	Reprimanded and fined \$1.6 million
LEUNG Peter	23.5.2014	Responsible for the order record failure and unlicensed activities of his employer	SFAT affirmed SFC's decision to suspend him for one year
Delta Asia Securities Limited	4.6.2014	Failed to implement proper controls to safeguard client securities and to supervise its settlement function, thus allowing unauthorized transfers of client securities	Reprimanded and fined \$4 million
MA Chun Leung, Christopher and WONG Man Chung	9.6.2014	Both acted against the interests of clients. Ma also provided false or misleading information to his employer and caused his employer to provide it to SFC	Ma – banned for 10 years Wong – banned for two years
LI Tak Wa	18.6.2014	Knowingly recorded incorrect information about a client in the account opening forms, conducted discretionary transactions for clients without written authorization and other conduct	Banned for 15 months

<sup>1</sup> The Securities and Futures Appeals Tribunal.



Table 7 Most significant disciplinary actions (cont'd)

Company/Name	Date of action	Conduct	Action/SFAT <sup>1</sup> decision
YIP Wan Fung	3.7.2014	Convicted of four criminal offences, including conspiracy to defraud, publishing a false statement and conspiracy to deal with the proceeds of an indictable offence	Revoked licence and banned for life
Ping An of China Securities (Hong Kong) Company Limited	10.7.2014	Serious anti-money laundering internal control deficiencies and other conduct	Reprimanded and fined \$6 million
FA Kwan Lun	24.7.2014	Concealed from his employer his beneficial interest in and his personal trading activities conducted through a relative's account, and other conduct	Banned for one year
Union Securities Limited, MA Kin Chung and CHENG Tai Ha	24.7.2014	Union, with the involvement of Ma and Cheng, misappropriated about \$400,000 from two clients. Union also provided false or misleading information to the SFC	Union – revoked licence Ma and Cheng – both revoked licences and banned for life
Bright Smart Securities International (H.K.) Limited	29.7.2014	Allowed a false or misleading advertisement to be published	Reprimanded and fined \$700,000
CHAN Yuk Hing	1.8.2014	Convicted of one count of false trading	Banned for three years
SAMTANI Manesh Vijaykumar	4.8.2014	Provided clients with false information to conceal trading losses, misled them on the transactions conducted and their actual account balances, and other conduct	Banned for life
CHAN Hung Nin	8.8.2014	Operated a client's account on a discretionary basis without written authorization and other conduct	Suspended for 15 months
SHUM Kam Chi, Eric	15.9.2014	Serious deficiencies in the sponsor work relating to the listing of Sino-Life Group Limited	Withdrew approval to act as a responsible officer for three years and suspended for three years
LAWRENCE John David	9.10.2014	Failings in relation to his sale of the EEA Life Settlements Fund to clients	Revoked licence and fined \$900,000
JOHN Roger Albert and CRUDEN Hamish Gordon	14.10.2014	John – directly responsible for the company's misconduct by authorizing the use of securities and monies belonging to other clients for the settlement of another client's instructions and other conduct  Cruden – failure to participate in the management contributed to the breaches and failures of the company	Both banned for life
YAN Chee Yung	23.10.2014	Convicted of 18 counts of theft	Banned for life
LEUNG Wai Hung	31.10.2014	Failed to make proper records of order instructions from clients and circumvented the order recording requirements of his employer	Banned for 18 months
LEE Wai Keung	10.12.2014	Operated a secret account and conducted personal trading activities through it	Banned for one year

Table 7 Most significant disciplinary actions (cont'd)

Company/Name	Date of action	Conduct	Action/SFAT <sup>1</sup> decision
DHILLON Jagjit Singh	13.1.2015	Improper activities in two principal trading books and other conduct	Banned for life
HE Zhi Hua	23.2.2015	Contributed to Ping An's serious internal control deficiencies and other matters	Banned for one year
LO Ka Shun, Katherina	24.2.2015	Engaged in improper trading arrangement	Banned for two years
WONG Chun Yin	10.3.2015	Effected fund transactions in clients' accounts without their authorization, falsified client instructions and other conduct	Banned for life
JS Cresvale Securities International Limited	25.3.2015	Serious deficiencies in relation to its sale of two unlisted investment products to 89 clients involving US\$99 million between 2008 and 2010	Reprimanded and fined \$2.5 million

