



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

Annual Report 2019-20



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Message from Chairman and CEO



“Delivering world-class regulation which upholds market integrity and supports Hong Kong’s development as a leading international financial centre is now more crucial than ever.”

Tim Lui
Chairman

Our financial markets face unprecedented challenges, most recently stemming from the COVID-19 crisis. It is therefore more crucial than ever for us to stay focussed on our core mission: to deliver world-class regulation which upholds market integrity and supports Hong Kong’s development as a leading international financial centre.

At a fundamental level, this involves vigilant protection of investors, boldly adapting to new challenges and emerging risks, and resolutely maintaining our traditions of independence, impartiality and public accountability. An unwavering commitment to these values will always be the foundation of our work.

We are also firmly committed to ensuring that, despite the significantly higher volatility and greater operational risks which COVID-19 has given rise to, financial markets remain fully open and operate as usual to maintain the capital flows needed to support the real economy and to enable Hong Kong to flourish as an international financial centre.

In recognition of the exceptionally challenging business environment, we have been appropriately flexible and pragmatic to facilitate remote working arrangements and different methods of achieving regulatory compliance. We have also reprioritised or rescheduled some upcoming initiatives to help the industry dedicate

sufficient resources to immediate needs. At the same time, we will stay focussed on proper risk management at firms and clearing houses whilst taking necessary enforcement action and proactively gatekeeping listing activities, licence applications and fund authorisations.

Delivering on our mission

Over the past few years, we have followed through with radical changes to how we carry out our work, adopting a front-loaded regulatory approach which emphasises proactive and targeted action to address some persistent misconduct in our markets. This multi-pronged approach combines early regulatory intervention in listing matters and enhanced risk-based supervision of intermediaries with focussed enforcement actions against senior management and persons with key gatekeeping roles to hold wrongdoers to account. We have refined our rules and requirements to close loopholes and provided timely and detailed guidance to the industry.

This general direction is now set, and the reforms we made have already had a positive impact. We see fewer problematic corporate transactions, and by addressing the root causes of market irregularities, we promote safer, fairer and more efficient markets. This is fundamental to achieving long-term, sustainable market development.

Message from Chairman and CEO

“An unwavering commitment to competence, independence, impartiality and public accountability is the foundation of the SFC’s work.”

Ashley Alder
Chief Executive Officer



A related priority has been to keep our regulatory regime aligned with international standards and at the same time support the need for the industry to adapt to changing conditions. For example, we are adapting our regulatory regime to attract private funds to be established in Hong Kong. Other projects in the pipeline aim to tackle credit and conduct risks in our licensed firms, and we are now in the process of setting up a new regime for paperless securities trading.

In today's rapidly changing environment, the importance of sound and robust market infrastructure cannot be overstated. To safeguard this and make sure it can withstand extreme volatility, we have stepped up our efforts to address market and systemic risks. In addition to monitoring market operations, our supervision of Hong Kong Exchanges and Clearing Limited now focuses on prudent risk management. We also make use of advanced data analytics to help us track fast-moving markets and enhance our real-time surveillance capabilities.

We embrace the benefits of innovative technology. In our guidance to the industry, we have provided options for intermediaries to take advantage of the opportunities and efficiencies of innovation, whilst remaining compliant with our rules and protecting investors. We regularly update our rulebooks to stay ahead of new technologies; we were the first major securities regulator to set a clear path for virtual asset trading platform operators to be licensed.

Pulling together

As markets become more connected and business activities increasingly span borders and sectors, concerted global action on the part of regulators and the industry will be essential to address formidable challenges in the years ahead.

Supporting the development of green and sustainable finance is now a key focus for us and increasingly for authorities and the financial industry worldwide. Greening the financial system will require closer collaboration amongst all global regulators. As part of this effort, we are spearheading local and regional initiatives to develop Hong Kong as the regional hub for green and sustainable finance.

With the free flow of capital in our open markets, international policymaking can have a dramatic impact on how business here is conducted. Our involvement in international standard-setting bodies gives Hong Kong a leading role in global regulatory developments. In recent years, we have played an active role in developing the global policy agenda through the chairmanship of the IOSCO¹ Board and participation in the G20's Financial Stability Board. This engagement will continue.

¹ International Organization of Securities Commissions.

Message from Chairman and CEO

Hong Kong will remain uniquely positioned as the gateway bridging capital flows between the Mainland and overseas. To this end, we will build on our collaborative relationship with the China Securities Regulatory Commission to introduce initiatives which benefit both the Mainland and Hong Kong markets. Following on the Stock Connect scheme, which opened a new chapter in mutual market access when it was launched in 2014, we will work towards introducing other Connect programmes beginning with a new initiative for the cross-border trading of listed bonds.

Locally, we will seek to further strengthen our cooperation with other regulators and law enforcement agencies.

Looking ahead

Hong Kong's markets have been resilient amidst the challenges of the past year, but we cannot be complacent. Hong Kong's success has long been indivisibly tied to its uncontested status as the leading international financial centre connecting the Mainland with the world. This role will become even more important as economies recover in the midst of a vastly changed global financial landscape.

We are especially proud that throughout this critical time, our staff have demonstrated firm resolve and lived up to our core values of professionalism and public service. Despite unanticipated disruptions and increased uncertainty, they have come together to work as "One SFC". They have carried out their day-to-day duties with resilience, and at times with courage, to support our continuous operations and to promote the healthy and sustainable development of our markets in the years to come. Finally, we also want to thank our Board members for their dedication, advice and support during this exceptional time.

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

Strategic Priorities

Our overarching objective is to strengthen the integrity and soundness of Hong Kong's securities and futures markets. Safeguarding the interests of investors and minimising fraud and market misconduct are key to instilling investor confidence.

As part of our mandate, we also work to maintain Hong Kong's financial stability and its status as an international financial centre. To address emerging challenges and foster sustainable market development, we regularly modernise our regulatory framework and pursue close cooperation with our counterparts in Hong Kong, the Mainland and overseas.

Adapting to change

In periods of uncertainty and volatility, we remain focussed on ensuring high-quality markets which function in a fair and orderly manner. We are pressing ahead firmly with our front-loaded regulatory approach to identify and address misconduct and market irregularities through pre-emptive and timely interventions.

The changes we implemented across our organisation over the past few years have made us more flexible, proactive and multidisciplinary. We restructured some of our operating divisions and streamlined work processes. New initiatives pooled our expertise to ensure our regulatory actions are coordinated, targeted and effective. Acting as "One SFC", the organisation is now well positioned to deploy the full range of resources and tools available to us to promote stability, resilience and financial innovation.

We monitor closely the rapid changes affecting Hong Kong and beyond as markets worldwide are highly interconnected. We adopt the latest technology to help us collect and analyse data to manage both near-term and long-term risks, and to maintain a robust market infrastructure.

Communication with the industry and the public is now more important than ever. New features introduced as part of a revamp of our corporate website this year will help us engage more efficiently with a wide range of stakeholders. The significant savings realised by our move to new office premises will help ensure our long-term sustainability.

Current initiatives

Listing matters

The new approach to the regulation of listing matters which we introduced in 2017 has led to improvements in a number of areas. Over the past three years, we have directly intervened at an early stage in more than 120 cases using our statutory powers under the Securities and Futures (Stock Market Listing) Rules (SMLR)¹ and more generally under the Securities and Futures Ordinance.

For example, we stepped up our direct interventions to tackle unfair corporate transactions in light of the growing number of instances where listed companies acquire assets at unreasonably high prices or sell assets which are substantially undervalued. Shareholders' interests could be harmed as a result. We also published guidance to flag our concerns about recurring types of misconduct and remind directors and their advisers to comply with their statutory and legal responsibilities when evaluating or approving the acquisition or disposal of a company or a business.

Tackling market and corporate misconduct will continue to be a top priority. Steps taken by our "ICE"² working group resulted in less price volatility in GEM stocks, fewer placings with a high concentration of shareholders and, overall, a more orderly market (see sidebar on page 44). The average first-day price change of GEM listings decreased from about 530% in 2016 to around 13% in 2019.

Changing corporate behaviour over the long term will require further policy adjustments. We are working closely with SEHK to update listing rules and introduce new policies such as recent rule changes to tighten the regulation of backdoor listings and shell activities.

Other initiatives focus on reforming the review structure for Listing Committee decisions and updating SEHK's disciplinary powers and sanctions. We are also exploring new policies and measures to shorten the settlement process for initial public offerings (IPOs), including an electronic platform for IPO subscriptions. To promote Hong Kong as an international financial centre and a listing venue of choice, we are working with SEHK on changes to improve access to Hong Kong markets for overseas-listed companies.

¹ Under the SMLR, we may raise objections to listing applications or direct The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in a listed company's shares.

² ICE (Intermediaries, Corporate Finance, Enforcement) is a cross-divisional working group set up to tackle corporate misconduct.

Strategic Priorities

Intermediaries

We adopt a risk-based approach to licensing and supervising intermediaries by focusing on the greatest threats and systemic risks.

The number of corporations and individuals we license continues to increase. To update our competency framework for licensed individuals, which has been in place since 2003, we will launch a consultation on proposed changes to the entry requirements and continuous professional training guidelines. We will also revamp our licensing portal and processing systems as we develop the next generation of our online licensing platform.

The trading and business models of our licensed corporations are increasingly complex and globalised. To assess their risk management and governance practices, a thematic review now underway focuses on their operational and data risks and their remote booking models. We have also been collaborating with overseas and local regulators to inspect our licensed corporations' risk management practices for remote booking and transfer pricing. This will help us better understand global firms' operations across jurisdictions and member companies. We are also conducting a review of the risks of using mathematical models, such as in capital calculations, derivatives pricing and risk exposure measurements, to make or inform business decisions.

To enhance our regulation of firms involved in fundraising in the equity and debt capital markets, we will consult the market soon on proposed conduct requirements based on the findings of our recent thematic inspection of their book-building activities.

In light of market volatility and liquidity issues with some overseas funds, our inspections of fund managers will focus more on liquidity risk management practices. A survey of the practices of the controllers of selected brokers will help us understand group liquidity profiles and identify potential problems for early supervisory action. On an ongoing basis, we also review brokers' risk management and compliance with the guidelines for securities margin financing activities to ensure they maintain robust risk management controls in times of market volatility.

As another priority, we are collaborating with the Hong Kong Monetary Authority (HKMA) to monitor sales practices. Our first annual joint product survey with the HKMA will cover the sale of non-exchange-



traded investment products by intermediaries during the period from 1 January to 31 December 2020. The findings will help us better understand market trends, identify risks and coordinate responses to address areas of common concern.

The potential for conflicts of interest and misconduct when firms manage trades for clients, particularly where sales staff have the discretion to control spread charges which may be in excess of those disclosed to or as agreed with the clients, will be the subject of another thematic review.

As part of the Government's continuous effort to strengthen Hong Kong's anti-money laundering and counter-financing of terrorism regime, we will commence a periodic update to the risk assessment for the securities sector to take forward the recommendations of the *Mutual Evaluation Report of Hong Kong* published by the Financial Action Task Force (FATF) in September 2019. We will also propose amendments to our anti-money laundering guidelines to align them with the latest FATF standards and provide additional risk-based guidance.

Asset and wealth management

To develop Hong Kong as a full-service global asset and wealth management centre and a preferred fund domicile, we are committed to encouraging product innovation, broadening the market reach for Hong Kong public funds and enhancing our regulations to align with international regulatory developments.

Changes to the open-ended fund companies (OFC) regime proposed in a recent consultation, including expanding the investment scope for private OFCs and allowing securities brokers to act as their custodians, would encourage more private funds to set up in Hong Kong.

In another consultation, we proposed creating a new type of regulated activity to regulate firms acting as depositaries of SFC-authorised funds which will bring them under our regulatory oversight. We will further consult on proposed amendments to subsidiary legislation and SFC codes and guidelines in due course. We also plan to launch consultations on proposals to update the Code on Real Estate Investment Trusts and the Code on Pooled Retirement Funds.

As part of our efforts to expand market access for our funds, we are exploring mutual recognition of funds (MRF) arrangements with a number of jurisdictions³. Preparations are also underway to enhance the Mainland-Hong Kong MRF scheme to offer Mainland investors a more diversified pool of fund products managed in Hong Kong.

To strengthen Hong Kong's competitiveness as a fund domicile, we are actively involved in the Government's taskforce on establishing a new limited partnership regime for funds, providing tax concessions for local private equity funds' carried interest and other initiatives. We are also working with the HKMA and Mainland authorities to facilitate the launch of the Greater Bay Area Wealth Connect scheme which will provide mutual market access for wealth management products. This will improve the renminbi liquidity pool in Hong Kong and strengthen its role as an offshore renminbi centre.

We work closely with the industry to enhance market efficiency and liquidity to support the long-term development of our exchange-traded fund (ETF) market. Together with Hong Kong Exchanges and Clearing Limited (HKEX), we are exploring ways to enhance the ETF market-making regime. To allow more cost-effective ETF product line-ups and provide investors with more investment choice, we work to facilitate issuers' product applications under new streamlined measures for some SFC-authorised feeder ETFs.

We have also been working with the China Securities Regulatory Commission (CSRC) and other stakeholders to facilitate ETF cross-listing between the Mainland and Hong Kong to enrich our product offerings.

To gain greater insight into leverage in funds and the potential risks it may pose to the markets, we plan to upgrade fund data reporting requirements based on the latest international trends. We will issue guidance on the electronic dissemination of documentation for SFC-authorised investment products in view of the wider use of electronic media.

Markets

Following the success of Mainland-Hong Kong Stock Connect, Hong Kong is well positioned to facilitate capital flows between the Mainland and the rest of the world. We are working with the CSRC and the stock exchanges to introduce an Exchange Bond Connect initiative for trading eligible bonds listed or traded on the Hong Kong and Mainland stock exchanges.

An over-the-counter (OTC) derivatives regime is being introduced in phases in Hong Kong. We will monitor the development of global reform initiatives, such as benchmark reform and the expanded scope of margin requirements for non-centrally cleared derivatives, to assess their impact on the OTC derivatives market. We are working with the Government on legislative amendments to implement refinements to the scope of regulated activities under the OTC derivatives licensing regime. We will also work with the HKMA to assess the feasibility of implementing a mandatory trading obligation.

To detect suspicious trading activities and potential market misconduct in a more timely and efficient manner, we are working with HKEX to implement an investor identification regime for the Hong Kong securities market. We aim to consult on the operational model for the regime this year.

Subsequent to the publication of a joint conclusions paper with HKEX and the Federation of Share Registrars Limited in April 2020 on introducing a paperless securities market in Hong Kong, we are working on the legislative amendments. The regime, expected to be implemented from 2022, will provide investors with efficient and meaningful options to hold and transfer securities in their own names electronically.

³ Overseas MRF arrangements have been established between Hong Kong and Australia, France, Luxembourg, Malaysia, the Netherlands, Switzerland, Taiwan and the United Kingdom.

Strategic Priorities



Following our review of HKEX's temporary suspension of the derivatives markets due to system failure in September 2019, we are monitoring the progress of its implementation of the measures we recommended. We will work with HKEX to improve its decision making process and market communications to ensure orderly market operation and prudent risk management.

Enforcement

To protect the investing public and the reputation of Hong Kong's financial markets, we adopt a front-loaded and focussed enforcement approach to prevent and mitigate harm to investors and nip problems in the bud. We use our powers under the SFO to secure assets which are the suspected proceeds of financial crimes and act promptly to prohibit licensees which may not be fit and proper from carrying on regulated activities.

We seek to improve the quality of our markets by concentrating our enforcement resources on key risk areas and making it difficult for unlawful acts and misconduct to go undetected. One priority is to tackle highly organised corporate fraud where individuals and firms collude to defraud investors. We have commenced court proceedings against listed companies and directors at fault. We aim to deploy the full spectrum of sanctions and remedies available to us in seeking to maintain an orderly market.

Failures in handling conflicts of interest by listed company directors and licensed firms is another priority. In cases where directors breach their fiduciary duties, we may seek compensation or restorative orders against them. We will also target conflicts of interest in our disciplinary actions to raise the standards of conduct of our licensed firms.

A third focus is on market misconduct using complex and sophisticated schemes. To this end, a Market Misconduct Team has been formed by reorganising our market surveillance and investigation functions to help us detect and investigate these schemes more effectively. We will continue to target liable individuals and seek criminal and other sanctions where appropriate to send a strong deterrent message.

To more effectively tackle cross-boundary market misconduct, we strengthened our strategic cooperation with the CSRC and entered into a tripartite Memorandum of Understanding with the CSRC and the Ministry of Finance on access to audit working papers for Hong Kong-listed Mainland companies. Locally, more formal collaboration with the Independent Commission Against Corruption (ICAC) will enhance our effectiveness in combatting financial crimes and upholding market integrity.

We regularly review our data strategy to ensure that we make the best use of all available information to facilitate our investigations and deliver effective enforcement outcomes in a digital age through benchmarking our technological capabilities against our international counterparts and developing data analytic tools.

Green and sustainable finance

We drive and coordinate efforts to bolster Hong Kong as a hub for green and sustainable finance in the region. To manage these initiatives and our engagement with counterparts more effectively, we now have a dedicated International Affairs and Sustainable Finance team⁴.

Promoting environmental, social and governance (ESG) criteria in asset management and corporate disclosures are priorities we set out in our September 2018 Strategic Framework for Green Finance. Additional measures to align our regulatory regime with latest international developments were outlined in our December 2019 report on our survey on integrating ESG factors and climate risks in asset management. We also worked with SEHK on updated rules which will take effect on 1 July 2020 to mandate ESG and climate change-related disclosures by companies listed in Hong Kong.

⁴ Formerly the International Affairs team.

We stay abreast of the latest trends and standards in green and sustainable finance through our active participation in international rule-setting bodies and working groups, and collaborate with other authorities to support sustainable investment. We also work to complement Hong Kong's green and sustainable finance initiatives which contribute to the development of the Greater Bay Area and financial sector connectivity across the region.

Locally, we initiated the Green and Sustainable Finance Cross-Agency Steering Group to promote consistency and collaboration in accelerating the development of Hong Kong as a green and sustainable finance centre. Co-chaired by the SFC and the HKMA, the group's initial focus will be on cross-sectoral regulatory and market development issues. We established a Climate Change Technical Expert Group to help us develop expected standards as well as practical guidance and best practices for incorporating climate-related risks in asset managers' investment and risk management processes.

Technology

We regularly review our regulatory regime and our internal operations to keep up with the latest technological developments and innovative business practices to ensure they are adopted effectively and securely. A major focus is on regulating the conduct of intermediaries who leverage technologies to deliver financial services. The new licensing framework for virtual asset trading platforms we announced in November 2019 brings a largely unregulated area with growing importance under our supervision.

We are developing an internal data analytic platform to automate the analysis of trading data when inspecting large securities brokers. In addition, we will revamp the returns required under the financial resources rules to collect additional financial and risk information from licensed corporations.

Fully developing our online portal, WINGS⁵, has helped overcome the digitalisation challenge by passing data provided by market participants straight to backend processing and analysis. We are adopting other new technologies to organise large volumes of information to make our investigation and litigation work more efficient. We plan to apply more

artificial intelligence-related technology to expand our automatic risk detection and market monitoring capability.