Table 8 Other enforcement actions

	2014/15	2013/14	2012/13
S179 <sup>1</sup> enquiries commenced	21	23	16
S181 <sup>2</sup> enquiries commenced (number of letters sent)	293 (9,752)	220 (5,711)	176 (5,130)
S182 <sup>3</sup> directions issued	553	346	302
Show cause letters issued	1	0	1
Rule 8 <sup>4</sup> directions issued	1	1	1
Cases with search warrants executed	53	59	40
Compliance advice letters issued	302	337	330
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings <sup>5</sup>			
(a) Insider dealing			
Persons/corporations involved in ongoing civil proceedings	12	12	17
Persons/corporations involved in ongoing MMT proceedings	4	8	0
(b) Market manipulation			
Persons/corporations summonsed (summons laid)	0 (0)	5 (36)	3 (8)
Persons/corporations involved in ongoing civil proceedings	0	4	4
Persons/corporations involved in ongoing MMT proceedings <sup>6</sup>	21	5	0
(c) Others			
Persons/corporations summonsed (summons laid)	15 (71)	32 (190)	30 (108)
Persons/corporations involved in ongoing civil proceedings	81	53	38
Disciplinary enquiry			
Notices of Proposed Disciplinary Action <sup>7</sup> issued	36	55	43
Notices of Decision <sup>8</sup> issued (including S201 <sup>9</sup> agreement)	46	51	36
SFAT hearings			
Applications to SFAT	5	7	3
Applications/hearings completed	4	6	1

<sup>1</sup> 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.

<sup>2</sup> 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.

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

<sup>4</sup> A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

<sup>5</sup> 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.

<sup>6</sup> One case was referred to the MMT by the Financial Secretary.

<sup>7</sup> 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.

<sup>8</sup> A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>9</sup> 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.

Table 9 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup>

	As at 31.12.2014	As at 31.12.2013	As at 31.12.2012
Securities dealers and securities margin financiers	951	927	907
Active cash clients <sup>2</sup>	1,157,599	1,079,550	1,045,751
Active margin clients <sup>2</sup>	181,593	150,545	139,375
Active clients (+9%)	1,339,192	1,230,095	1,185,126
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Cash in hand and at bank <sup>3</sup>	341,124	286,388	269,912
Amounts receivable from margin clients <sup>4</sup>	111,549	85,794	58,812
Amounts receivable from clients and other dealers arising from dealing in securities	197,043	146,898	149,865
Proprietary positions	219,491	189,300	175,191
Other assets	211,338	176,858	169,357
Total assets (+22%)	1,080,545	885,238	823,137
Amounts payable to clients and other dealers arising from dealing in securities	470,507	366,299	349,854
Total borrowings from financial institutions	119,060	67,358	85,348
Short positions held for own account	94,473	101,044	64,444
Other liabilities	144,626	109,737	97,878
Total shareholders' funds	251,879	240,800	225,613
Total liabilities and shareholders' funds (+22%)	1,080,545	885,238	823,137

	12 months to 31.12.2014 (\$ million)	12 months to 31.12.2013 (\$ million)	12 months to 31.12.2012 (\$ million)
<b>Profit and loss</b>			
Total value of transactions <sup>5</sup>	57,970,022	53,538,483	47,658,360
Net securities commission income	21,179	20,096	18,331
Gross interest income	9,421	7,666	7,213
Other income <sup>6</sup>	94,071	86,107	76,829
Total operating income (+9%)	124,671	113,869	102,373
Total overheads and interest expense	109,281	105,746	102,783
Total operating profit (+89%)	15,390	8,123	(410)
Net profit on proprietary trading	11,223	8,579	8,050
Net profit for the period (+59%)	26,613	16,702	7,640

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Cash in hand and at bank include trust monies held on behalf of clients which totalled \$164,813 million (31.12.2013: \$144,068 million).

<sup>4</sup> As at 31.12.2014, the average collateral coverage was 4.2 times (as at 31.12.2013: 3.9 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.

<sup>5</sup> The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

<sup>6</sup> Other income comprises fund management fee income, corporate finance income, inter-company management fee income and others.

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see our discussion in the Corporate Governance chapter on pages 10-26.

## SFC Committees

### Advisory Committee

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

<b>Chairman</b>	
TONG, Carlson, SBS, JP	
<b>Members</b>	
ALDER Ashley Ian, JP	LI, Brian David Man Bun
Dr AU, King-lun, MH	LUI Kei Kwong, Keith (from 2.3.2015)
CHEONG, Ying Chew Henry	Dr LIN, Yong
CHRISTIANSON, Sun Wei	LO, Peter Chi Wai
DUHAMEL, Vincent	SHIPMAN, Mark Graham
GRAHAM, David	TSANG, Frederick Sui Cheong
HO Yin Tung, Brian (from 2.3.2015)	WINTER, Richard David
LAM CHEUNG, Alexa, JP (to 28.2.2015)	WONG, Anna Wai-kwan
<b>Number of meetings: 4</b>	<b>Average attendance rate: 68%</b>

### Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

There were no circumstances which called for a meeting of the Committee during the year.

<b>Chairman</b>	
SHIPTON James Roger Francis	
<b>Members</b>	
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	
<b>Secretary</b>	
TUNG Ka Shun, Sam	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

### 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 development of the Hong Kong REITs market.

Chairman	
LAM CHEUNG, Alexa, JP (to 28.2.2015) LEUNG Fung Yee, Julia, SBS (from 2.3.2015)	
Members	
CHAN Duen, Grace CHENG Wai Meng, Milton Prof CHENG Yu Shek, Joseph, JP Dr CH'EN Kuo Fung, Raymond, GBS, CBE, JP CHOI Fung Yee, Christina HO Yin Tung, Brian KONG YAO FAH Sew Youne, Marie-Anne Dr KWOK Chi Piu, Bill, JP	LEUNG Kar Cheung, Catherine LIM Chai Geok LO Chi Wai LUI Yin Tat LYNN Sui Yuen, Robert MAGUIRE John Martin NIGHTINGALE Anthony John Liddell, CMG, SBS, JP Prof PANG Tsan Wing, SBS
Secretary	
TSE Lok Min	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 76.5%</b>

### Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, two disciplinary proceedings were ongoing under the Codes on Takeovers and Mergers and Share Buy-backs with a member of this Committee acting as Chairman.

Members	
CHAN King Sang, Edward, SC JAT Sew Tong, SBS, SC, JP LI Gladys Veronica, SC	SHIEH Wing Tai, Paul, SC WONG Yuk Lun, Horace, SC
<b>Number of meetings: N/A</b>	<b>Average attendance rate: N/A</b>

## 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.

<b>Chairman</b>	
LUI Kei Kwong, Keith	
<b>Members</b>	
CHAN Ping Keung (to 28.8.2014)	LAM CHEUNG, Alexa, JP (to 28.2.2015)
CHOW Ka Ming, Anderson, SC (to 31.7.2014)	LEE Kwok Keung, Roger (from 29.8.2014)
KO, Teresa Yuk Yin, JP (from 29.8.2014)	STEWART Mark Robert (from 20.3.2015)
<b>Number of meetings: 1</b>	<b>Average attendance rate: 75%</b>

## 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 and the Takeovers Appeal Committee.

<b>Ex-officio Members</b>	
ALDER Ashley Ian, JP (Chairman)	
CLARK Stephen Edward	
HO Yin Tung, Brian	
<b>Members</b>	
TONG Carlson, SBS, JP	
CHOW Ka Ming, Anderson, SC (to 31.7.2014)	
Dr William WONG Ming-fung, SC (from 12.9.2014)	
<b>Alternate members to CLARK Stephen Edward</b>	
CHAN Yuk Sing, Freeman	MAGUIRE John Martin
KO, Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 100%</b>

## 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 meeting to discuss the promotion of public funds.

Chairman	
LAM CHEUNG, Alexa, JP (to 28.2.2015)	
LEUNG Fung Yee, Julia, SBS (from 2.3.2015)	
Members	
CHAN Duen, Grace	LEE Kam Wing, Bruno (from 24.10.2014)
CHAN King Cheung, BBS	LEE Siu Chuen (to 30.4.2014)
Prof CHEUNG Yan Leung, Stephen, BBS, JP	Prof LIU Pak Wai, SBS, JP
CHOI Fung Yee, Christina	LUO Jiabin
CHOW Ka Leung, Louis	MAHOMED Ferheen
DEBRUYNE Lieven M.O. (to 29.9.2014)	McSHANE Darren Mark
DING, Chen	MURRAY Alastair Elliot
FRASER Charles Stuart (from 30.5.2014)	NORONHA Virginia
FUNG Hau Chung, Andrew, JP	NOYES Keith Samuel
FUNG Ka Shing, Bernard	RICHARDSON David Alexander
HUI Mei Ying	TAM, Sau Ngor Vera
LASKOWITZ Jedediah Isiah	TSANG Jacob Chung
LECKIE Stuart Hamilton, OBE, JP	WONG Man Yee
LEE Chi Kee, Trevor	WONG Wai Sum, Wilfred
Secretary	
POON Wing Yee, Loreen	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 77.8%</b>



## Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed a number of issues, including the Shanghai-Hong Kong Stock Connect pilot programme, the regulatory regime for debt securities listed pursuant to Chapter 37 of the Listing Rules of The Stock Exchange of Hong Kong Limited (SEHK) and a Financial Services Development Council report on the disclosure of interests regime in Hong Kong.

<b>Chairman</b>	
HO Yin Tung, Brian	
<b>Members</b>	
CHAN Chi Keung, Raymond	RICE James
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
<b>Number of meetings: 3</b>	<b>Average attendance rate: 62%</b>

## Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and to deal with other administrative matters.

<b>Chairman</b>	
LUI Kei Kwong, Keith	
<b>Members</b>	
CHAN Ping Keung (to 28.8.2014)	LEE Kwok Keung, Roger (from 29.8.2014)
CHOW Ka Ming, Anderson, SC (to 31.7.2014)	MAK Po Shuen
KO, Teresa Yuk Yin, JP (from 29.8.2014)	STEWART Mark Robert (from 20.3.2015)
LAM CHEUNG, Alexa, JP (to 28.2.2015)	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 80%</b>

### SFC Dual Filing Advisory Group

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

There were no circumstances which called for a meeting of the Group during the year.

Members	
BROWN Stephen James	LIU, Kennedy Tat Yin
CHAN Ching Chu	LUNG Hak Kau
CHAN Yuk Sing, Freeman	SOUTAR James Alexander
HANNING Matthew Paul	WANG Elizabeth Lily Chiang
JOHNSON Nicholas Regan	WECHSLER Joshua
LEE Carmelo Ka Sze, JP	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

### SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of SEHK when actual or potential conflicts of interest arise between 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.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
ALDER Ashley Ian, JP	PHENIX Paul Anthony
BROWN Melissa	SHIPTON James Roger Francis
KEYES Terence Francois	STEWART Mark Robert
LAM CHEUNG, Alexa, JP (to 28.2.2015)	YEUNG Eirene
LEE Carmelo Ka Sze, JP	YOUNG Andrew John
LEUNG Fung Yee, Julia, SBS (from 2.3.2015)	YU Ka Po Benita
LUI Kei Kwong, Keith	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEx and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

<b>Chairman</b>	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
<b>Members</b>	
Prof CHENG K., Leonard, JP CHOW Ka Ming, Anderson, SC (to 31.7.2014) KO, Teresa Yuk Yin, JP LEE Kam Hung, Lawrence, JP MA Xuezheng, Mary	TONG Carlson, SBS, JP WONG Kai Man, BBS, JP Dr WONG Tin Yau, Kelvin, JP, DBA, FHKIoD Dr William WONG Ming-fung, SC (from 1.8.2014)
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There were no circumstances which called for a meeting of the Committee during the year.

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

### Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.

### Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive<sup>1</sup> at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met once to consider policy issues under the Codes and several times on disciplinary and non-disciplinary matters.

<b>Chairman</b>	
CLARK Stephen Edward	
<b>Deputy Chairmen</b>	
CHAN Yuk Sing, Freeman KO, Teresa Yuk Yin, JP LIU Chee Ming	MAGUIRE John Martin WEBB David Michael
<b>Members</b>	
BROWN Melissa CHAN Che Chung CHARLTON Julia Frances DENNY Roger Michael IP Koon Wing, Ernest KWOK Tun Ho, Chester LAM Sung Lai, Edward LEE Pui Ling, Angelina, SBS, JP LIU Che Ning LIU Yun Bonn LO Kin Ching Joseph LUNG Hak Kau	MA, Ka Ming Teresa NORMAN David Michael NORRIS Nicholas Andrew PERRY Jonathan Garth SABINE Martin Nevil SCHWILLE Mark Andrew SOUTAR James Alexander SWIFT, Christopher Lee VAS CHAU Lai Kun Judy WINTER Richard David YU Ka Po Benita
<b>Number of policy meetings: 1</b>	<b>Average attendance rate: 75.9%</b>
<b>Number of non-disciplinary hearings: 2</b>	<b>Average attendance rate: N/A</b>
<b>Number of disciplinary hearings: 2<sup>2</sup></b>	<b>Average attendance rate: N/A</b>

<sup>1</sup> The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

<sup>2</sup> The Panel sat for six full days and three half days for these disciplinary hearings.

## Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

Members	
BROWN Melissa	LUNG Hak Kau
CHAN Che Chung	MA, Ka Ming Teresa
CHAN Yuk Sing, Freeman	MAGUIRE John Martin
CHARLTON Julia Frances	NORMAN David Michael
CLARK Stephen Edward	NORRIS Nicholas Andrew
DENNY Roger Michael	PERRY Jonathan Garth
IP Koon Wing, Ernest	SABINE Martin Nevil
KO, Teresa Yuk Yin, JP	SCHWILLE Mark Andrew
KWOK Tun Ho, Chester	SOUTAR James Alexander
LAM Sung Lai, Edward	SWIFT, Christopher Lee
LEE Pui Ling, Angelina, SBS, JP	VAS CHAU Lai Kun Judy
LIU Che Ning	WEBB David Michael
LIU Chee Ming	WINTER Richard David
LIU Yun Bonn	YU Ka Po Benita
LO Kin Ching Joseph	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Independent Panels and Tribunal

### Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman	
CHAN Siu Chung, Justin (to 16.7.2014)	
LAM Yuk Kun, Lawrence (from 17.7.2014)	
Deputy Chairman	
LAM Yuk Kun, Lawrence (to 16.7.2014)	
LEE Pui Shan, Rosita (from 17.7.2014)	
Members	
CHAN Kang Muk, Woody	LAU Cheuk Hang, Philip (to 16.7.2014)
CHEUNG Tai Keung, Jack (from 17.7.2014)	LEE Pui Shan, Rosita (to 16.7.2014)

### Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, product authorization, exercise of investigation and disciplinary action, and corporate finance transactions (including administration of listing rules).

Chairman	
Dr CHENG Mo Chi, Moses, GBS, JP	
Members	
CHAN Kam Wing, Clement	LEE Pui Shan, Rosita
CHOW Yuen Yee	LEE Wai Wang, Robert
DING Chen (from 1.11.2014)	Dr Hon LEUNG Mei Fun, Priscilla, SBS, JP (to 31.10.2014)
Prof HO Yan Ki, Richard, JP	MAK Chi Ming, Alfred
Dr HU Zhanghong	YUEN Shuk-kam, Nicole (from 1.11.2014)
Dr LAM Kit Lan, Cynthia	
Ex-officio Members	
CHEUNG Kam-Wai, Christina (from 26.2.2015)	TONG Carlson, SBS, JP
LAI Ying Sie, Benedict, SBS, JP (to 25.2.2015)	

### Securities and Futures Appeals Tribunal

Reviews a range of regulatory decisions made under the SFO by the SFC and determines any question or issue arising out of or in connection with any review.

Chairmen		
The Hon Mr Justice HARTMANN Michael John, GBS, Non-Permanent Judge of the Court of Final Appeal		
The Hon Mr Justice SUFFIAD Azizul Rahman, SBS		
Members		
CHAN Jeffrey	KWOK Pui Fong, Miranda	MUH Yi-tong, Anthony
CHEUNG Chung-ching, Raymond	LAI Hin-wing, Henry	NG Joo-yeow, Gerry
CHEUNG Win-han, Ivy	LAM Sze-cay, Kevin	TSANG Chi-wai, Roy
CHIN Vincent	LEE Yiu-wing, William	TSANG Kam-yin, Wendy
DATWANI Mohan	LIM Wai-tin, Cynthia	WONG Wai-kwan, Anna
DING Chen	LIN C, James	YUNG Wen-yee, Wendy
EU Andrew Douglas	LIU Swee Long, Michael	ZEE Helen
HO Chiu-ping, Dennis	Prof LOW Chee-keong	
Dr HU Zhanghong	Dr MAK Sui-choi, Billy	

**Contact  
Information**

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2 Queen's Road Central  
Hong Kong  
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**Auditor**

KPMG

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