To strengthen our monitoring framework and mechanisms to identify changing market trends and systemic risks, we stepped up our efforts to ensure the integrity of the data we receive from the reporting regimes for OTC equity derivatives, large open positions in exchange-traded derivatives and short positions in stocks. This data provides us with the timely information we need to make a comprehensive assessment of the market situation.

Regulatory cooperation

In supporting Hong Kong's status as an international financial centre, we foster close relationships with our local and overseas counterparts and actively participate in international regulatory bodies. Locally, we build strong connections with other regulators and enforcement agencies to advance our joint initiatives and share information. Formal cooperation arrangements we made this year with the ICAC and the Competition Commission will facilitate our exchange of information and expertise.

Our Chief Executive Officer Mr Ashley Alder serves as Chair of the Board of the International Organization of Securities Commissions (IOSCO) and ex-officio member of the Financial Stability Board (FSB) Plenary and Steering Committee. Our senior executives play an active role in IOSCO's and FSB's committees and working groups. IOSCO and FSB have cooperated very closely to respond to the COVID-19 crisis, and IOSCO has reprioritised its work programme for 2020 to focus primarily on the multiple challenges facing market participants and regulators arising from the crisis.

With greater market connectivity between Hong Kong and the Mainland, our cooperation with Mainland regulators is critically important to safeguard market integrity and investors' interests. We maintain close and effective high-level communication as well as everyday interaction with our Mainland counterparts to enhance cross-boundary regulatory cooperation and to ensure the smooth implementation of market development initiatives including the mutual market access schemes.

5 Web-based INTeGrated Service.

Mission and Mandates

Mission statement

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

Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities.

Our statutory objectives

Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry

Help the public understand the workings of the industry

Provide protection for the investing public

Minimise crime and misconduct in the industry

Reduce systemic risks in the industry

Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council¹, which provides financial consumer education and information to help raise financial literacy in Hong Kong.

¹ Formerly the Investor Education Centre.

The Investor Compensation Company Limited, another subsidiary, was established in 2003 to manage and administer claims against the Investor Compensation Fund. It provides a measure of protection for investors in cases of broker default.

Regulatory functions

Our work can be divided into five principal areas. We adopt a multidisciplinary approach under a "one organisation" ethos to leverage all of our regulatory tools and pool our expertise to achieve our objectives.

Corporates

We oversee listing and takeovers matters in Hong Kong, including vetting of listing applications, disclosure requirements for listed companies, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK).

Empowered by the Securities and Futures (Stock Market Listing) Rules and more generally under the SFO, we intervene in corporate cases at an early stage when we have reason to believe that a proposal may be harmful to investors or the broader public interest. We may raise objections to listing applications as well as transactions proposed by listed companies, or direct SEHK to suspend trading in a listed company's shares.

On a daily basis, we monitor company announcements to identify misconduct or irregularities. We facilitate the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.

Intermediaries

We set standards and qualifying criteria for corporations and individuals operating in our markets under the SFO. To protect the investing public, we allow only "fit and proper" persons to be licensed.

We supervise licensed intermediaries to ensure financial soundness and compliance with business conduct requirements through off-site monitoring and on-site inspections. Our approach aims to detect risks early and through timely intervention prevent them from spreading. We promote the industry's awareness of emerging issues and encourage proper market conduct by providing appropriate guidance.

We work closely with local and overseas regulatory counterparts and participate in international supervisory fora to enhance cooperation and coordination.

Products

To develop Hong Kong as a full-service international asset and wealth management centre and preferred fund domicile, we formulate policies and support initiatives for the regulation of the asset and wealth management industry.

We maintain robust regulations for investment products offered to the public in Hong Kong under the SFO. We perform gate-keeping functions in authorising investment products and monitor their compliance with disclosure and other requirements.

We require offering documents of retail investment products to be accurate and to provide adequate information for investors to make informed decisions.

Markets

We formulate policies to facilitate the development of market infrastructure and boost links with Mainland and international markets. We also collect quantitative information about the financial markets as a means to help reduce systemic risks.

We conduct day-to-day supervision and monitoring of exchanges, clearing houses and authorised automated trading services providers and we regulate share registrars.

Enforcement

Through our surveillance, investigative and disciplinary work, we combat crime and misconduct 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.



Chairman Mr Tim Lui

We work with other law enforcement agencies and overseas regulatory bodies on investigations where required.

Our major enforcement actions include criminal prosecution and civil, disciplinary and market misconduct proceedings.

Regulatory collaboration

To ensure our regulatory framework aligns with global standards, we actively participate in the International Organization of Securities Commissions and other global rule-setting bodies. We work closely with local and Mainland authorities to support Hong Kong's long-term strategic development amidst the opening of Mainland financial markets.

Stakeholders

We maintain close communication with stakeholders to help them understand our work and the rationale behind it. When formulating policies, we consult the industry and the public through a variety of channels.

Corporate Governance

As a statutory regulator, we strive to demonstrate the importance of transparency, integrity and public accountability in everything we do. Sound corporate governance helps ensure we deliver on our public mission in an efficient, fair and ethical manner.



Governance framework

We are committed to maintaining an effective corporate governance framework comprising a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances. This framework is in line with best governance practices for public bodies, including those set out in *Corporate Governance for Public Bodies – A Basic Framework* published by the Hong Kong Institute of Certified Public Accountants.

Board

By supervising and directing our work, the SFC Board plays a key role in ensuring that we carry out our duties effectively. It sets the SFC's overall direction, provides strategic guidance on policy making and oversees the work of the Executive Committee (ExCo).

Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of our 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, and their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 116.

As of 31 March 2020, the Board comprised eight Non-Executive Directors (NEDs), including the Chairman; and six Executive Directors (EDs), including the Chief Executive Officer (CEO).

Coming from diverse backgrounds, our NEDs bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives. Collectively, the Board contributes to the development of the SFC's policies by providing constructive strategic comments.

See pages 16-23 for the full list of Board members and their biographies.

Chairman and CEO

The roles and responsibilities of the non-executive Chairman and the CEO are separate and distinct.

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 the SFC's day-to-day operations
- 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 and Non-Executive Directors

The roles of our EDs and NEDs are different but complementary. The EDs are responsible for the daily operations of the SFC and each has executive duties in key functions including listings and takeovers, corporate conduct, supervision of intermediaries, licensing, market infrastructure, investment products and enforcement. The NEDs provide guidance on and monitor the performance of the organisation's functions.

Governance practices

We uphold high standards of corporate governance and put in place clear and proper policies and processes to facilitate the working of an efficient and accountable Board. We adopt the following practices:

- Arrange for the Board to hold monthly meetings and annual off-site meeting as well as special and policy meetings

Corporate Governance

- Provide Board members with papers and relevant information sufficiently in advance to enable thorough consideration of agenda items
- Circulate draft minutes of Board meetings to members for comment
- Furnish Board members with information regarding our operations and financial condition on a monthly basis
- Keep the Board apprised of our policies and operations as appropriate
- Require Board members to observe policies regarding conflicts of interest
- Provide induction sessions and briefings on various topics to enable the NEDs to better understand the organisation and their responsibilities

In addition to regular Board meetings, we provided regular information updates during the year to keep Board members informed of the SFC's work, its impact on the markets and our interaction with stakeholders.

The Board regularly conducts a self-assessment exercise which examines basic board responsibilities and assesses the performance of individual members. The findings, reported to the Board on an anonymous basis, are discussed by the Board and help improve its effectiveness.

The Commission Secretariat is tasked with ensuring good corporate governance. It supports the Board and senior management, assists them in dealing with organisation-wide policies and initiatives and facilitates Board proceedings according to relevant policies and procedures. It also liaises with Board members, organises their meetings and acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies. The Commission Secretary serves as the secretary to the Board, ExCo and Advisory Committee.

Board appointments

During the year, Mr Rico Leung Chung-yin was appointed as ED for a three-year term effective from 28 August 2019. He succeeded Mr Keith Lui Kei-kwong.

Mr Nicky Lo Kar-chun and Mr Clement Chan Kam-wing were appointed as NEDs for two-year terms effective from 24 April 2019 and 26 May 2019 respectively.

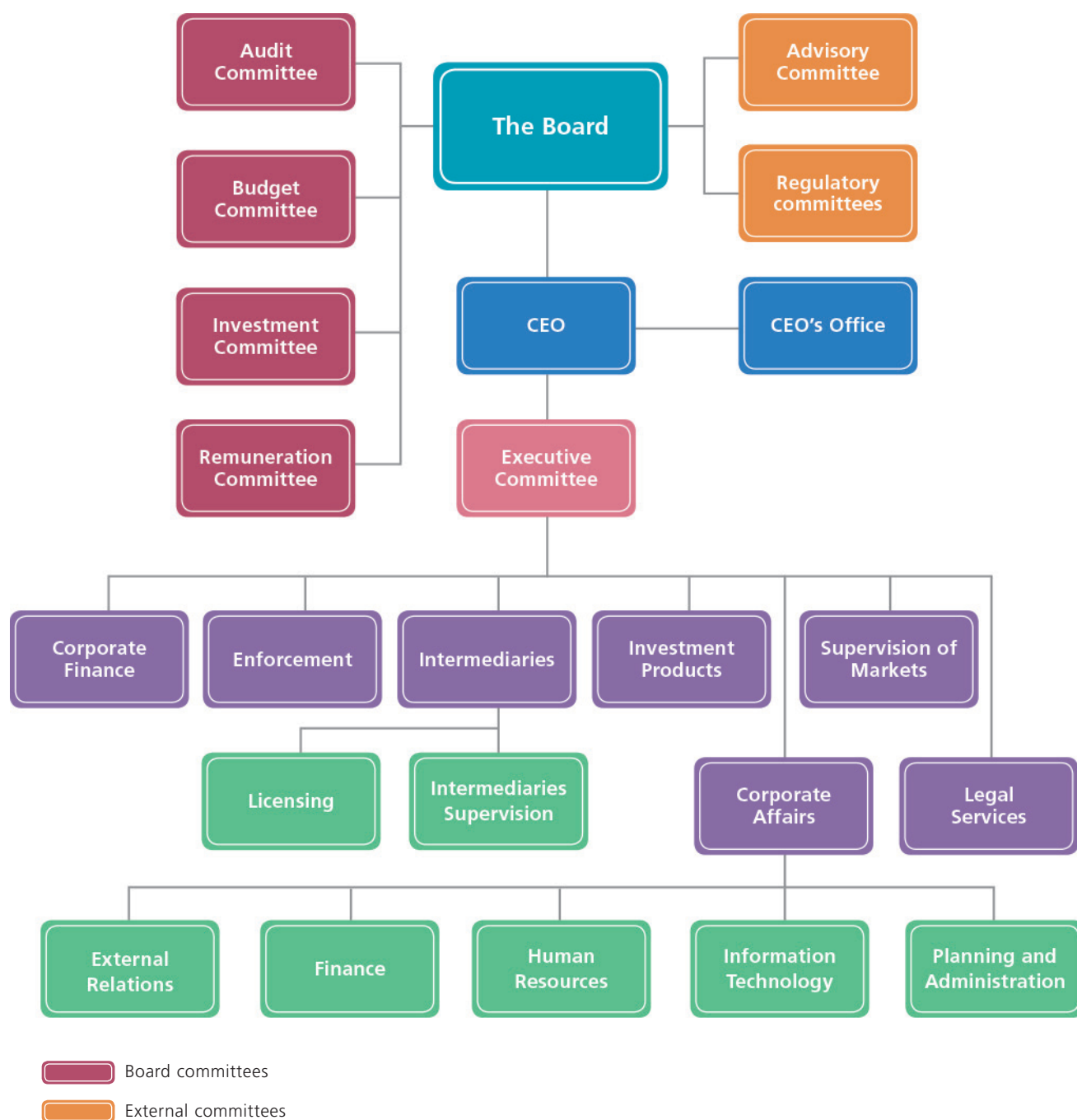
Mr Lester Garson Huang was reappointed as NED for two years, effective from 15 November 2019. Mr Thomas Atkinson and Ms Christina Choi Fung-ye were reappointed as EDs for three years effective from 3 May 2019 and 1 August 2019 respectively.

Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung stepped down as NEDs.

Key components of our governance framework



Organisational structure



Note: CEO's Office includes four units, namely the Commission Secretariat, International Affairs and Sustainable Finance, Mainland Affairs and Press Office.

Board members



Tim LUI Tim-leung SBS, JP
Chairman

From 20 October 2018
Current appointment to
19 October 2021

Other SFC-related positions

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

Current offices and public service

- Chairman, Education Commission
- Member, Financial Leaders Forum, the HKSAR Government
- Member: Banking Advisory Committee and Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission
- Director, Academy of Finance
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Member, Institute of Chartered Accountants in England and Wales

Past offices and public service

- Member, University Grants Committee (2008-2019)
- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1995-2005)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)



Ashley ALDER JP
Chief Executive Officer

From 1 October 2011
Current appointment to
30 September 2023

Other SFC-related positions

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

Public service

- Board of International Organization of Securities Commissions: Chairman (since 2016); Vice-Chairman (2015-2016)
- Member, Plenary and Steering Committee, Financial Stability Board
- Member, Financial Leaders Forum, the HKSAR Government
- Council Member, Treasury Markets Association
- Vice President, The Hong Kong Institute of Bankers

Past SFC position

- Executive Director, Corporate Finance (2001-2004)

Past offices

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



**Julia LEUNG
Fung-yee SBS**

Deputy Chief Executive
Officer and Executive Director,
Intermediaries

From 2 March 2015

Current appointment to
1 March 2021

Other SFC-related positions

- Chairman, Academic and Accreditation Advisory Committee
- Chairman, Fintech Advisory Group
- Member: Budget Committee and Investment Committee
- Member, SFC (HKEC Listing) Committee

Current public service

- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research
- Member, Advisory Committee, City Mental Health Alliance Hong Kong

Past offices and public service

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

Publication

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



Thomas ATKINSON

Executive Director,
Enforcement

From 3 May 2016

Current appointment to
2 May 2022

Other SFC-related positions

- Member: Investor Compensation Fund Committee and Securities Compensation Fund Committee

Past offices

- Director of Enforcement, Ontario Securities Commission (2009-2016)
- President and CEO, Market Regulation Services Inc. (2001-2007)
- Vice President, Regulation Services, Toronto Stock Exchange (1996-2001)
- Assistant Crown Attorney, Ontario Court of Justice (1993-1996)

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

During the year, Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung served on the Board as NEDs until 23 April 2019 and 25 May 2019, respectively.



Agnes CHAN Sui-kuen
Non-Executive Director

From 20 Oct 2018
Current appointment to
19 Oct 2020

Other SFC-related positions

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

Current offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young
- Hong Kong General Chamber of Commerce: Chairman, Financial and Treasury Services Committee; Member, General Committee
- Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute

Past public service

- Competition Commission: Member; Chairperson of Finance and Administration Committee (2013-2018)
- Member, Mandatory Provident Fund Schemes Appeal Board (2011-2017)
- Member, Environment and Conservation Fund Committee (2012-2016)
- Member, Telecommunications Users and Consumers Advisory Committee, Office of the Communications Authority (2012-2016)



**Clement CHAN
Kam-wing MH**
Non-Executive Director

From 26 May 2019
Current appointment to
25 May 2021

Other SFC-related positions

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

Current offices and public service

- Managing Director of Assurance, BDO Limited
- Non-Executive Director, Hong Kong Mortgage Corporation Limited
- Non-Executive Director, Zhuzhou CRRC Times Electric Co., Ltd.
- Financial Reporting Council: Honorary Advisor; Member, Corporate Communications Committee and Independent Audit Oversight Reform Committee
- Member, Audit Committee, Consumer Council
- Member, Audit Profession Reform Working Group, Hong Kong Institute of Certified Public Accountants
- Member, Independent Police Complaints Council
- Member, Solicitors Disciplinary Tribunal Panel
- Member, Audit Committee, Western Kowloon Cultural District Authority

Past public service

- Hong Kong Institute of Certified Public Accountants: President (2014); Chairman, Financial Reporting Standards Committee (2010-2014)
- Chairman, Australian Chamber of Commerce in Hong Kong (2007-2010)



**Edward CHENG
Wai-sun GBS, JP**

Non-Executive Director

From 1 January 2017

Current appointment to
31 December 2020

Other SFC-related positions

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

Current offices and public service

- Deputy Chairman and Chief Executive, Wing Tai Properties Limited
- Chairman, Lanson Place Hospitality Management Limited
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited
- Member, the Chief Executive's Council of Advisers on Innovation and Strategic Development

Past SFC-related positions

- Member: Takeovers and Mergers Panel (1994-2005) and Takeovers Appeal Committee (1994-2005)

Past offices and public service

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Independent Non-Executive Director, Orient Overseas (International) Limited (2009-2018)
- Member, Commission on Strategic Development (2013-2017)
- Board Member, Airport Authority Hong Kong (2011-2017)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Independent Commission Against Corruption: Member, Advisory Committee on Corruption (2004-2009) and Operations Review Committee (1997-2003)
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Co-chairman, SUNDAY Communications Limited (1999-2005)
- Member, Executive Committee, Hong Kong Housing Society (2000-2004)
- Council Member, Education University of Hong Kong (formerly known as The Hong Kong Institute of Education) (2000-2002)

Corporate Governance



**Christina CHOI
Fung-yee**

Executive Director,
Investment Products

From 1 August 2016

Current appointment to
31 July 2022

Other SFC-related positions

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

Public service

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

Past SFC position

- Senior Director, Investment Products (2012-2016)

Past offices

- Partner, Clifford Chance (2001-2004)



Brian HO Yin-tung

Executive Director,
Corporate Finance

From 28 August 2006

Current appointment to
27 August 2021

Other SFC-related positions

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

Public service

- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited

Past SFC position

- Senior Director, Corporate Finance (2000-2006)



**Lester Garson
HUANG SBS, JP**

Non-Executive Director

From 15 November 2015

Current appointment to
14 November 2021

Other SFC-related positions

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

Current offices and public service

- Managing Partner and Co-Chairman, P. C. Woo & Co
- Ex-officio Member, Education Commission
- Chairman, Council of the City University of Hong Kong
- Chairman, Standing Committee on Language Education and Research
- Chairman, Social Welfare Advisory Committee
- Fellow, The Hong Kong Institute of Directors

Past public service

- President, The Hong Kong Federation of Youth Groups (2014-2018)
- Member, Hospital Authority (2012-2018)
- Chairman, Board of Advisors of Radio Television Hong Kong (2010-2016)
- Non-Executive Director, Urban Renewal Authority Board (2013-2016)
- Director, The Hong Kong Mortgage Corporation Limited (2009-2016)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)
- President, The Law Society of Hong Kong (2007-2009)



**Rico LEUNG
Chung-yin**

Executive Director,
Supervision of Markets

From 28 August 2019

Current appointment to
27 August 2022

Other SFC-related positions

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

Public service

- Member, Risk Management Committee, Hong Kong Exchanges and Clearing Limited

Past SFC position

- Senior Director, Supervision of Markets (2008-2019)

Past offices

- Chief Operations Officer, HKFE Clearing Corporation Limited (1994-2000)

Corporate Governance



Dr James C LIN

Non-Executive Director

From 1 August 2018

Current appointment to
31 July 2020

Other SFC-related positions

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

Current offices and public service

- Senior Partner, Davis Polk & Wardwell LLP
- Member, Process Review Panel, Insurance Authority
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- Member, Process Review Panel for Regulation of Mandatory Provident Fund Intermediaries
- Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council

Past public service

- Member, Appeal Panel (Housing) (2012-2018)
- Member, Securities and Futures Appeals Tribunal (2011-2017)



**Nicky LO
Kar-Chun SBS, JP**

Non-Executive Director

From 24 April 2019

Current appointment to
23 April 2021

Other SFC-related positions

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

Current offices and public service

- Director, Italade Technology Holdings
- Chairman, Governance Sub-committee, Hong Kong Monetary Authority
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority

Past public service

- Chairman, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR (2013-2019)
- Member, Advisory Committee on Post-service Employment of Civil Servants (2009-2013)
- Chairman, Standing Commission on Civil Service Salaries and Conditions of Service (2006-2012)
- Member, Public Service Commission (2006-2012)
- Member, Standing Commission on Directorate Salaries and Conditions of Service (2006-2012)
- Member, Standing Commission on Disciplined Services Salaries and Conditions of Service (2001-2006)

Past offices

- Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- Chief Executive Officer, Synnex Technology International (HK) Ltd (1987-2013)
- Principal Assistant Secretary and Deputy Secretary for Trade and Industry, the Trade and Industry Branch of the Government Secretariat (1985-1987)
- Administrative Officer, the HKSAR Government (1974-1987)



**Dr William WONG
Ming-fung SC, JP**
Non-Executive Director

From 1 August 2014
Current appointment to
31 July 2020

Other SFC-related positions

- Chairman, Investor Compensation Company Limited
- Chairman, Remuneration Committee
- Member, Audit Committee
- Member: Investor Compensation Fund Committee, Securities Compensation Fund Committee and SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Hong Kong Bar Association: Chairman, Arbitration Committee; Vice Chairman, Special Committee on Barristers Qualification Examination
- Deputy Chairman, Private Columbaria Appeal Board
- Deputy Chairman, Municipal Services Appeals Board
- Deputy Chairman, The Board of Review (Inland Revenue Ordinance)
- Member, Advisory Committee on Promotion of Arbitration, Department of Justice
- Member, Criminal and Law Enforcement Injuries Compensation Board
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Trustee, United College, The Chinese University of Hong Kong
- Director, Hong Kong Middle Temple Society

Note: The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 166-174 for information about SFC external committees.

Corporate Governance

Board meetings

Regular Board meetings are held monthly. The Board also meets from time to time to conduct in-depth discussions of policy issues and convenes special meetings as needed. In addition, there is an annual off-site meeting which sets out strategic objectives and management priorities.

Last year, 14 Board meetings were held with an average attendance rate of 85%.

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Tim Lui Tim-leung	14/14	2/2 ¹	–	2/2	2/2	–
Executive Directors						
Ashley Alder	10/14	–	1/1	2/2	–	15/16
Julia Leung Fung-yee	14/14	–	0/1	1/1 ²	–	16/16
Thomas Atkinson	11/14	–	–	–	–	15/16
Christina Choi Fung-yee	12/14	–	–	–	–	15/16
Brian Ho Yin-tung	12/14	–	–	–	–	14/16
Rico Leung Chung-yin ³	8/8	–	–	–	–	10/10
Keith Lui Kei-kwong ⁴	6/6	–	–	1/1	–	6/6
Non-Executive Directors						
Albert Au Siu-cheung ⁵	2/3	1/1	–	–	–	–
Agnes Chan Sui-kuen	12/14	2/2 ⁶	1/1 ⁷	2/2	2/2	–
Clement Chan Kam-wing ⁸	10/11	1/1	–	–	2/2	–
Edward Cheng Wai-sun	11/14	–	1/1	–	1/2	–
Lester Garson Huang	12/14	–	1/1 ⁹	–	2/2	–
James C Lin	11/14	1/2	–	2/2 ¹⁰	0/2	–
Nicky Lo Kar-chun ¹¹	11/13	–	1/1	2/2	2/2	–
Mary Ma Xuezheng ¹²	1/1	–	–	–	–	–
William Wong Ming-fung, SC	9/14	1/2	–	–	2/2	–
Senior Director and Chief Counsel						
Andrew Wan Chi-yiu	–	–	–	2/2	–	14/16
Andrew Young	–	–	–	–	–	14/16

¹ Appointed as Deputy Chairman of Audit Committee effective on 24 April 2019.

² Appointed as a member of Investment Committee effective on 10 September 2019.

³ Appointed as a member of the Board and Executive Committee effective on 28 August 2019.

⁴ Appointment expired on 27 August 2019.

⁵ Appointment expired on 25 May 2019.

⁶ Appointed as Chairman of Audit Committee effective on 26 May 2019.

⁷ Appointed as Chairman of Budget Committee effective on 24 April 2019.

⁸ Appointed as a member of the Board, Audit Committee and Remuneration Committee effective on 26 May 2019.

⁹ Appointed as Deputy Chairman of Budget Committee effective on 26 May 2019.

¹⁰ Appointed as Deputy Chairman of Investment Committee effective on 24 April 2019.

¹¹ Appointed as a member of the Board, Budget Committee, Investment Committee and Remuneration Committee effective on 24 April 2019.

¹² Appointment expired on 23 April 2019.

SFC committees

Board committees

Each of our four board committees focuses on clearly-defined areas of the SFC's operations and is chaired by an NED. The presence and active participation of the NEDs provide effective checks and balances for our management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Five NEDs	- Reviews annual financial statements - Recommends the appointment of external auditors - Coordinates the scope of the external audit and reviews audit findings - Examines management procedures to ensure effective financial and internal controls	2
Budget Committee	Four NEDs and two EDs [^]	- Examines and approves the parameters and bases used in the annual budget - Conducts the mid-year budget review - Reviews the annual budget and makes recommendations to the Board	1
Investment Committee	Four NEDs, two EDs and a Senior Director [^]	- Advises on the SFC's fund management policies, strategies and investment guidelines - Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines - Advises on investment risk management and asset allocation and monitors the performance of investments	2
Remuneration Committee	Eight NEDs	- Reviews the structure and level of staff remuneration - Reviews trends in remuneration packages and recommends adjustments - Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment	2

[^] In a non-voting capacity.

Corporate Governance

External committees

External committees are set up under the SFO and comprise a large number of members outside the SFC who reflect the diverse views of market participants. These committees 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 Chief Executive of the HKSAR. The Committee is headed by the Chairman

and its members include the CEO and not more than two other EDs.

Each regulatory committee specialises in specific areas such as investment products, shareholders' rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2020.

See pages 166-174 for the responsibilities and membership lists of the external committees.

New Non-Executive Directors

Mr Clement Chan Kam-wing and Mr Nicky Lo Kar-Chun joined our Board as NEDs during the year. They reflect on their new roles.



Mr Clement Chan (left) and Mr Nicky Lo

Fairness and transparency

Mr Chan brings to the Board the specialised expertise he earned over more than three decades as an accounting professional. A former president of the Hong Kong Institute of Certified Public Accountants, he has been active in industry governance and standard setting both locally and internationally.

Mr Chan's experiences complement what he sees as our Board's most important function: the maintenance of open, fair and transparent markets. To achieve this requires the highest standards of integrity and ethics, and the Board's governance practices are as robust and rigorous as he expected, Mr Chan related.

Stakeholders play different roles in the market and may have conflicting interests, he added. To be regarded as fair and impartial, it is vital to clearly communicate the rationale for new policies and major decisions and give all stakeholders adequate opportunities to express their views.

The key to good corporate governance is to have a transparent decision process, particularly for policy making.

Clement Chan

Serving the community at large

Mr Lo's diverse experience in leadership positions in business and government helped prepare him for the challenges of his new role. Throughout his career, he was required to set key goals for organisations and achieve them within a good corporate governance framework.

After joining our Board, he found our work to be a lot more complex than he expected. He now has a better understanding of the wide scope of our responsibilities and the complexities of regulating a market where cross-border trading has grown in importance.

The Board not only deals with high-level policies, it also handles highly technical matters, he said. It has to set appropriate priorities and make the best use of finite resources. It also needs to listen to all stakeholders to serve the interests of investors and the community at large.

We have to take the needs of stakeholders into account to serve the best interests of the community.

Nicky Lo

Executive Committee

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

ExCo meets regularly to consider policy and operational proposals and expense requests from different divisions of the organisation. During the year, 16 ExCo meetings were held with an average attendance rate of 93%.

Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with relevant legal obligations, staff are obligated 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.

Accountability and transparency

Stringent policies and procedures are in place to ensure that we act with credibility, fairness and transparency.

Delegation of authority

A system of delegation of authority clearly delineates the authority of the Board and different levels of the executive management. The Board delegates 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 our daily operations.

Budgeting

To maintain effective fiscal control and to plan for the coming year and beyond, we follow a disciplined approach in preparing our budget. Under our policy of tightly controlling expenditures, we make prudent assumptions, exercise robust financial control and identify areas where resources could be deployed to meet the SFC's strategic objectives, priorities and operational needs. During the budget process, divisions' expense requests for the following year are critically assessed.

The annual budget, after consideration by the Budget Committee and approval by the Board, is submitted to the Financial Secretary for approval and then tabled before LegCo. We also appear before LegCo's Panel on Financial Affairs to present our budget each year.

Investment

We aim to achieve long-term financial sustainability and attach great importance to the prudent management of our reserves, which are managed according to investment guidelines approved by the Financial Secretary.

We have delegated responsibility for the selection, retention and management of the investments of our Reserve Fund and the Investor Compensation Fund to external investment managers. We regularly review their compliance with the investment guidelines. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership¹ in their undertakings to manage these investments. The Investment Committee monitors the performance of investments and advises on asset allocation and risk management.

¹ Issued by the SFC in March 2016, these voluntary principles aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

New Executive Director

The newest addition to the SFC Board, Mr Rico Leung, ED of Supervision of Markets, has worked at the SFC for two decades. He joined us in 2000 from HKFE Clearing Corporation*, where he was Chief Operations Officer overseeing futures market clearing operations.

Mr Leung's top priority in his new role is to improve and strengthen financial market infrastructure, taking into account international best practices and the Hong Kong market's unique structure and characteristics. "Markets are only as good as the infrastructure that supports them," he said. "I look forward to working with market participants and other stakeholders to ensure the resilience of this critical component of our financial market."

Another priority is to enhance the SFC's ability to address systemic and emerging risks. Mr Leung was instrumental in the implementation of our risk monitoring framework.

* A subsidiary of Hong Kong Futures Exchange Limited.



So far, his service on the Board has given him new insight into the checks and balances embedded in our corporate governance structure. His fellow Board members have a diverse mix of skills and experience, he explained, and this allows the SFC to consider regulatory issues from different perspectives.

The tremendous development of Hong Kong's stock and derivatives markets has been underpinned by our robust and efficient financial market infrastructure.

Rico Leung

Financial control and reporting

To uphold a high standard of integrity and exercise vigorous controls over the use of public funds, we engage an independent external professional firm to conduct an annual review of our financial control policies and procedures to ensure that they are practical and robust.

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and we adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information.

In addition, we follow good market practice to ensure our financial reports are transparent and informative.

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government

Handling complaints and grievances

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

Efficient use of resources

We regularly review our corporate resources, including space and accommodation requirements, to ensure that we operate efficiently, identify our needs and strategic priorities and allocate resources accordingly.

This year, we entered into an eight-year lease for a new office in Quarry Bay. Rental expenses, one of our major expenditures, will be approximately half of our previous lease in Central. The cost savings will enhance our long-term sustainability and support our plan to eventually purchase our own office premises. For the time being, we will transfer the rental savings of around \$125 million per year to our reserve set aside for the acquisition of office premises.

To formulate effective regulatory responses in rapidly-evolving and increasingly complex markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions. This allows more efficient use of our resources across the organisation.

Stakeholder communication

We engage with a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a proactive, timely and effective manner².

We respond to public enquiries orally and in writing while striving to meet our performance pledges. We conduct public consultations and publish consultation conclusions before implementing a rule change. Annual and quarterly reports keep the public informed of our key regulatory work and finances. We issue statements and announcements to inform the market about our policies as well as industry-related publications, reports and surveys on more specialised topics. Press releases announce our latest regulatory actions and other SFC news.

We also reach out to stakeholders to explain our work and policies and we discuss specific regulatory issues at seminars or other events. We attend meetings at LegCo, including meetings of the Panel on Financial Affairs, to present our budget, explain policy initiatives and other issues of public interest.

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Our corporate website (www.sfc.hk) provides up-to-date, easily accessible public and industry information, which is constantly reviewed and enriched.

Internally, we emphasise effective communication within the organisation. In addition to utilising our intranet and internal circulars, we organise regular CEO Sharing Sessions and briefings by senior executives on the work of various divisions to keep our staff apprised of the latest developments and current priorities.

In November 2019, a staff member from the External Relations Department of our Corporate Affairs Division received The Ombudsman's Awards 2019 for Officers of Public Organisations³.

² See Stakeholders on pages 76-79.

³ See Corporate Developments on pages 82-89.

Risk management

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

External risks

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

We adopt a comprehensive, structured approach to assessing risk using new regulatory technologies to collect and analyse large volumes of data and information as markets become more complex and interconnected. This year, we further enhanced the monitoring framework which captured comprehensive market data to monitor and assess potential systemic risks.

The cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a holistic manner. The group regularly reports to ExCo and the Board.

In light of the COVID-19 situation, we reconfigured our staffing arrangements to ensure the continued delivery of our public services as usual and keep any interruptions or delays to a minimum. We also advised licensees and other market participants to contact us if they encountered difficulties in relation to their regulatory obligations.

Internal risks and control

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

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds.

In addition to appointing an external auditor, we engage an independent external firm to conduct internal audits to assess the effectiveness of our controls and identify the key risks of all our business processes. The scope of each review is approved by the Audit Committee and may include banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance (PDPO), we provide staff with a data privacy manual and a quick guide comprising frequently asked questions and illustrative examples. In January 2020, we launched an online course on the PDPO which is mandatory for all full-time staff.

We put the following measures in place to provide for safe and smooth operations:

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services.
- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with technological and other changes in the way we operate.
- Access controls protect our information and systems from unauthorised access, use or modification and office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

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

Independent body	Relevant functions	SFC-related tasks handled
Process Review Panel - An independent panel established by the Chief Executive of the HKSAR in 2000 - Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice	Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers	Reviewed 60 cases and published its annual report in January 2020
Securities and Futures Appeals Tribunal Chaired by current or former judges appointed by the Chief Executive of the HKSAR and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority	- Reviews specified decisions made by the SFC or the Investor Compensation Company Limited - Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions	- Received requests to review three new cases - Decided on one case brought forward from 2018-19 - Allowed one case received in 2019-20 to be withdrawn
The Ombudsman	Handles public complaints against the SFC and its staff for alleged maladministration	Commenced two preliminary inquiries
Courts	Handle judicial reviews of SFC decisions	Handled three judicial review cases

Performance pledges

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

		Cases meeting the pledge		
		2019/20	2018/19	2017/18
Applications for subordinated loan or modification/waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	100%	100%
Authorisation/registration of investment products				
Take-up of applications upon receipt	5 or 2 business days ¹	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes, paper gold schemes and private open-ended fund companies	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
General enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications²				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% ³	99%	100%
Representatives (normal licences)	8 weeks	99% ³	99%	100%
Representatives (responsible officers)	10 weeks	99% ³	99%	99%
Transfer of accreditation	7 business days	99% ³	99%	97%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.8% ⁴	99.8%	99.8%

1 The pledge of five business days is applicable to the authorisation of the following products:

- Unit trusts and mutual funds
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds
- Real estate investment trusts

The pledge of two business days is applicable to the authorisation of other products (which include investment-linked assurance schemes and paper gold schemes), and the registration of private open-ended fund companies.

2 During the year, we processed 14,172 applications that were subject to performance pledges, 12,173 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,999 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and properness issues;
- outstanding vetting requests;
- outstanding material information from applicants; and
- requests by applicants that we delay finalising their applications.

To more accurately reflect our performance, these applications are not included in the percentages stated.

3 The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

4 Nine cases failed to meet the pledge.

During the year, 100% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)	
<i>Applications for rulings and consultations with the Takeovers Executive</i>	
All ruling applications and consultations under the Codes (except for those set out below)	5 business days ⁵
Applications for rulings that are conditional on obtaining shareholders' approval in a general meeting	Normally within 5 business days before the relevant general meeting
Fast track EFM/EPT applications and EFM/EPT annual confirmations ⁶	10 business days
All other EFM/EPT applications	21 business days
Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
No complex issues involved	2 business days
Complex issues involved	3 business days ⁷
<i>All other announcements (including revised drafts)</i>	
No complex issues involved	1 business day
Complex issues involved	3 business days ⁷
<i>All drafts of shareholders' documents⁸</i>	5 business days

5 If the subject matter involves complex issues in relation to the Codes, the time limit will be extended to 21 business days and the applicants will be informed of this.

6 EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

7 The parties will be informed of the longer time needed.

8 Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

Our People

In-house legal professionals talk about how their work has evolved to meet increasingly complex challenges.

Our Legal Services Division steers key policy and regulatory initiatives to keep up with the unprecedented pace of change in financial markets. "With the introduction of the front-loaded regulatory approach, we get involved at a much earlier stage in the process," explained Monica Lai. "The cases we handle are more time-sensitive and real-time legal input is often required."

According to Joyce Leung, this also means more opportunities to advise on policy initiatives and bilateral cooperation agreements. "To achieve the SFC's priorities, the way we are structured and the nature of our work has changed significantly," added Evelyn Tsang. Additional staff were hired and the division was organised into litigation, advisory and legislative drafting teams.

One major function is to guide the SFC through the legislative process. "We consider whether existing law is adequate to support new regulatory initiatives," explained Valerie Chan. "Sometimes we spot gaps where amendments are necessary." Another is to advise the operating divisions on issues ranging from interpreting legal provisions to contracts and employment matters.

Conducting litigation and proceedings involving the SFC is a major responsibility. Simone Hui and Winnie Kwong, who joined us as experienced litigators, appreciate the opportunity to handle a variety of criminal and civil court cases as well as hearings in the Market Misconduct Tribunal (MMT). They have also been involved in landmark cases heard by the Court of Final Appeal.

This makes for a very special in-house role, agreed Andre Hui. For Shirin Chu, the rewards are not just bringing cases to a successful conclusion, but also obtaining orders for compensation for investors.

The role provides opportunities to work closely with regulatory counterparts from as far away as the Netherlands and the US. Candy Au learned a lot from exchanges with legal staff from the China Securities Regulatory Commission which helped both sides appreciate the challenges faced by the other.

Engaging in a variety of legal work appeals to Erwin Yau, who said it helps him see the big picture. "Our mindset is to promote fairness in the financial industry and minimise crime and misconduct while safeguarding the interests of stakeholders, other market participants and the wider public."



Valerie Chan, Assistant Counsel
Alex Koh, Senior Administrator
Candy Au, Assistant Counsel



Sheldon Leung, Assistant Counsel
Andre Hui, Counsel
Winnie Kwong, Counsel
Shirin Chu, Senior Counsel

In the public interest

Many of our in-house lawyers contrasted their work at the SFC with their previous experience in the private sector. "The nature of our work as a regulator is forward-looking and we help shape the future of the financial services industry – this is not something you can do in private practice," Sheldon Leung said.



Jennifer Tsang, Counsel
Samuel Fung, Assistant Counsel

Our in-house legal professionals are committed to the obligation to be transparent, fair and act in the interest of the public, Candy Au explained. As a specific example of how the SFC protects the public, Jennifer Tsang pointed to the landmark China Metal Recycling (Holdings) Limited case. (See table on page 86 for a list of landmark cases handled by the division since 2010.)

Many colleagues find inspiration in serving the public interest. "Our work is driven by how we can achieve our regulatory goals," Andre Hui said. "We want to stop bad guys doing bad things."

For Samuel Fung, the SFC is at the forefront of exploring what action can be taken in the courts, the MMT and using our administrative powers. There is often no precedent to follow, and that is one of the most challenging and yet rewarding aspects of the job.

Not pictured:

Erwin Yau, Assistant Counsel
Evelyn Tsang, Senior Counsel

Karin Choy, Counsel
Monica Lai, Senior Counsel

Silvia Hui, Assistant Counsel
Simone Hui, Counsel



Michelle Wong, Assistant Counsel
Louisa Lau, Executive Secretary
Joyce Leung, Counsel

Looking ahead, Silvia Hui anticipates that keeping up with the changing financial and technology landscape will remain a challenge. Technology has already made a big difference in how Alex Koh and other administrators do their work. Unlike in past years, Louisa Lau no longer does audio typing from dictation.

New technology helps manage the much larger volume of documents Simone Hui needs to review, she explained. Digitalisation will be essential as the global trend is to move away from using paper in legal proceedings. "The courts still use paper but some judges now ask for electronic versions of documents as well," Michelle Wong noted.

For Evelyn Tsang, being a legal professional at the SFC has been rewarding because of the excellent relationships among colleagues and the friendly working environment. A social events committee fosters communication among the growing number of staff in the division. "These activities provide an opportunity for us to interact and foster team spirit," said Winnie Kwong.

Karin Choy concurred. "We have talented people who support and respect each other, and a culture that welcomes communication and constructive feedback."

Operational Review

We strive to strengthen the integrity and soundness of the financial markets through our principal areas of work: corporates, intermediaries, products, markets and enforcement.



Highlights

Key figures for 2019-20

8,767

requests for trading and account records



197

cases initiated for investigation

158

individuals and corporations subject to ongoing civil proceedings

\$479 million

in fines on licensees

6,962

new licence applications



As of 31 March 2020

47,167

licensees and registrants

including

3,109

licensed corporations

317

on-site inspections of intermediaries

73

industry circulars

136

Fintech-related enquiries



103

senior executives' speaking engagements

4,491

complaints against intermediaries and market activities

303

listing applications received



359

takeovers-related transactions and applications

As of 31 March 2020

2,728

authorised collective investment schemes



including

762

Hong Kong-domiciled funds

Highlights

The following tables highlight our work during 2019-20. More details are provided in subsequent chapters.

Regulatory enhancements	
Online account opening	Amendments to the Code of Conduct ¹ and a new approach to onboarding overseas individual clients allow firms to adapt their practices as business activities are increasingly conducted online
Securities margin financing	New guidelines took effect to enhance brokers' risk management of securities margin financing activities
Listed companies	In response to the SFC's recommendation, The Stock Exchange of Hong Kong Limited (SEHK) introduced a trading suspension requirement for listed companies with a disclaimer or adverse audit opinion on their financial statements Following the SFC's approval, SEHK amended rules for listed companies' environmental, social and governance (ESG) disclosure and introduced new rules to tackle problems associated with backdoor listings and shell activities
Virtual assets	Announced a regulatory framework for licensing virtual asset trading platforms under the SFC's existing powers
Investor compensation	Enhancements to the investor compensation regime took effect, raising the compensation limit to \$500,000 per investor per default and extending coverage to include northbound trading under Mainland-Hong Kong Stock Connect
Investor identification	An investor identification regime was implemented for southbound trading under Mainland-Hong Kong Stock Connect
Open-ended fund companies	Consulted the public on proposed enhancements to the open-ended fund companies (OFC) regime to encourage private funds to set up in Hong Kong
Trustees and custodians of public funds	Consulted the public on proposals to regulate depositaries ² of SFC-authorised collective investment schemes (CIS)
OTC derivatives	Concluded a consultation on margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions Together with the Hong Kong Monetary Authority (HKMA), consulted the public on implementing unique trade identifiers and mandating their use in transactions to be submitted to the Hong Kong Trade Repository

¹ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

² Depositaries are trustees for SFC-authorised CIS in unit trust form, and custodians for CIS in other forms.

Supervision

Listing applications	Received 303 listing applications including two companies with weighted voting rights structures and 10 pre-profit biotech companies, and directly sought information or expressed our concerns about 35 applications
Takeovers matters	Supervised 359 takeovers-related transactions and applications The Takeovers Panel met twice during the year to consider novel, important or difficult points at issue
Corporate conduct	Published statements on misconduct in corporate acquisitions and disposals and to remind listed companies that announcements and documents must not include false or incomplete information about their counterparties Issued joint statements with SEHK on listed companies' reporting deadlines and general meetings for shareholders in light of the COVID-19 outbreak As part of our review of corporate disclosure, issued section 179 directions to gather additional information in 76 cases and wrote to detail our concerns in 20 transactions
Licensing	Revamped our licensing processes and made the use of new licensing forms mandatory to enhance efficiency and transparency Provided guidance for private equity firms and family offices on our licensing regime
Inspections	Conducted 317 on-site inspections of intermediaries and noted 1,489 incidents of breaches of our rules Completed an on-site inspection of Hong Kong Exchanges and Clearing Limited's (HKEX) futures trading and clearing operations covering July 2016 to June 2018 and recommended improvements
Asset managers	Issued guidance on the conduct expected of asset managers when considering dubious private fund and discretionary account arrangements or transactions requested by investors Published a report on our survey on integrating ESG factors and climate risks in asset management Released the <i>Asset and Wealth Management Activities Survey</i> for 2018 to provide a comprehensive overview of the industry in Hong Kong
Third-party deposits and payments	Issued a circular setting out our expected standards and providing examples of effective measures for firms to prevent the misappropriation of client assets, money laundering and other financial crimes associated with third-party deposits and payments
Complex financing arrangements	Issued a joint circular with the HKMA on complex, opaque financial transactions within financial groups which may conceal embedded financial risks
Prime brokerage business	Published a circular and a report setting our expected standards of conduct and internal controls on prime brokers in Hong Kong, and sharing examples of good industry practices
Industry guidance	Organised the SFC Compliance Forum 2019 to exchange views with the industry on recent regulatory guidance, expected standards of conduct and topical issues Issued 73 circulars to the industry on a wide range of topics including fund liquidity risk, client facilitation, protection of client assets, private equity firms and family offices Created a dedicated webpage to provide the latest regulatory information during the COVID-19 outbreak

Highlights

Market development

Paperless securities market	Concluded a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated securities market
Mutual recognition of funds	Signed a mutual recognition of funds (MRF) agreement with the Netherlands Authority for the Financial Markets, allowing eligible Dutch and Hong Kong funds to be distributed in the other market through a streamlined process ³
Funds	Authorised 126 CIS for sale to the public in Hong Kong
OFC	The first authorised exchange-traded fund (ETF) structured as a public OFC was listed and two private OFCs were registered
ETF	Worked with SEHK to introduce a new buy-in exemption to cover short positions associated with ETF market-making activities Authorised the world's first iron ore futures ETF
Derivative products	Approved 12 derivative contracts proposed by HKEX

Enforcement

Surveillance	Made 8,767 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
Investigations and prosecutions	Commenced 197 investigations and laid 10 criminal charges against six individuals and one corporation and secured convictions against three persons
Notable disciplinary actions	Reprimanded and fined one firm \$400 million for overcharging clients over a 10-year period through post-trade spread increases, excess fees and internal control failures Reprimanded and fined one firm \$27 million for failures as an initial public offering sponsor Disciplined three individuals and one firm for failures in complying with anti-money laundering and counter-terrorist financing requirements Banned four individuals from re-entering the industry for life for conviction of bribery or theft

Regulatory cooperation

Hong Kong	Entered into a memorandum of understanding (MoU) with the Independent Commission Against Corruption to formalise our cooperation in combating financial crime
Mainland	Held two high-level meetings with the China Securities Regulatory Commission (CSRC) to discuss supervisory and regulatory cooperation Entered into an MoU with the Ministry of Finance and the CSRC on access to audit working papers for Hong Kong-listed Mainland companies

³ Overseas MRF arrangements have also been established between Hong Kong and Australia, France, Luxembourg, Malaysia, Switzerland, Taiwan and the United Kingdom.

Corporates

We oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK). We review listing and takeovers policies to facilitate the development of a fair and orderly securities market in Hong Kong.

Listing regulation

Corporate and market misconduct

We work together with SEHK to monitor the market and intervene using our statutory powers under the Securities and Futures (Stock Market Listing) Rules (SMLR) and the Securities and Futures Ordinance (SFO) where appropriate to tackle corporate and market misconduct.

Following a public consultation and our approval, SEHK introduced amendments to the Listing Rules in July 2019 to tackle problems associated with backdoor listings and shell activities. The changes took effect on 1 October 2019. Concurrently, we issued a statement explaining our general approach to these activities. Before deciding whether to exercise our statutory powers, we consider the facts and circumstances of each case, including any red flags indicating a possible scheme designed to mislead regulators or the investing public or to circumvent applicable rules.

In response to a recommendation in our review of SEHK's performance in listing matters, SEHK introduced a trading suspension requirement for listed companies with a disclaimer or adverse audit opinion on their financial statements. The new rule applies to preliminary annual results announcements for financial years commencing on or after 1 September 2019.

In July 2019, we issued a statement on recurring misconduct in corporate acquisitions and disposals which has prompted intervention by the SFC. Directors and their advisers were reminded to comply with their statutory and other legal duties when evaluating or approving the acquisition or disposal of a company or business.



Presentation at a seminar hosted by The Hong Kong Independent Non-Executive Director Association

To address the use of special purpose vehicles and other means (including private funds) to conceal ownership and as part of wider schemes to engage in illicit activities or market misconduct, we issued a statement in November 2019 reminding listed companies that their announcements and other documents must not include false, incomplete or misleading information about their counterparties in a transaction. Our statement was accompanied by guidance to asset managers on the conduct expected of them when considering dubious private fund and discretionary account arrangements or transactions.

Corporate WVR

Following discussions with us, SEHK consulted the public in early 2020 on a proposal to allow corporations to benefit from weighted voting rights (WVR), subject to additional conditions and investor safeguards to address risks which are particular to corporate WVR, such as the potential for WVR structures to subsist indefinitely.

New listing applications

	2019/20	2018/19	2017/18
Listing applications received ^a	303	394	309
Listing applications lapsed/withdrawn/rejected during the year	172	166	88
Listing applications returned ^b	3	0	3
New listings ^c	182	193	203

a Including applications for transfer from GEM to the Main Board (2019/20: 29; 2018/19: 16; 2017/18: 22).

b Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof not less than eight weeks after the return.

c Including successful transfers from GEM to the Main Board (2019/20: 16; 2018/19: 11; 2017/18: 17).

Reporting deadlines

On 4 February 2020, we issued a joint statement with SEHK in response to market concerns about possible delays in publishing preliminary or audited financial results due to the COVID-19 outbreak. The statement clarified that a listed company which cannot publish preliminary results with its auditors' agreement before the reporting deadline would be allowed instead to publish them without auditor's agreement, or to publish management accounts or material financial information. In these cases, SEHK would normally allow trading in the companies' shares to continue.

We jointly issued further guidance on 16 March 2020 stating that these listed companies may defer the publication of their annual reports until not later than 15 May 2020. Listed companies which require more time can apply for further relief on a case-by-case basis.

General meetings

Following the Government's regulation restricting the size of group gatherings, we issued a statement jointly with SEHK on 1 April 2020 to provide guidance to listed companies in determining the timing of general meetings for shareholders as well as the manner in which they are held.

Debt market

Together with SEHK, we regularly review the debt capital market regime. In December 2019, SEHK launched a consultation seeking feedback on its proposals to review and enhance the listing regime for debt issues to professional investors.

15

listed pre-profit biotech companies
as of 31 March 2020

IPO

We vet listing applications and raise enquiries to determine whether an application gives rise to any concerns under the SMLR. We may object to a listing of securities based on one or more of the grounds set out in section 6(2)¹ of the SMLR.

During the year, we received 303 listing applications via SEHK, down 23.1% from 394 last year, including applications from two WVR companies and 10 pre-profit biotech companies. We shared our comments or concerns with SEHK where appropriate.

¹ Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.



In line with our front-loaded regulatory approach, we directly sought information or expressed our concerns in 35 listing applications where we became aware of potentially serious disclosure or public interest issues. In two of these applications, the applicants satisfactorily addressed our concerns and were subsequently listed. One other applicant addressed our concerns but decided not to proceed with the listing. As at 31 March 2020, 20 of these applications had not proceeded to listing, leaving our concerns unaddressed, while 12 were still ongoing but the applicants had yet to satisfactorily address our concerns.

Takeovers activities

	2019/20	2018/19	2017/18
General and partial offers under Code on Takeovers and Mergers	41	55	59
Privatisations	15	6	11
Whitewash waiver applications	13	21	41
Other applications under Code on Takeovers and Mergers [^]	281	275	289
Off-market and general offer share buy-backs	7	9	1
Other applications under Code on Share Buy-backs [^]	2	7	0
Total	359	373	401

[^] Including stand-alone applications and those made during the course of a Code-related transaction.

Note: Also see Table 3 in Breakdown of SFC activity data on page 161 for more details.

Corporate conduct

We conduct daily reviews of corporate announcements under statutory corporate conduct and inside information disclosure provisions to identify potential misconduct and irregularities. We issued section 179² directions to gather additional information in 76 cases and wrote to detail our concerns in 20 transactions this year. These concerns included, for example, overvalued acquisitions and late disclosure of inside information.

In February 2020, we published a special edition of the *SFC Regulatory Bulletin* to provide an update on our front-loaded approach to address market quality and corporate conduct issues. Case studies illustrate our key areas of concern and recent regulatory interventions in IPO applications and corporate transactions.

Takeovers

In Hong Kong, takeovers, mergers, privatisations and share buy-backs affecting public companies are regulated by the Codes on Takeovers and Mergers and Share Buy-backs. Although the number of takeovers cases decreased this year, they involved more complex deal structures and difficult issues. The Takeovers and Mergers Panel met twice during the year to discuss novel, important or difficult points at issue.

2 Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Update on front-loaded regulation

We have made significant progress in tackling listed company-related misconduct with a front-loaded regulatory approach which uses earlier, more targeted intervention to deal with market irregularities and protect the investing public. This approach was developed and implemented by a cross-divisional working group, designated ICE^a, established in 2016.

As part of a coordinated, multidisciplinary strategy, we made strides in addressing persistent misconduct. This includes improper market activities involving shell companies, highly dilutive rights issues and GEM stocks or “bubble stocks” which show extreme price volatility. As a result of our efforts, the volatility of newly-listed GEM stocks dropped significantly. The average first-day price increase of these stocks was about 13% in 2019, down from over 500% in 2016.

Over the past three years, we directly intervened in over 120 cases involving IPOs or listed companies through the actual or potential use of our SMLR powers, significantly more than the four direct interventions in the prior three-year period. Since 2017, we have taken disciplinary actions against nine IPO sponsors for deficiencies in their due diligence practices and internal systems and controls.

In some cases, shareholders’ interests were undermined when listed companies acquired assets at unreasonably high prices or sold assets which

were substantially undervalued. We published statements and guidance to remind directors and financial advisors of their duties when valuing target assets and evaluating or approving acquisitions and disposals.

Corporate misconduct often involves concealed share ownership or control. We issued a statement in November 2019 to reiterate our concerns with the use of nominees and warehousing arrangements together with a circular to provide guidance to asset managers handling private fund and discretionary account arrangements or transactions (see page 41). We also investigated cases where nominee arrangements were used to perpetrate vote rigging and market manipulation.

We conducted search operations and targeted inspections against “networks of companies” engaged in illegal activities to profit at the expense of investors. Our investigations continue into a number of these networks, which may include listed companies, licensed corporations, money lenders and other parties.

To explain our approach to the industry and the public, we published four issues of the *SFC Regulatory Bulletin* in the past three years. The newsletter features case studies illustrating our areas of concern and recent regulatory interventions.

Direct intervention cases

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
IPO cases	1	0	2	15	19	35
Post-IPO cases	0	0	1	17	27	12
Total	1	0	3	32	46	47

a ICE pools resources from the SFC’s Intermediaries, Corporate Finance and Enforcement divisions.

In a decision published in July 2019, the panel ruled that a waiver of the general offer obligation under the Takeovers Code should not be granted to China Baowu Steel Group Corporation Limited if it proceeds with the proposed acquisition of a 51% interest in Magang (Group) Holding Company Limited, the controlling shareholder of Maanshan Iron & Steel Company Limited, at nil consideration³.

In October 2019, the panel ruled that Broadford Global Limited was not allowed to deduct the final dividend approved by shareholders of Dalian Port (PDA) Company Limited from its offer price in a possible mandatory general offer. The panel considered that readers of the announcement would have expected Dalian Port's shareholders to receive the full offer price.

Following our investigations and enquiries, we sanctioned a number of parties during the year.

In April 2019, we publicly criticised Kwok Tse Wah, a party acting in concert with the offeror, for breaching the dealing restrictions and dealing disclosure obligations under the Takeovers Code when he sold shares in Hopewell Holdings Limited during an offer period.

CM Asset Management (Hongkong) Company Limited was publicly criticised in July 2019 for failing to disclose dealings in the shares of Mengke Holdings Limited⁴ during an offer period.



In December 2019, we publicly censured CLSA Limited, CITIC Securities Brokerage (HK) Limited, Beijing Enterprises Holdings Limited and their representatives for share buy-backs conducted in 2016 in breach of the Code on Share Buy-backs. CLSA and CITIC Securities executed on-market trades in the shares of Beijing Enterprises. As these trades were pre-arranged and pre-agreed, they were in substance off-market share buy-backs which required the approval of the Takeovers Executive⁵ and Beijing Enterprises' independent shareholders.

³ Upon completion of the proposed transaction, China Baowu would trigger a mandatory general offer for Maanshan Iron & Steel Company Limited under the "chain principle" unless a waiver is obtained.

⁴ Now known as Champion Alliance International Holdings Limited.

⁵ The Executive Director of the SFC's Corporate Finance Division or his delegate.

Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate as intermediaries in our markets under the Securities and Futures Ordinance (SFO). As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations (LCs)¹.

+25%

New licensed corporations (2017-2020)

During the year, intermediaries reconfigured their staffing arrangements and overcame many operational challenges to maintain “business as usual” in response to significant disruptions arising from social events and the COVID-19 outbreak. We stepped up our supervisory work and regular stress tests to monitor LCs’ financial and operational resilience in times of market turbulence and volatility. We also conducted special inspections to ensure compliance with our internal control and risk management requirements, and engaged with the industry to provide regulatory flexibility without lowering standards or compromising investor protection.



Ms Julia Leung (left), Deputy Chief Executive Officer and Executive Director, Intermediaries, at the SFC Compliance Forum 2019

Licensing

As of 31 March 2020, the number of licensees and registrants totalled 47,167, up 1% from last year, including the number of LCs which increased 5% to 3,109 as 254 new corporate licence applications were approved. We received a total of 6,962 new licence applications², down 22% from the previous year.

Licensees

	Corporations [^]		Representatives		Responsible Officers		Total [^]		
	As at 31.3.2020	As at 31.3.2019	As at 31.3.2020	As at 31.3.2019	As at 31.3.2020	As at 31.3.2019	As at 31.3.2020	As at 31.3.2019	Change
Stock exchange participants	604	581	12,208	12,397	2,196	2,155	15,008	15,133	-0.8%
Futures exchange participants	113	114	870	849	200	199	1,183	1,162	1.8%
Stock exchange and futures exchange participants	84	81	4,862	5,002	612	576	5,558	5,659	-1.8%
Non-stock/non-futures exchange participants	2,308	2,184	16,934	16,655	6,064	5,769	25,306	24,608	2.8%
Total	3,109	2,960	34,874	34,903	9,072	8,699	47,055	46,562	1.1%

[^] These figures exclude 112 registered institutions as at 31 March 2020 and 116 as at 31 March 2019.

1 Broadly, LCs include securities brokers, futures dealers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.

2 The figure does not include applications for provisional licences.

COVID-19 response

Beginning in January 2020, we responded actively to the impact of the COVID-19 outbreak to ensure that Hong Kong's international financial markets function efficiently, effectively and resiliently amidst extreme volatility and operational challenges^a. We maintained close communication with firms and industry associations and issued guidance which set out our regulatory expectations during a critical time^b.

At the same time, we took a flexible approach to ease pressure on the industry. We deferred regulatory timetables by six months^c and reminded intermediaries of alternative order receiving and recording options to comply with the regulatory requirements when working out of office. Firms required to submit their audited accounts to us were advised that they may apply for an extension.

a See press release dated 21 April 2020.

b See press release dated 5 February 2020.

c See circular dated 31 March 2020.

We published FAQs on licensing matters and application procedures for fund authorisations, and issued joint guidance with The Stock Exchange of Hong Kong Limited to address market concerns about listed companies' preliminary earnings results, publication of annual reports and shareholder meetings.

To ensure that firms and financial market infrastructures manage their risks and operate in a normal manner, we stepped up our supervisory efforts to address potential vulnerabilities, including investment fund liquidity and redemption profiles.

In March, we launched a dedicated page on our corporate website to provide centralised access to up-to-date regulatory information related to the COVID-19 situation.

Enhanced licensing processes

In April 2019, our enhanced risk-based licensing process came into effect. New licensing forms collect more information to assess an applicant's fitness and properness, reducing the need for us to request additional information. Processing times have decreased and the number of applications outstanding for over 90 days dropped 38% during the year.

We engaged with the industry throughout the design and implementation of the revamped licensing process. In May 2019, we published frequently asked questions (FAQs) to clarify the new disclosure requirement for internal investigations of licensed individuals³, which has helped us identify potential misconduct. We also consulted the industry on our next generation of online licensing portal services, which we aim to launch in late 2020.

PE firms and family offices

We issued circulars to provide licensing guidance to private equity (PE) firms and family offices in January 2020 in response to enquiries from industry

participants and their professional advisers. The circular on PE firms explained the licensing requirements for general partners and investment committee members when conducting co-investment and fund marketing activities. The circular on family offices discussed how our licensing regime applies to them when carrying out asset management or other services in Hong Kong and explained the potential implications for both single and multi-family offices. We also set up designated email addresses for interested parties to enquire about our licensing requirements or discuss their business plans with us.

Annual licensing fees

The collection of annual licensing fees resumed on 1 April 2019 with a 50% fee concession. In view of a challenging market environment, we waived the annual licensing fees for all intermediaries and licensed individuals for the 2020-21 financial year.

³ The requirement applies to internal investigations commenced within six months preceding the individual's cessation of accreditation.

Prudential risks

Securities margin financing

In times of extreme market volatility such as that triggered by the widespread concern about COVID-19, it is particularly important for brokers engaging in securities margin financing activities to maintain robust risk management controls. Our guidelines for securities margin financing activities which took effect on 4 October 2019 provide guidance on concentration risks, margin calls, stress tests and other key risk controls.

Improved stress test results suggest that brokers' resilience to market volatility was enhanced following the implementation of the new guidelines. Also, securities collateral concentration risk was reduced with brokers reporting fewer concentrated and illiquid stocks. To facilitate the implementation of the new guidelines, we published FAQs to clarify the application and interpretation of some requirements in September 2019. We also held training sessions for the industry and posted an e-training video on our website.

Complex financing arrangements

We issued a joint circular with the Hong Kong Monetary Authority in April 2019 on complex and opaque financing arrangements within a Mainland-based financial group's LC, bank and another affiliate in Hong Kong. Through arrangements such as an investment in a fund, the group's credit risk could be disguised as an investment risk and the financial risks associated with the underlying investments could be concealed.

We also identified financial risks in the controllers of a few brokers. If these risks materialise, they may spill over to the licensed brokers and cause financial and reputational damage. A survey of the liquidity management of the controllers of selected brokers which we commenced in January 2020 will help us understand the liquidity profiles of these groups and identify potential financial problems so that we can take early supervisory action to protect investor interests. Controllers of LCs were reminded to prudently manage overall group financial risks and contain contagion risks which may affect the LCs' financial integrity.

Managing liquidity risk in funds

Our August 2019 circular highlighted deficiencies noted in fund managers' liquidity risk management practices. We reminded them to perform more frequent stress tests to assess the liquidity profiles of funds' assets and liabilities as well as the adequacy of their action plans and liquidity risk management tools.

In light of the volatility in equities and bond markets arising from the COVID-19 outbreak, we issued a circular on 27 March 2020 to remind intermediaries of their obligation to ensure suitability when they make a solicitation or recommendation. This includes performing due diligence having regard to an investment product's liquidity and credit quality. Intermediaries were also reminded to disseminate notices and other communications about investment products in a timely manner where they hold them directly or indirectly on behalf of their clients.

OTC derivatives

New risk mitigation requirements for non-centrally cleared over-the-counter (OTC) derivative transactions covering trade confirmation, valuation and portfolio reconciliation took effect on 1 September 2019.

We concluded a consultation in December on proposals to impose margin requirements for non-centrally cleared OTC derivative transactions. Variation margin requirements will take effect on 1 September 2020. In view of the COVID-19 situation, we aligned the implementation of the initial margin requirements with the revised international timetable and they will be phased in starting 1 September 2021.

Conduct risks

Client facilitation

A May 2019 circular shared our inspection findings related to client facilitation and reiterated that licensed brokers and their traders should obtain explicit client consent prior to each client facilitation trade. It also clarified that client consent should never be uni-directional, blanket, implied by the making of disclosure or obtained after the trade.

Credit rating agencies

We highlighted our concerns about credit rating model risk management in a circular to credit rating agencies in May 2019. The circular elaborated on our expected standards which cover the governance and use of credit rating models, model validation and data quality.

Prime brokers

Following our thematic review of prime services and related equity derivatives business in Hong Kong, we issued a circular and a report in June 2019 setting out our expected standards of conduct and internal controls for prime brokers, and sharing examples of good industry practices. In particular, prime brokers are expected to comply with the applicable rules and regulations in Hong Kong if they service clients or carry out prime services in Hong Kong, regardless of where the risk positions are booked.

Anti-money laundering

In April 2019, we updated the anti-money laundering and counter-terrorist financing (AML/CFT) Self-Assessment Checklist on our website to provide a structured framework for LCs and associated entities to assess their compliance.

In September 2019, the Financial Action Task Force published the *Mutual Evaluation Report of Hong Kong* which recognised that we have a reasonable risk-based supervisory framework for AML/CFT and commended our sanctions to enforce requirements for the securities sector. It assessed Hong Kong's AML/CFT regime as compliant and effective overall and recommended some priority actions. In the same month, we issued a circular informing LCs about the assessment results and areas for strengthening Hong Kong's AML/CFT regime.

Third-party deposits and payments

In May 2019, we issued a circular on our expected standards in areas where LCs failed to implement adequate policies and controls to mitigate the risks of client assets misappropriation, money laundering and other financial crime associated with third-party deposits and payments. We also provided examples of effective measures to promote compliance.



Presentation at a Hong Kong Venture Capital and Private Equity Association seminar in November 2019

Dubious fund arrangements

In a November 2019 circular, we provided guidance to asset managers considering private fund and discretionary account arrangements or transactions proposed or directed by investors. We emphasised that we would not hesitate to take regulatory action against asset managers and senior management if they fail to detect dubious arrangements or transactions or if they facilitate illegal or improper conduct due to inadequacies in their procedures and controls.

Regulatory enhancements

Online client onboarding

Amendments to the Code of Conduct⁴ took effect on 5 July 2019 to cater for intermediaries' need to adapt their practices as business activities are increasingly conducted online. To facilitate compliance, we specified acceptable account opening approaches on the SFC website and explained them in circulars and FAQs. A new approach to onboarding overseas individual clients online took effect on the same date.

Safeguarding client assets

Our July 2019 circular reminded intermediaries of their obligations to adequately safeguard client assets. They are required to have in place acknowledgement letters which stipulate that authorised institutions would not have any right of set-off or lien against intermediaries' client assets. The deadline for implementing the new requirement was extended by six months to February 2021.

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

Intermediaries

External electronic data storage

In October 2019, we issued a circular on the use of external electronic data storage to set out the approval and other requirements applicable to LCs which keep regulatory records exclusively with external electronic data storage providers. Where a data centre was approved under section 130 of the SFO before 31 October 2019, the deadline for the LC to provide us with the confirmation and documentation was extended by six months to 31 December 2020.

922

on-site inspections in the past three years

Supervisory approach

We adopt a front-loaded, risk-based approach focusing on the greatest threats and the most significant or systemic risks. Our supervision of LCs focuses on financial risks and how they conduct business.

In light of the business disruption and increased market volatility worldwide across equities, commodities and fixed income amid the COVID-19 outbreak, we closely monitored the operation and risk management of LCs, conducted stress tests and followed up with

high-risk LCs. We also provided timely guidance to intermediaries to help them comply with regulatory requirements.

On-site reviews

On-site reviews are a key supervisory tool for us to understand an LC's business operations, risk management and internal controls and gauge its compliance with legal and regulatory requirements. During the year, we conducted 317 risk-based on-site inspections and noted more than 1,400 breaches of the SFC's rules.

This year's thematic inspections covered AML/CFT, cybersecurity, intermediary misconduct in listed markets, complex and opaque financing arrangements, remote booking and operational and data risk management as well as book-building activities.

Off-site monitoring

We conduct off-site monitoring by analysing the information in regulatory filings, such as the financial returns and business and risk management questionnaire as well as intelligence from other sources. We maintain regular interaction with LCs to assess their financial strength, internal controls and risk management practices.

Breaches noted during on-site inspections

	2019/20	2018/19	2017/18
Internal control weaknesses ^a	451	443	535
Breach of Code of Conduct ^b	273	275	320
Non-compliance with anti-money laundering guidelines	331	201	175
Failure to safekeep client money	42	28	59
Failure to safekeep client securities	31	32	38
Others	361	257	349
Total	1,489	1,236	1,476

a Comprising deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

b Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

Note: See Table 4 in Breakdown of SFC activity data on page 162 for more details.

Virtual asset trading platforms, futures and funds

On 6 November 2019, we published a licensing framework for centralised virtual asset trading platforms operating in Hong Kong which only serve professional investors and offer trading in at least one security token. We considered that it was in the public interest to introduce this framework to set standards for platforms which are willing to be licensed and compliant and at the same time give investors more choice and protect their interests.

Platform operators can apply to be licensed if they are capable of meeting regulatory standards comparable to those which apply to securities brokers and automated trading venues. However, platforms which chose not to be regulated by us would remain outside the scope of our supervision if they only offer trading in non-security tokens. We reminded investors to be aware of the risks of dealing with unregulated entities.

In a November 2019 statement, we set out our concerns about unregulated platforms offering highly leveraged virtual asset futures contracts to the public. Average investors may have difficulty understanding these complex products, and their high leverage may expose them to high risks. Further, these platforms may be illegal under the SFO or the Gambling Ordinance.



Presentation at the Hong Kong FinTech Week 2019

Given the inherent risks, licensed fund managers intending to invest in virtual assets are subject to our regulatory requirements even when managing portfolios invested solely in virtual assets which fall outside the definition of securities or futures contracts in the SFO. Accordingly, these fund managers are expected to comply with a proforma set of terms and conditions which we published in October 2019.

We will monitor developments in this evolving, dynamic industry and work with the Hong Kong Government to explore the need for legislative changes in the longer term.

Data standard for order life cycle

We issued a circular in July 2019 to set out our standards for the minimum content and presentation format of trading data to be submitted to us upon request. This facilitates our use of new technology to better supervise securities brokers' trading behaviour by identifying irregularities which suggest potential breaches or control deficiencies. The deadline for implementing the new requirement was extended by six months to May 2021.

SFC online portal

Starting from May 2019, intermediaries can submit notifications under the Code of Conduct⁵ via a new service which is available on our online portal, WINGS⁶.

In August 2019, we launched a new platform on WINGS to collect and analyse key risk indicator (KRI) data from 22 global financial institutions which are considered systemically important. The KRI platform helps to enhance our information gathering and analytical capabilities to facilitate supervision. Effective in January 2020, LCs from these global financial institutions are required to submit KRI data regularly.

⁵ Intermediaries must immediately report to the SFC upon the occurrence of any incident under paragraph 12.5 of the Code of Conduct.

⁶ Web-based INTeGrated Service.

Intermediaries

Financial Resources Rules (FRR) returns

The financial returns for LCs to report their liquid capital calculations were revised with effect from 1 April 2019, with the exception of changes related to a new accounting standard, which took effect on 1 January 2019.

To enhance our supervision of LCs, we will launch revamped FRR returns which collect additional financial and risk information periodically.

Industry guidance

We maintain close communication with the industry and provide guidance mainly through published circulars. In survey results, thematic reports and industry newsletters, we provide examples to illustrate best practices and our regulatory concerns. When introducing a significant new regulatory measure, we hold seminars or briefings to explain and clarify our policies and expectations.

Compliance Bulletin

The May 2019 issue of the *Compliance Bulletin* provided an update on our revamped licensing process, highlighted our efforts to track “bad apples” and stressed that the fitness and properness of an LC’s controllers and affiliates may have an impact on the firm.

The January 2020 issue emphasised the importance of sound risk management for brokers and fund managers amid market volatility and also warned investors to be cautious when investing in high-risk investment products and funds with a high concentration of illiquid assets.

Compliance Forum

In June 2019, more than 700 industry participants attended the SFC Compliance Forum to exchange views on our guidance on securities margin financing, prime brokerage business, client onboarding and transaction monitoring as well as regulatory issues noted in selling practices. Management accountability, internal controls and supervision of account executives were also discussed.

Statistical information and financial position of the Hong Kong securities industry

	As at 31.12.2019	As at 31.12.2018	As at 31.12.2017
Securities dealers and securities margin financiers	1,379	1,312	1,222
Active clients	2,024,849	1,874,289	1,657,931
Total assets (\$ million)	1,322,911	1,226,532	1,337,404

(\$ million)	12 months to 31.12.2019	12 months to 31.12.2018	12 months to 31.12.2017
Total value of transactions [^]	85,831,384	89,678,389	73,901,390
Total operating profit	11,962	23,548	23,539

[^] 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.

Note: Also see Table 8 in Breakdown of SFC activity data on page 165 for more details.

Products

We authorise and regulate investment products offered to the public and monitor their ongoing compliance with regulatory requirements. We also formulate policy initiatives to develop Hong Kong as a full-service global asset and wealth management centre and a preferred fund domicile.

Authorisations and market development

As of 31 March 2020, a total of 2,728 SFC-authorised collective investment schemes (CIS) were on offer to the public. During the year, we authorised 126 CIS, comprising 122 unit trusts and mutual funds, two mandatory provident fund (MPF) pooled investment funds, one paper gold scheme, and one real estate investment trust (REIT).

We authorised 146 unlisted structured investment products for public offering during the year.

ETFs and leveraged and inverse products

As of 31 March 2020, the number of SFC-authorised exchange-traded funds (ETFs) listed on The Stock Exchange of Hong Kong Limited (SEHK) was 130, including 24 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$279.15 billion. Daily turnover in these ETFs averaged \$5.96 billion in the preceding 12 months.

We authorised the world's first iron ore futures ETF. It tracks the DCE¹ Iron Ore Futures Price Index and was listed in March 2020.

During the year, we relaxed the leverage cap for inverse products to a factor of two-times negative (-2x). We also streamlined requirements to allow an SFC-authorised feeder ETF to invest in an eligible overseas master ETF on a case-by-case basis.

Authorised CIS

	As at 31.3.2020	As at 31.3.2019	As at 31.3.2018
Unit trusts and mutual funds	2,135	2,216	2,215
Investment-linked assurance schemes	299	300	299
Pooled retirement funds	33	34	34
MPF schemes	29	31	31
MPF pooled investment funds	206	191	194
Others	26 [^]	25	26
Total	2,728	2,797	2,799

[^] Comprising 14 paper gold schemes and 12 REITs.

Unlisted structured investment products

	2019/20	2018/19	2017/18
Unlisted structured investment products ^a	146	130	114
Authorisations granted under section 105 of the Securities Futures Ordinance ^b	111	102	84

a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, most of which were equity-linked investments and deposits.

b Under section 105, offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

¹ Dalian Commodity Exchange.

Products

We worked with SEHK to enhance the efficiency and liquidity of the ETF market. A new buy-in exemption for ETF market makers to cover short positions associated with their market making activities was introduced in July 2019. A new spread table and a continuous quoting market making regime were approved for introduction later this year.

Open-ended fund companies

The first authorised ETF structured as a public open-ended fund company (OFC) was listed in January 2020. We also registered two private OFCs during the year.

To encourage more private funds to set up as OFCs in Hong Kong, we launched a consultation in December 2019 on proposed enhancements to the OFC regime. For private OFCs, proposals included allowing securities brokers to act as custodians and expanding the investment scope to include loans as well as shares and debentures of Hong Kong private companies.



Ms Christina Choi (right), Executive Director, Investment Products, at an awards ceremony

We also proposed a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong and a requirement for OFCs to keep a register of beneficial shareholders to enhance anti-money laundering and counter-terrorist financing measures.

SFC-authorised renminbi investment products

	As at 31.3.2020
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	58
Paper gold schemes with renminbi features	1
Recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement	50
Unlisted structured investment products issued in renminbi ^a	146
Unlisted funds (non-renminbi denominated) with renminbi share classes	236
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	30
Renminbi gold ETFs ^b	1
Renminbi REITs	1
ETFs (non-renminbi denominated) with renminbi trading counters	18

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

b Only includes gold ETF denominated in renminbi.

Renminbi products

As of 31 March 2020, there were 58 SFC-authorised unlisted funds² and 30 ETFs³ primarily investing in the onshore Mainland securities market⁴ or offshore renminbi bonds, fixed income instruments or other securities. The increasing number of UCITS⁵ funds offering renminbi share classes provided more renminbi investment options in the Hong Kong market.

Mutual market access

To broaden the investor base for Hong Kong funds and encourage the development of local investment expertise, we promote cross-border offerings of qualified Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements.

We signed a mutual recognition of funds (MRF) agreement with The Netherlands Authority for the Financial Markets in May 2019 which allows eligible Dutch and Hong Kong public funds to be distributed in the other market through a streamlined vetting process.

We entered into an addendum to our memorandum of understanding with the UK Financial Conduct Authority (FCA) to ensure the smooth operation of the UK-Hong Kong MRF arrangement after the UK's withdrawal from the European Union (commonly known as Brexit). In addition, we informed the market about the continuous acceptability of UK-domiciled UCITS funds as recognised jurisdiction schemes and that UK management companies with appropriate permissions from the FCA may continue to manage SFC-authorised funds post-Brexit.

Laying a foundation for the future

We work closely with the Government and other local regulators on policies to promote Hong Kong as an onshore fund management hub and a preferred domicile for investment funds. We played an active role in recent Government-driven initiatives to establish a limited partnership regime for funds and provide tax concessions for carried interest to attract private equity funds.

We also contributed to the introduction of the new unified profits tax exemption for funds which took effect in April 2019. The exemption will apply regardless of the structure of the fund

or its size, or where its central management is located, significantly strengthening Hong Kong's competitiveness as an international fund management centre.

	Public funds	Private funds	
Policy initiatives	Broaden investor base	Facilitative measures	Collaboration with Government
	Enhance regulations	Tax incentives	
	Improve market infrastructure	Flexible legal structure	

² Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds.

³ Refers to unlisted funds or ETFs which are renminbi denominated.

⁴ Refers to onshore Mainland investment through the Renminbi Qualified Foreign Institutional Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

⁵ Undertakings for collective investment in transferable securities.

Products

During the year, we authorised the first Luxembourg UCITS fund under the Luxembourg-Hong Kong MRF scheme.

Under the Mainland-Hong Kong MRF regime, 10 Hong Kong MRF funds were approved by the China Securities Regulatory Commission during the year. As of 31 March 2020, a total of 79 funds were approved under the regime and the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB15.6 billion.

Asset and wealth management activities

We released the *Asset and Wealth Management Activities Survey 2018* in July 2019. To provide a more comprehensive overview of Hong Kong's asset and wealth management industry, the scope of this annual survey was extended to cover assets held by firms providing trust services in Hong Kong. The survey found that the AUM of Hong Kong's asset and wealth management business amounted to \$23,955 billion as at 31 December 2018. Net fund inflows in 2018 were \$783 billion, despite a 5% year-on-year decline in the adjusted AUM⁶.

Regulatory enhancements

Revised UT Code

The 12-month transition period for the implementation of the revised Code on Unit Trusts and Mutual Funds (UT Code) ended on 31 December 2019. Enhanced investor protection safeguards include setting a limit for derivative usage by plain vanilla funds. For greater transparency, SFC-authorised funds are now denoted on the SFC website as derivative or non-derivative funds (ie, plain vanilla funds). As at 31 March 2020, there were 1,787 non-derivative funds and 115 derivative funds.

Depositories of SFC-authorised funds

We launched a consultation in September 2019 on a proposed framework for a new type of regulated activity (RA 13) – acting as a depository⁷ of an SFC-authorised CIS. Bringing depositories under our licensing, supervision and enforcement regime will provide more protection for investors in public funds.



Asset and Wealth Management Activities Survey

FAQs

In view of the market volatility related to the COVID-19 outbreak, we issued frequently asked questions (FAQs) to allow fund managers to increase or apply a swing factor (or anti-dilution levy) exceeding the one disclosed in the funds' offering documents as a temporary measure without our prior approval, subject to certain conditions. We also reminded fund managers that they are expected to carefully consider and deploy these and other liquidity risk management tools with the primary objective of ensuring the fair treatment of all investors.

⁶ The adjusted AUM, which amounted to \$23,047 billion as of 31 December 2018, excludes assets held under trusts by non-licensed corporations and registered institutions.

⁷ Depositories are trustees for SFC-authorised CIS in unit trust form, and custodians at the top of the custodial chain for SFC-authorised CIS in other forms.

Surveillance and monitoring

We monitor the risk exposure of Hong Kong domiciled SFC-authorized funds through key data reported periodically by asset managers, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions.

In addition, we regularly monitor the performance of SFC-authorized funds and the market landscape. We conduct thematic surveillance focused on topical issues such as the impact of new product features and the deterioration of a particular country's or market sector's credit quality.

We also closely monitor the liquidity of SFC-authorized funds through reports from asset managers on unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

In view of the volatility and uncertainty in local and international markets, we heightened our supervision and surveillance by strengthening reporting requirements focusing on funds with large redemptions and funds' liquidity profiles. In response to the COVID-19 outbreak, we also stepped up our monitoring of locally domiciled high-yield bond funds and issued a circular to remind fund managers and



Encouraging more OFCs in Hong Kong

depositories of their obligations to properly manage the liquidity of SFC-authorized funds and ensure the fair treatment of investors under volatile market conditions.

We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into 35 suspicious CIS cases during the year.

Green and sustainable finance

Market participants have begun to recognise that climate change and other environmental factors are a potential source of financial risk. Hong Kong is well positioned to play a leading role in the change needed to create a greener, more sustainable future, and we drive and coordinate efforts to bolster Hong Kong as a hub for green and sustainable finance in the region. During the year, we made progress in our initiatives to contribute to the development of more sustainable markets as set out in our *Strategic Framework for Green Finance* published in September 2018. To manage these initiatives and our engagement with counterparts, we now have a dedicated International Affairs and Sustainable Finance team¹.



Chairman Mr Tim Lui addresses a sustainable investing conference in Hong Kong

Asset managers

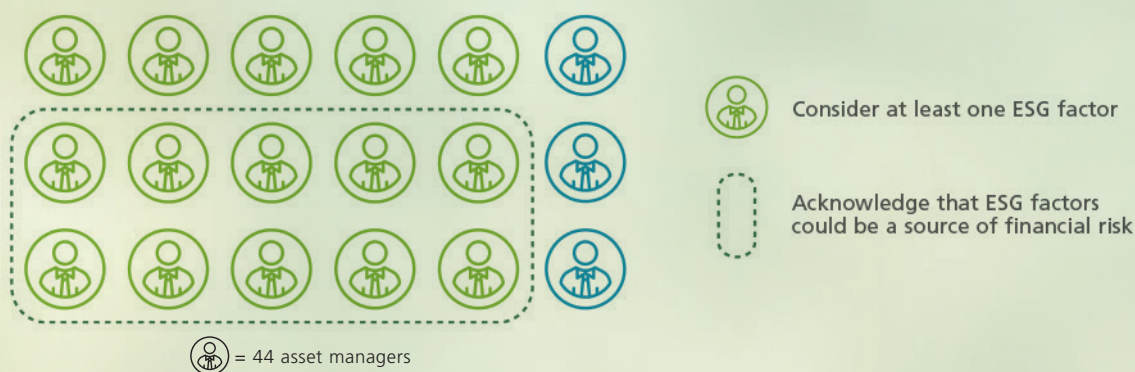
We issued a circular in April 2019 to provide guidance on enhanced disclosures by management companies of SFC-authorised green and environmental, social and governance (ESG) funds as part of our efforts to improve comparability. We also provided a central database on our website to improve the visibility of these funds.

In December 2019, we published a report on our survey on integrating ESG factors and climate risks in asset management. The majority of the active asset management firms surveyed saw ESG factors as a source of financial risk (see graphic below). However, only some consistently integrated these factors in their investment and risk management processes, and few

had measures in place to manage financial risks arising from climate change. The report also set out policy initiatives to align our regulatory regime with global standards in this area.

We established a Climate Change Technical Expert Group comprising representatives from the asset management sector, information providers, standard-setting bodies and industry associations. Members will provide technical support to help us formulate our regulatory response to manage climate change risks and provide practical guidance to the asset management industry. The group's inaugural meeting, held in March 2020, was chaired by Ms Julia Leung, our Deputy Chief Executive Officer and Executive Director, Intermediaries.

Consideration of ESG factors by active asset managers



Source: Survey on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management

¹ Formerly the International Affairs Team.



Chief Executive Officer Mr Ashley Alder at the Green Finance Regulatory Meeting hosted by the SFC

Listed companies

We work closely with The Stock Exchange of Hong Kong Limited (SEHK) to enhance listed companies' environmental disclosure and risk management governance, with an emphasis on climate-related risks and opportunities. In May 2019, SEHK published a consultation paper on proposed changes to the ESG rules, including a new disclosure requirement for significant climate-related issues as well as mandatory disclosure of ESG governance structures. Following our approval, the rule amendments were published in December 2019 and will come into effect for financial years commencing on or after 1 July 2020.

Regulatory collaboration

In May 2019, we hosted a meeting for senior regulators and officials from Hong Kong, the Mainland and European Union to discuss global developments in green and sustainable finance. Our Chairman Mr Tim Lui was a keynote speaker at the October 2019 Climate Finance and Sustainable Investing Conference organised by the United Nations (UN) Economic and Social Commission for Asia and the Pacific and our Chief Executive Officer Mr Ashley Alder addressed climate-related financial risks at the December 2019 UN Climate Change Summit. Other senior executives also spoke on sustainability and green finance at international and regional conferences.

We collaborate with local and overseas counterparts to support Hong Kong's role in driving efforts to reorient capital flows towards green and sustainable uses and embed sustainability in the financial sector. Ms Julia Leung leads as Vice Chair of the International Organization of Securities Commissions (IOSCO) Task Force on Sustainable Finance and sits as the IOSCO representative in the Network of Central Banks and Supervisors for Greening the Financial System.

We lead the IOSCO Asia-Pacific Regional Committee's green and sustainable finance working group which focuses on making regulation in this area more consistent as well as on ESG and climate-related disclosures and the integration of these issues in asset management. We will also join the European Commission's International Platform on Sustainable Finance.

We initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group comprising local regulators and other authorities. Co-chaired by the SFC and the Hong Kong Monetary Authority, the group coordinates policies to develop a comprehensive green finance strategy for Hong Kong.

Raising awareness

We work with other public bodies and industry associations to raise awareness of green and sustainable finance in the finance community. We also collaborate with the Investor and Financial Education Council (IFEC) to raise investor awareness of green finance and related investment topics through multiple channels. This year, IFEC conducted a study to assess retail investors' understanding of green finance.

Practising sustainability

Inside the organisation, we put our commitment to a more sustainable economy into practice. Our Investment Committee monitors and enquires into how and to what extent the external managers of our financial reserves are incorporating ESG principles into their investment and risk analysis processes.



Markets

To ensure orderly markets, we supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong. We introduce measures to improve market infrastructure and support Hong Kong's development as a premier risk management centre.

Supervision of HKEX

On-site inspection

As part of our ongoing supervision of the non-listing-related operations of Hong Kong Exchanges and Clearing Limited (HKEX), we completed an on-site inspection of its futures trading and clearing operations for the period from July 2016 to June 2018 and recommended improvements.

New products

We approved 12 derivative contracts proposed by HKEX to meet the trading and hedging needs of market participants.

Volatility controls

To help mitigate risks caused by extreme price volatility, we worked with HKEX to review its volatility control mechanism and consider the introduction of a market-wide circuit breaker. Following an HKEX public consultation concluded in December 2019, initial enhancements to its volatility control mechanism were implemented in May 2020. The introduction of a market-wide circuit breaker is still being studied.

After-hours futures trading session

In April 2019, we approved HKEX's proposal to extend the closing of the After-Hours Trading Session for the futures market from 1:00am to 3:00am effective 17 June 2019. The extension provides investors with more flexibility to capture investment opportunities and conduct timely risk management in response to events during European and US market hours.

New derivative products

	Trading commencement date
USD London Metal Mini Futures	5 August 2019
– USD London Aluminium Mini Futures	
– USD London Zinc Mini Futures	
– USD London Copper Mini Futures	
– USD London Nickel Mini Futures	
– USD London Tin Mini Futures	
– USD London Lead Mini Futures	
Weekly Index Options	16 September 2019
– Weekly Hang Seng Index Options	
– Weekly Hang Seng China Enterprises Index Options	4 November 2019
Indian Rupee Currency Futures	
– Indian Rupee vs Renminbi (Hong Kong) Futures	
– Indian Rupee vs US Dollar Futures	8 June 2020
Silver Futures	
– USD Silver Futures	
– CNH Silver Futures	

OTC derivatives

In line with the G20 commitments to reform the over-the-counter (OTC) derivatives market, an OTC derivatives regulatory regime is being implemented in phases in Hong Kong. Under the regime, reporting of OTC equity derivative transactions to the Hong Kong Trade Repository (HKTR) is mandatory (see sidebar below).

In April 2019, we launched a joint consultation with the Hong Kong Monetary Authority on enhancements to the OTC derivatives regulatory regime. We proposed

implementing unique trade identifiers and mandating their use in transactions to be submitted to the HKTR as well as narrowing the masking relief which allows for counterparty information to be redacted under certain conditions. In addition, we proposed updating the list of financial services providers as an annual exercise, and conclusions on this proposal were published in June 2019 with the revised list effective 1 January 2020.

Market risk data

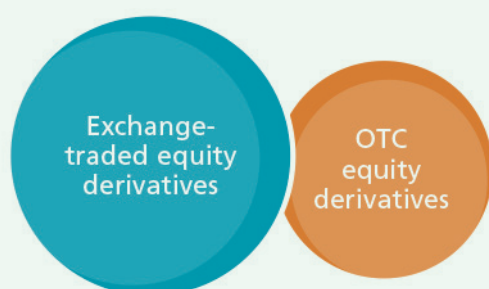
With the implementation of mandatory reporting of OTC equity derivative transactions to the HKTR in July 2017, Hong Kong is one of the first jurisdictions where comprehensive market data is available to regulators to help them assess systemic risks.

We work closely with local and overseas regulators to enhance the quality of this data. We also engage

with market participants to understand how OTC activities are reported, the nature of major transactions and the types of investors involved.

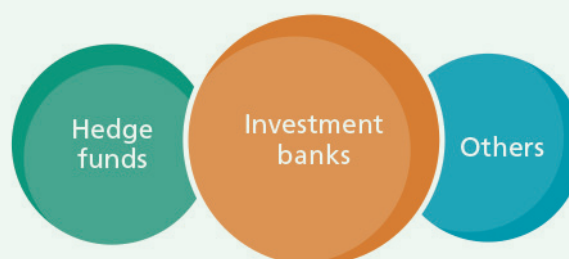
As of 31 March 2020, the market for OTC derivatives on Hong Kong equities was slightly smaller than the exchange-traded equity derivatives market. Investment banks were the major players, accounting for about half of the notional value.

Share of notional value



Source: HKTR

OTC equity derivative investors



Note: Others includes securities firms, insurers, pensions, asset managers, corporates and individuals.

Markets

Uncertificated securities market

In April 2020, we concluded a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated, or paperless, securities market in Hong Kong. This initiative will make securities-related transactions, including initial public offerings (IPOs) and corporate actions, more efficient and cost-effective by minimising paper and manual processes. Implementation is expected to commence in phases from 2022.

Stock Connect

Since its launch in November 2014, Mainland-Hong Kong Stock Connect has opened up the Mainland equity market to the rest of the world and enabled Mainland investors to diversify portfolios outside their home market.

As of 31 March 2020, Stock Connect covered 1,288 Mainland stocks and 477 Hong Kong stocks, representing about 80% of the combined market capitalisation of the two markets. Since the programme's launch, net inflows reached RMB1,125.7 billion for southbound trading and RMB975.6 billion for northbound trading.

Stock Connect has accounted for an increasing share of Hong Kong's market turnover over time. On average, daily southbound trading reached 9% of total trading in the Hong Kong stock market during January to March 2020, compared to 6% in 2018 and 2019. Northbound trading was 5% of the Mainland market total, in line with the 4% in 2019 and higher than the 3% in 2018.

Mainland-Hong Kong Stock Connect

RMB 1,125.7 billion

net inflow to Hong Kong since launch

Investor identification

We worked with the China Securities Regulatory Commission to implement an investor identification regime for southbound trading under Stock Connect on 13 January 2020. A similar model for northbound trading was put in place in September 2018. The regime enhances market surveillance by enabling both regulators to identify the investor for each order and trade.

Stepping up investor protection

The investor compensation regime provides a degree of compensation to investors who sustain losses in relation to Hong Kong-listed securities or futures contracts and Mainland-listed securities traded under Stock Connect, if those losses are due to the default of an intermediary in Hong Kong. The regime is reviewed regularly and updated as necessary.

To offer better protection to investors and benefit the wider market, changes to the regime took effect on 1 January 2020 following a public consultation.

Higher compensation limit

 **\$500,000**
per investor per default

Expanded coverage

 includes losses relating to
Mainland-listed securities
traded under Stock Connect

Investor compensation

In October 2019, we published consultation conclusions on proposals to enhance the investor compensation regime by increasing the compensation limit to \$500,000 per investor per default and extending the coverage to include northbound trading under Stock Connect (see sidebar on page 62). The changes took effect on 1 January 2020.

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received seven claims against the Investor Compensation Fund and processed four claims.



Investor compensation claims

	2019/20	2018/19	2017/18
Received	7	5	1
Processed	4	10	6
– Compensation payments made	0	0	3
– Rejected	0	7	3
– Withdrawn	4	2	0
– Reconsidered	0	1	0

Net asset value of compensation funds

	As at 31.3.2020 (\$ million)	Change	As at 31.3.2019 (\$ million)	Change	As at 31.3.2018 (\$ million)
Unified Exchange Compensation Fund ^a	82	3.4%	79.3	4.6%	75.8
Investor Compensation Fund ^b	2,428.3	1.5%	2,391.5	1.3%	2,361.2
Total	2,510.3	1.6%	2,470.8	1.4%	2,437

a See pages 146-159 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities Futures Ordinance (SFO) on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

b See pages 132-145 for the financial statements of the ICF.

Markets

Automated trading services

Under the SFO, two regimes regulate ATS providers. Generally, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide traditional dealer functions along with ATS as an added facility (eg, operating a dark pool or a pre-IPO trading platform) are expected to be licensed under Part V of the SFO.

Over the past year, we approved four Part III applications. Trades conducted on authorised trading venues were mainly in benchmark index futures and options, commodity futures, bonds, equities and exchange-traded funds offered by overseas exchanges. The average daily trading volume of futures contracts originating from Hong Kong was about 418,000 contracts for the 12 months ended 31 March 2020.

ATS providers

	As at 31.3.2020	As at 31.3.2019	As at 31.3.2018
Under Part III	54	50	57
Under Part V	25	24	24

Short position reporting

	As at 31.3.2020	As at 31.3.2019	As at 31.3.2018
Market value of short positions as a percentage of total market capitalisation [^]	1.24%	1.42%	1.43%

[^] Figures presented in previous reports were calculated based on market capitalisation of reported securities.

Enforcement

Our enforcement actions focus on high-impact cases to address key risks in our financial markets. We take a proactive, front-loaded approach to enforcement which aims to punish wrongdoers, protect investors and safeguard market integrity.

Our tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines¹ and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

In dealing with market misconduct, such as insider dealing and market manipulation, we can institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

During the year, we commenced 197 investigations and laid 10 criminal charges against six persons and one corporation and secured convictions against three persons.

We obtained disqualification and restorative orders against nine persons. Civil actions seeking financial redress and other remedial orders against 158 persons and corporations in 31 cases are pending before the court.

Disciplinary action was taken against 24 persons and 20 corporations. In addition, we commenced two cases before the MMT against one corporation and eight persons for suspected insider dealing or late disclosure of inside information. We also issued 218 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance.

Our work in figures



* The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

1 Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Market surveillance

On a daily basis, we monitor trading on The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Through an organisation-wide Market Intelligence Programme, we use the latest technologies to identify risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections among individuals, companies and transactions which may indicate conduct risks.

Our surveillance of untoward price and turnover movements resulted in 8,767 requests for trading and account records from intermediaries. We also received and assessed 225 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted 18 announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

IPO sponsor failure

During the year, we took enforcement action against an initial public offering (IPO) sponsor for deficiencies in its work. We reprimanded and fined China Merchants Securities (HK) Co., Limited \$27 million in May 2019 for failing to conduct adequate due diligence on a listing applicant's largest customer, enquire into the genuineness of transactions and verify the identities of the applicant's supplier and customer representatives when conducting interviews.

Scrutinising sponsors

Misconduct involving IPO sponsors remained one of our top enforcement priorities. Sponsors play a crucial role in ensuring the quality of Hong Kong's securities market. They coordinate the IPO process, give advice to directors and are centrally involved in the due diligence on a listing applicant.

Time and again, we have found deficiencies in sponsors' work and serious instances of non-compliance with regulatory requirements. Our enforcement actions aim to improve sponsors' due diligence standards and ensure they perform their gatekeeping role diligently, free from interference and in a professional manner. Since the launch of the new sponsor regime in October 2013, we have taken disciplinary actions against 11 sponsor firms resulting in fines totalling \$922.5 million.

This includes the record \$375 million we fined UBS AG and UBS Securities Hong Kong Limited in March 2019 for failing to verify a listing applicant's major assets and other failures. UBS Securities was also suspended from acting as an IPO sponsor. In the same month, Morgan Stanley Asia Limited and Merrill Lynch Far East Limited were reprimanded and fined for failing to address red flags in due diligence interviews and verify the identities of listing applicants' customers.

We have reminded sponsors to apply professional scepticism and address obvious red flags when discharging their gatekeeping functions. Future listing applications submitted by sponsors with a history of returned or rejected listing applications, serious deficiencies or instances of non-compliance may be subject to closer regulatory scrutiny.

² Intermediaries are required to report clients' suspected market misconduct to the SFC.



Mr Thomas Atkinson, Executive Director of Enforcement, at the Joint Case Study Workshop on Corporate Fraud and Misfeasance

Corporate fraud and misbehaviour

Director misconduct

We obtained disqualification and compensation orders under section 214³ of the SFO in the Court of First Instance against the following company directors:

- Chin Jong Hwa, former chairman and executive director of Minth Group Limited, was ordered to pay RMB20.3 million as compensation for a subsidiary's loss due to his misconduct. Chin and three other former executive directors⁴ were disqualified for three to six years.
- Michelle Kwok Choi Ha, former executive director of Tack Fat Group International Limited⁵, was disqualified for six years for failing to exercise reasonable care and diligence in managing the company and to act in good faith and in the best interests of the company.
- Wong Yuen Yee, former chairman and executive director of Inno-Tech Holdings Limited, and three other former executive directors⁶ were disqualified for three years for failing to exercise reasonable care and diligence in the company's acquisitions of three hotels.

We commenced civil proceedings under section 214 to:

- seek disqualification and compensation orders against Cheng Wai Tak, chairman and executive director of Perfect Optonics Limited, and five other directors⁷ for alleged breach of fiduciary duties.
- seek a disqualification order against Au Yeung Ho Yin, former executive director, chief financial officer and company secretary of Fujian Nuoqi Co., Ltd., for allegedly failing to properly enquire into and alert the board about improper withdrawals of the proceeds from the company's IPO and ensure the accurate disclosure of information about their use.

The Eastern Magistrates' Courts convicted and fined Chan Wai Chuen, former chief financial officer, company secretary and an executive director of DBA Telecommunication (Asia) Holdings Limited, for his role in a false or misleading statement in the company's results announcement.

Failure to disclose inside information

The MMT found that the following listed companies and senior executives failed to make timely disclosures of inside information:

- Health and Happiness (H&H) International Holdings Ltd and its chairman and executive director Luo Fei were fined \$1.6 million each.
- Fujikon Industrial Holdings Limited, its chairman and chief executive officer Yeung Chi Hung, and its chief financial officer and company secretary Chow Lai Fung were fined a total of \$1.5 million.
- Magic Holdings International Limited and five of its directors⁸ were culpable of the company's failure to disclose information about L'Oréal S.A.'s proposed acquisition of Magic on a timely basis.

We commenced MMT proceedings against China Medical & HealthCare Group Limited⁹ for allegedly failing to disclose information about significant gains in securities trading and profit figures as soon as reasonably practicable, and six former directors¹⁰ for reckless or negligent conduct.

³ Under section 214, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years.

⁴ Shi Jian Hui, Mu Wei Zhong and Zhao Feng.

⁵ Tack Fat Group International Limited changed its name to Tack Fiori International Group Limited on 23 November 2011 and then to Life Healthcare Group Limited on 2 May 2017.

⁶ Robert Wong Yao Wing, Wong Kwok Sing and Lam Shiu San.

⁷ Tse Ka Wing, Liu Ka Wing, Li Shui Yan, Wong Chi Chiu and John Wong Yik Chung.

⁸ Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong and Sun Yan.

⁹ Formerly known as COL Capital Limited.

¹⁰ Chong Sok Un, Wong Peng Chong, Kong Muk Yin, Lau Siu Ki, Ma Wah Yan and Zhang Jian.

Enforcement

Insider dealing and market manipulation

- We commenced legal proceedings under section 213¹¹ of the SFO against a group of local and overseas individuals and corporate entities for suspected manipulation of the shares of Ching Lee Holdings Limited and obtained interim injunctions in the Court of First Instance to freeze assets of up to \$124.9 million held by 15 local and overseas entities.
- We commenced MMT proceedings against Tom Tang Chung Yen, former chairman and an executive director of Meadville Holdings Limited, and Li Yik Shuen, for alleged insider dealing in the company's shares in 2009.
- We commenced criminal proceedings against Leung Pak Keung, a practising solicitor, for alleged insider dealing in the shares of CASH Financial Services Group Limited.
- We suspended the licence of Oei Hong Eng, chairperson and a responsible officer of Gransing Securities Co., Limited, for eight months for attempting to create a false or misleading appearance of active trading in securities.
- We decided to commence proceedings for suspected market manipulation in the shares of China Ding Yi Feng Holdings Limited against a number of individuals including officers of the company. We also lifted the trading suspension of the company's shares directed by us on 8 March 2019. Trading resumed on 23 January 2020.
- The Court of Final Appeal dismissed the application of Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, for leave to appeal against the judgment of the Court of Appeal which ordered a retrial of Cheng's alleged insider dealing in the shares of China Gas Holdings Limited by the MMT.



The Eastern Magistrates' Courts convicted and fined:

- Ken Yiu Ka Lun, former senior regulatory affairs manager of Hong Kong Television Network Limited, who was sentenced to two and a half months of imprisonment and ordered to pay a fine of \$165,000 for insider dealing in the company's shares.
- Tsoi Wan, for manipulating the calculated opening price of Hang Seng Index futures contracts.

Intermediary misconduct

During the year, we disciplined 20 corporations, nine responsible officers and 15 licensed representatives, resulting in total fines of \$479 million. Key disciplinary actions included:

Conflicts of interest

- We reprimanded and fined UBS AG \$400 million for overcharging its clients over a 10-year period through post-trade spread increases and excess charges and for related internal control failures.
- We reprimanded and fined RHB Securities Hong Kong Limited \$6.4 million for failing to comply with regulatory requirements for managing conflicts of interest and supervising account executives.

¹¹ Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for injunctions and other orders under specified conditions.

Anti-money laundering related breaches

- We reprimanded and fined BMI Securities Limited \$3.7 million for failing to comply with anti-money laundering and counter-terrorist financing (AML/CFT) regulatory requirements. We also suspended the licence of its responsible officer, Maggie Tang Wing Chi, for five and a half months for failing to discharge her duties.
- We banned Tim Leissner, a former responsible officer of Goldman Sachs (Asia) L.L.C., from re-entering the industry for life following his conviction for conspiring to commit money laundering and violate the US Foreign Corrupt Practices Act.

- We banned Su Xiqiang, former head of retail brokerage and responsible officer of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 10 months for failing to ensure the company's compliance with AML/CFT regulatory requirements when handling third-party fund deposits.

Window-dressing liquid capital

- We banned Ang Wing Fung, former chairman of W. Falcon Asset Management (Asia) Limited, and Chan Kam Wah, former chief financial officer and company secretary, from re-entering the industry for life and three years respectively, in connection with their roles in window-dressing Falcon's liquid capital. Falcon's licence was revoked in February 2019.

Other disciplinary actions

Reprimanded and fined for internal control failures

Company	Breaches	Fine	Date
China Rise Securities Asset Management Company Limited [^]	Internal control failures and regulatory breaches in short selling orders, cross trades and record keeping	\$6.3 million	31.10.2019
The Hongkong and Shanghai Banking Corporation Limited	Ineffective internal control procedures to ensure compliance with the telephone recording requirements	\$2.1 million	10.9.2019
Sincere Securities Limited	Deficiencies in business operations, internal controls and procedures	\$5 million	15.8.2019
Glory Sun Securities Limited	Failure to diligently supervise account executives and implement effective controls to comply with short selling requirements	\$1.2 million	15.7.2019
Lee's Securities Company Limited	Internal control failures in the segregation of duties and handling of client securities	\$520,000	15.7.2019
Celestial Commodities Limited	Regulatory breaches and internal control failings relating to mishandling client money	\$4.9 million	10.7.2019
Celestial Securities Limited		\$1.4 million	
China Merchants Securities (HK) Co., Limited	Regulatory breaches and internal control failings relating to mishandling client money	\$5 million	30.5.2019

[^] Formerly known as China Rise Securities Company Limited.

Enforcement

Disciplined for conviction of bribery or theft

Name	Breaches	Action	Date
Mo Shau Wah	Stealing and selling clients' shares worth over \$110 million	Banned from re-entering the industry for life	23.3.2020
Ma Sin Chi	Accepting bribes of around \$6.4 million from a client	Banned from re-entering the industry for life	14.11.2019
Ye Feng	Soliciting illegal commission payments of more than \$900,000 from a client	Banned from re-entering the industry for life	23.9.2019
Tu Bing	Soliciting and accepting illegal commission payments of approximately \$1.4 million from a client	Banned from re-entering the industry for life	5.8.2019

Reprimanded and fined for other regulatory breaches

Company	Breaches	Fine	Date
Capital Global Management Limited	Failing to comply with laws and regulations in distributing investment funds and offering investment advice in Taiwan, and to adequately supervise its representatives' business activities	\$1.5 million	14.2.2020
FIL Investment Management (Hong Kong) Limited	Unlicensed dealing in futures contracts, delay in reporting the breach to the SFC and submitting incorrect information in a new fund authorisation application	\$3.5 million	30.12.2019
Adamas Asset Management (HK) Limited	Failing to implement adequate measures to ensure proper disclosure of notifiable interests in the shares of Hong Kong-listed companies held in client portfolios	\$2.5 million	23.12.2019
SEAVI Advent Ocean Private Equity Limited	Allowing unlicensed employees to perform regulated activities	\$1 million	3.10.2019
FT Securities Limited	Regulatory breaches and internal control failures in the preparation and publication of research reports	\$3.5 million	24.6.2019
Credit Suisse (Hong Kong) Limited and Credit Suisse AG	Failing to comply with disclosure requirements for publishing research reports	\$2.8 million	19.6.2019
Nine Masts Capital Limited	Naked short selling of the shares of Yuzhou Properties Company Limited	\$1.2 million	18.4.2019

Note: See Table 6 in Breakdown of SFC activity data on page 163 for details of other disciplinary actions.

Other notable cases

- The Court of First Instance dismissed judicial review applications against the SFC¹² in connection with a search operation it conducted for ongoing investigations.
- The Court of Appeal dismissed the application of Andrew Left of Citron Research for leave to appeal to the Court of Final Appeal against the determinations of the MMT¹³.
- The Eastern Magistrates' Courts convicted Yau Ka Fai for holding himself out as carrying on a business in asset management without an SFC licence.
- We commenced criminal proceedings against Brilliance Capital Management Limited and its sole director Law Sai Hung for holding out as carrying on a business in advising on corporate finance without an SFC licence.

Cooperation with ICAC

During the year, we strengthened our strategic cooperation with the Independent Commission Against Corruption (ICAC) to leverage our collective expertise and powers. This helps achieve our shared goal of maintaining the reputation and integrity of Hong Kong as a clean and trusted international financial centre free from corrupt practices. We held numerous meetings with ICAC to discuss both strategic and case-specific matters.

Between May and July 2019, the ICAC charged four former executive directors of Convoy Global Holdings Limited and two others with conspiracy to defraud.



Joint investigation training workshop



Signing of MoU with ICAC

The charges followed our joint operation with the ICAC involving the company and demonstrate the benefit of harnessing our combined expertise to fight financial crime.

In August 2019, we entered into a memorandum of understanding (MoU) with the ICAC to formalise our cooperation arrangements. The MoU lays out a framework for the mutual provision of investigative assistance, capacity building and case referrals as well as the exchange of information between the two organisations.

Subsequently, we hosted a joint training workshop for investigators to share their expertise and experience in tackling serious financial crime.

¹² In the applications, Cyril Cheung Ka Ho, To Hang Ming, To Lung Sang, Jacky To Man Choy and Wan Wai Lun sought to challenge search warrants issued by two Magistrates in July 2018 on the basis that they were unlawful or invalid for want of specificity.

¹³ On 26 August 2016, the MMT found Andrew Left culpable of disclosing false or misleading information inducing transactions in a report on Evergrande Real Estate Group Limited published in June 2012.

Enforcement

Restriction notices

During the year, we issued restriction notices to 21 brokers prohibiting them from dealing with or processing assets held in client accounts. The assets are related to suspected market manipulation in the shares of three listed companies, suspected breach of duties by an individual towards a listed company and other misconduct. One of the brokers, Hong Kong Wan Kiu Investment Company Limited, was also prohibited from carrying on regulated activities for which it is licensed.



Enforcement activities

	2019/20	2018/19	2017/18
S179 ^a inquiries commenced	31	26	24
S181 ^b inquiries commenced (number of letters sent)	231 (8,767)	294 (9,074)	261 (8,461)
S182 ^c directions issued	187	231	274
Investigations started	197	238	280
Investigations completed	182	243	254
Individuals / corporations charged in criminal proceedings	7	5	14
Criminal charges laid ^d	10	42	54
Notices of Proposed Disciplinary Action ^e issued	35	22	29
Notices of Decisions ^f issued	46	34	32
Individuals / corporations subject to ongoing civil proceedings	158	101	97
Compliance advice letters issued	218	234	277
Cases with search warrants executed	17	30	22

a 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.

b 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.

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

d The SFC brought a total of 10 criminal charges against six individuals and one corporation.

e 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.

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

Note: Also see Table 7 in Breakdown of SFC activity data on page 164 for more details.

Regulatory engagement

We participate in international policymaking through our involvement in global standard-setting bodies and collaborate closely with local and Mainland authorities on regulatory and market development initiatives.

International

IOSCO

We play an active role in the International Organization of Securities Commissions (IOSCO), which develops, implements and promotes adherence to internationally-recognised standards for securities regulation. We work closely with the IOSCO Secretariat to develop policy initiatives, facilitate collaboration between IOSCO and the Financial Stability Board (FSB) and promote interaction between members from emerging and developed economies.

Our Chief Executive Officer Mr Ashley Alder has served as Chairman of the IOSCO Board since May 2016. During his tenure, he has advanced IOSCO's priorities related to sustainable finance, structural vulnerabilities in asset management, market fragmentation and financial technologies (Fintech).

Mr Alder also co-chaired the CPMI¹-IOSCO Steering Group, which coordinated regulatory policy work including the oversight and supervision of central counterparties and monitoring of the implementation of the Principles for Financial Market Infrastructures.

Our Chairman Mr Tim Lui participated in the IOSCO Asia-Pacific Regional Committee (APRC) meeting in October 2019, which discussed supervisory cooperation, sustainable finance and market conduct issues.

Also in October, Mr Alder participated in the European Union (EU)-Asia Pacific Forum where discussions continued between the European Commission, European Securities and Markets Authority and members of the IOSCO APRC on cross-border regulatory issues arising out of EU regulations. Topics included sustainable finance, crypto-assets, market fragmentation risks and EU regulations and proposals which may have an impact on the Asia Pacific region.



Chief Executive Officer Mr Ashley Alder at the May 2019 IOSCO annual conference

Photo: IOSCO General Secretariat

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee, Sustainable Finance Network, Fintech Network and key task forces and working groups. We also lead the APRC working group on sustainable finance, a regional platform to support information sharing and capacity building with a focus on climate-related risk.

- We participated in the Committee on Regulation of Market Intermediaries' working group which examined conflicts of interest and conduct risks in the debt capital raising process for corporate bonds. A consultation report was published in December 2019.
- We chair the Committee on Investment Management exchange-traded fund (ETF) working group and participate in the index provider working group. We also contributed to IOSCO's *Final Report on Recommendations for a Framework Assessing Leverage in Investment Funds*.

FSB

As Chairman of the IOSCO Board, Mr Alder participated in the FSB's Plenary and its Steering Committee meetings. The January 2020 meeting focused on monitoring the progress of the G20 reforms, financial vulnerabilities in the global financial system and non-bank financial intermediation.

¹ Committee on Payments and Market Infrastructures.

Regulatory engagement

We are a member of the FSB Standing Committee on Standards Implementation and contributed to its Implementation Monitoring Network, which considers the effects of the G20 reforms and conducts thematic monitoring and peer reviews. We worked with the Hong Kong Monetary Authority, the Insurance Authority and the Financial Services and the Treasury Bureau on the FSB's annual exercise to monitor the implementation of the G20 reforms.

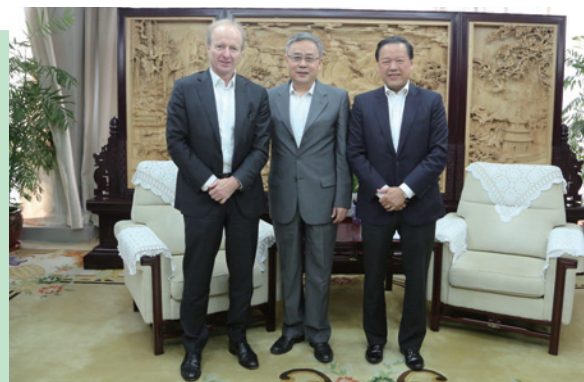
We are a member of the FSB Regional Consultative Group for Asia, to which we contribute views on regulatory policy, and the Cross-Border Crisis Management Group for Financial Market Infrastructures, which monitors and promotes the implementation of resolution regimes for central counterparties. We also participate in FSB workstreams and exercises such as the survey on non-bank financial intermediation.

Mainland China

To advance Hong Kong's unique position as the international financial centre connecting Mainland and international capital flows, we take an active part in Mainland-Hong Kong cooperation initiatives and hold regular discussions with the China Securities Regulatory Commission (CSRC) to enhance our supervisory and regulatory cooperation. The fifth biannual SFC-CSRC high-level meeting was held in May 2019 in Hong Kong and the sixth was held in November 2019 in Shenzhen.



Meeting with PBoC and SAFE officials



From left: Mr Ashley Alder, Chief Executive Officer, Mr Guo Shuqing, CBIRC Chairman, and Mr Tim Lui, Chairman

In July 2019, Mr Lui and Mr Alder met Mr Guo Shuqing, Chairman of the China Banking and Insurance Regulatory Commission (CBIRC), in Beijing to discuss collaboration between the SFC and the CBIRC, particularly in the supervision of Hong Kong subsidiaries of Mainland banks and insurance companies.

We met with the People's Bank of China (PBoC) and State Administration of Foreign Exchange (SAFE) and received visitors from the National Development and Reform Commission to exchange views on market development and cooperation initiatives. We also engaged with Mainland exchanges and clearing houses to discuss their operations in Hong Kong and the further opening-up of the Mainland capital market.

We organise training programmes and seminars for executives from Mainland authorities and businesses to better understand the Hong Kong securities market and our regulatory framework. We shared Hong Kong's experience in regulating leveraged foreign exchange trading at a SAFE-World Bank Roundtable in April 2019 and spoke at a Securities Association of China seminar in October 2019.

In July 2019, we entered into a tripartite Memorandum of Understanding with the Ministry of Finance of the People's Republic of China and the CSRC on access to audit working papers for Hong Kong-listed Mainland companies.

We support the HKSAR Government in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services sector and access to Mainland markets. We participated in the formulation and negotiation of amendments to the Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement, signed in November 2019, which provide new business opportunities for Hong Kong's financial industry. We also work closely with Mainland authorities to implement initiatives set out in the Greater Bay Area development plan.

Other engagement

During the year, we maintained regular dialogue with other regulators to share information about global financial institutions. We attended supervisory meetings hosted by the Swiss Financial Market Supervisory Authority in Hong Kong and Zurich, where

Swiss-headquartered global banks provided updates on their internal controls and monitoring programmes, as well as supervisory colleges for US-headquartered investment banks hosted in New York and London by the US Federal Reserve.

We also attended supervisory meetings jointly hosted by the Australian Prudential Regulation Authority and Australian Securities and Investments Commission in June 2019, as well as a meeting organised by Japan's Financial Services Agency in February 2020, to share regulatory experience and enhance the cross-border monitoring of financial institutions.

In November 2019, we held the eleventh Bilateral Regulatory Meeting with the Taiwan Financial Supervisory Commission where we exchanged views on the regulation of virtual assets, bond ETFs and real estate investment trusts.

Requests for regulatory cooperation

	2019/20		2018/19		2017/18	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	103	95	113	99	136	104
Licensing-related requests for assistance	143	18	121	597	112	1,178

Stakeholders

To promote a wider understanding of our work and provide up-to-date regulatory information, we conduct timely, concerted outreach with a wide range of stakeholders.

Industry

We maintain an open and productive dialogue with industry associations, professional bodies and other market participants. We organise regular meetings and briefings and from time to time contribute articles to industry association newsletters to keep market participants informed about regulatory developments.

The SFC Compliance Forum 2019¹, held in June, was attended by more than 700 industry participants. We also hosted three half-day seminars during the year for over 800 management and compliance personnel from licensed corporations to present the findings of the Financial Action Task Force's *Mutual Evaluation Report of Hong Kong*, provide an update on regulatory developments and share inspection findings and other supervisory observations related to anti-money laundering and counter-terrorist financing.

To introduce the new guidelines for securities margin financing activities, we briefed over 100 industry participants and posted an e-learning video on our website. About 1,000 industry participants attended our seminars on the implementation of new requirements for the sale of complex products.



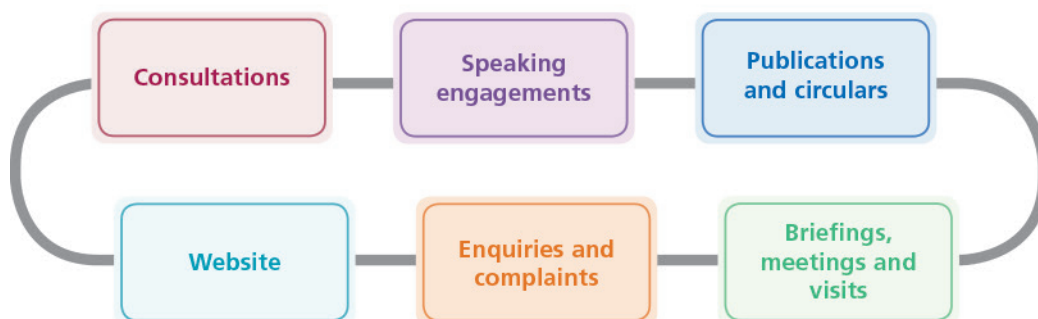
Chairman Mr Tim Lui at the Financial Services Development Council's Career Day 2019

We gave presentations focusing on private equity firms and family offices for two industry associations, Mainland fund managers and the Asian Financial Forum 2020.

During the year, our senior executives took part in 103 speaking engagements on a wide range of topics within our remit, including listing regulation, asset management and financial technology (Fintech). We supported 11 seminars or events organised by industry bodies.

In November, the SFC supported the Hong Kong FinTech Week 2019 Main Conference as a regulatory partner. Our senior executives discussed the regulation of virtual asset trading platforms at the event.

Stakeholder communication channels



¹ See Intermediaries on pages 46-52.



Chief Executive Officer Mr Ashley Alder at Hong Kong FinTech Week 2019

When proposing rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation. We consult the public on proposed non-statutory codes and guidelines, as well as amendments to them. We issue consultation papers to detail our proposals and hold both formal and informal discussions to hear stakeholders' views as part of our consultation process.

After completing our analysis, we issue a consultation conclusions paper summarising the main comments received and setting out our conclusions. A total of four consultation papers and four consultation conclusions were published in the year.

Publications and other communications

	2019/20	2018/19	2017/18
Press releases	123	128	138
Policy statements and announcements	8	3	3
Consultation papers	4	5	11
Consultation conclusions	4	11	8
Industry-related publications	15	15	15
Codes and guidelines ^a	5	14	10
Circulars to industry	73	90	83
Corporate website average daily page views ^b	42,816	64,947	67,664
General enquiries	6,037	6,709	7,494

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

Our publications aim to update the industry on our regulatory work, topical issues and other developments. This year, we issued 15 thematic publications, including newsletters, market reviews and surveys. We also published a pamphlet to introduce open-ended funds, a new corporate investment fund vehicle in Hong Kong.

To help the industry better understand our regulatory requirements, we issue circulars and frequently-asked questions which we post on the SFC website. During the year, we published 73 circulars on various topics, including protection of client assets, client facilitation, third-party deposits and payments, complex financing arrangements, mutual recognition of funds and updates on anti-money laundering and counter-terrorist financing.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, ranging from licensing, listings and takeovers matters, and product authorisation to short position reporting.

To help us handle enquiries on specific topics more efficiently, designated e-mailboxes are provided. The SFC Fintech Contact Point promotes communication with businesses involved in the development and application of financial technology in the conduct of regulated activities in Hong Kong.

Stakeholders

Government

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

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



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, at Asian Financial Forum 2020

Regulatory counterparts

We are active in international regulatory cooperation. We participate in both the International Organization of Securities Commissions and the Financial Stability Board².

We maintain close contact with local, Mainland and overseas regulatory counterparts. During the year, we signed four memoranda of understanding (MoU) with other authorities and exchanges and held 83 MoU meetings. We also received visitors and delegates from Mainland and overseas authorities.

In May 2019, we hosted a high-level regulatory meeting in Hong Kong for senior officials from the Mainland, Hong Kong and the European Union to discuss the harmonisation of green finance efforts and standards.

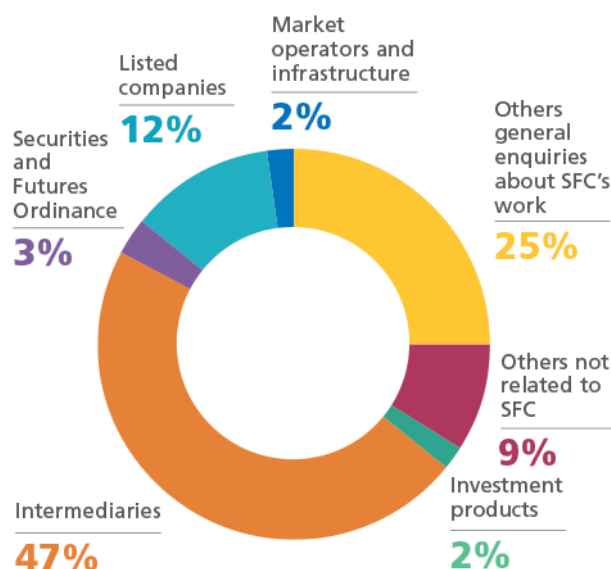
The public

We address public concerns and enquiries regarding the securities and futures markets. This year, we received a total of 6,037 general enquiries by phone or in writing.

We handled 4,491 complaints during the year. Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, which comprises senior executives from across the organisation, and are allocated to responsible divisions for assessment where appropriate.

A total of 1,419 cases³ were allocated for further review and 509 were referred to HKEX⁴, other financial regulators or law enforcement agencies.

General enquiries



² See Regulatory engagement on pages 73-75.

³ One case may comprise multiple complaints.

⁴ Hong Kong Exchanges and Clearing Limited.

To increase public understanding of Hong Kong's financial regulatory framework and our role in it, we received visitors from local and overseas institutions and our senior executives gave media interviews. We issued 123 press releases to inform the public of the latest regulatory actions and other SFC news. We also published eight policy statements and announcements explaining our regulatory approach to specific issues, such as backdoor listings and virtual asset trading platforms, and providing guidance in areas of concern.

We released our *Annual Report 2018-19* and quarterly reports to help stakeholders understand our work. Our reporting efforts were recognised with a Gold Award and a Sustainability Reporting Award in the Hong Kong Management Association's Best Annual Reports Awards 2019. The report also won a Special Mention Award, public sector category, in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2019.



Our executives at a regulatory seminar hosted by The Hong Kong Institute of Chartered Secretaries

The public can easily obtain up-to-date information about our work and regulations on our corporate website, which was updated and enhanced during the year to make it easier for users to find information.

Complaints against intermediaries and market activities

	2019/20	2018/19	2017/18
Conduct of licensees	583	453	357
Conduct of registered institutions	27	16	22
Listing-related matters and disclosure of interests	2,065	3,485	779
Market misconduct ^a	478	364	322
Product disclosure	14	8	12
Unlicensed activities	176	164	141
Breach of offers of investments	98	30	48
Boiler rooms and suspicious websites	486	378	319
Scams and frauds ^b	276	285	186
Other financial activities not regulated by SFC ^c	288	851	503
Total	4,491	6,034	2,689

a Primarily, alleged market manipulation and insider dealing.

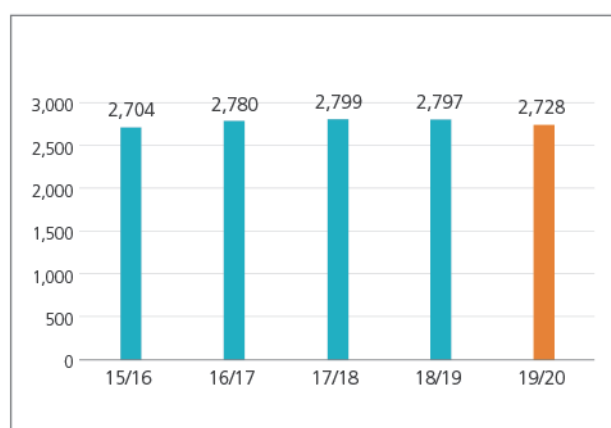
b Such as identity fraud and impersonation.

c For example, bullion trading, banking complaints.

SFC activity data

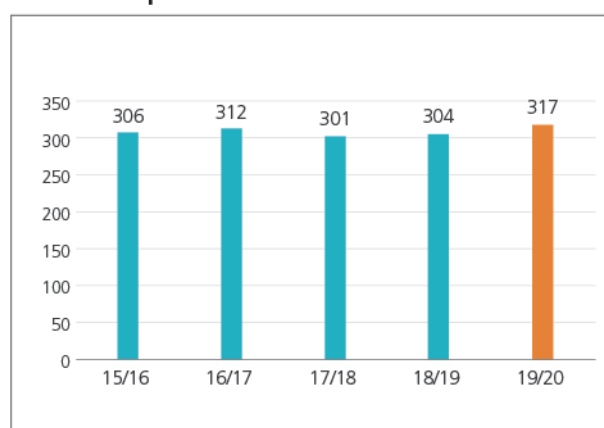
These charts are intended to show at a glance some top-line data on our activities. See Breakdown of SFC activity data on pages 160-165 for more details.

Authorised collective investment schemes

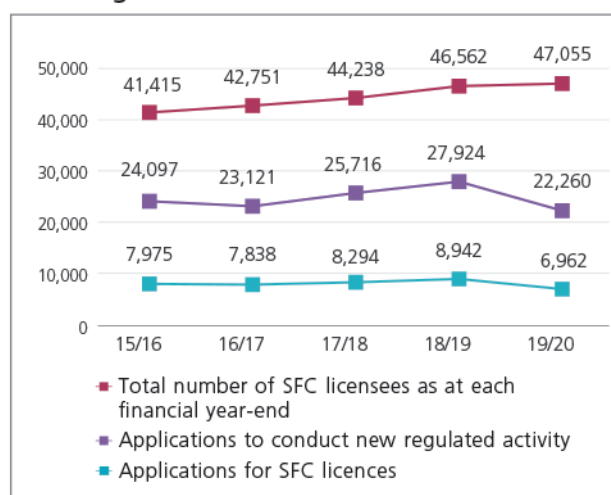


Note: Figures represent a snapshot view as at each financial year-end.

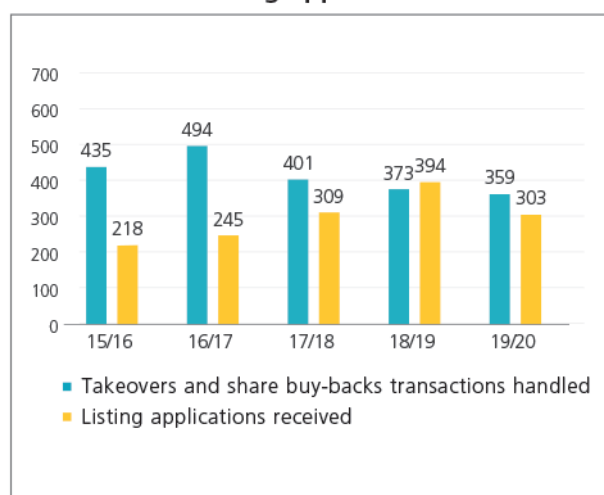
On-site inspections of intermediaries



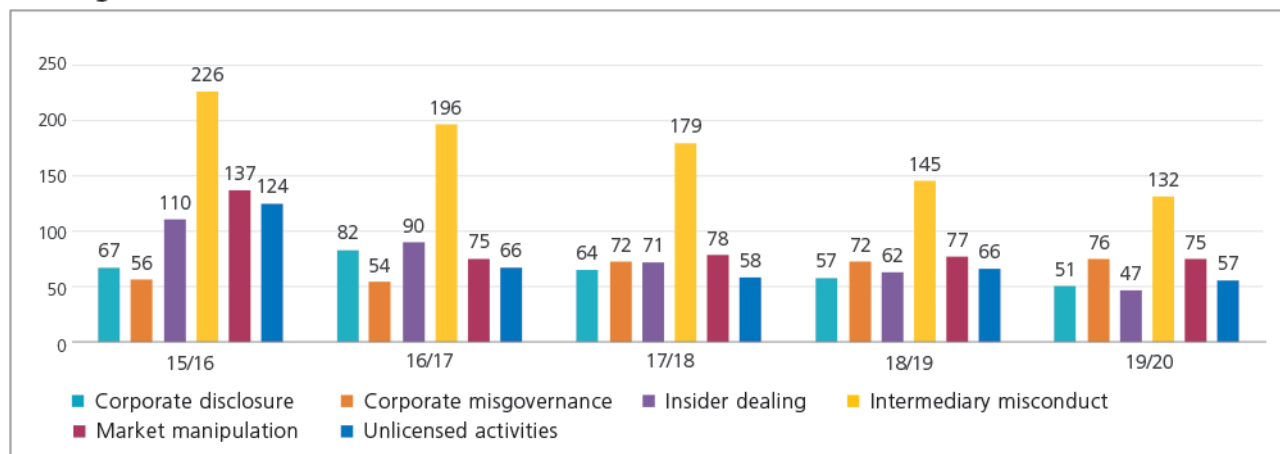
Licensing



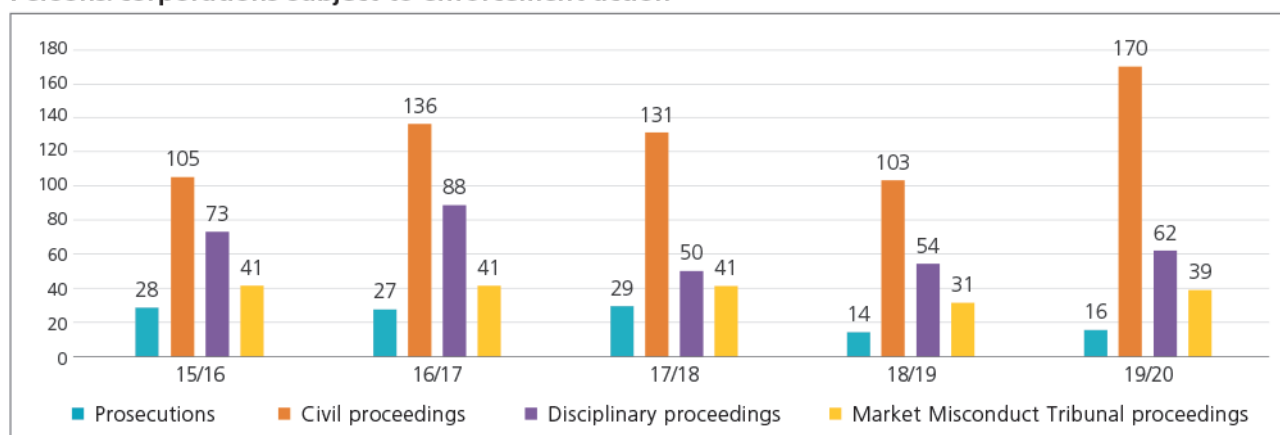
Takeovers and listing applications



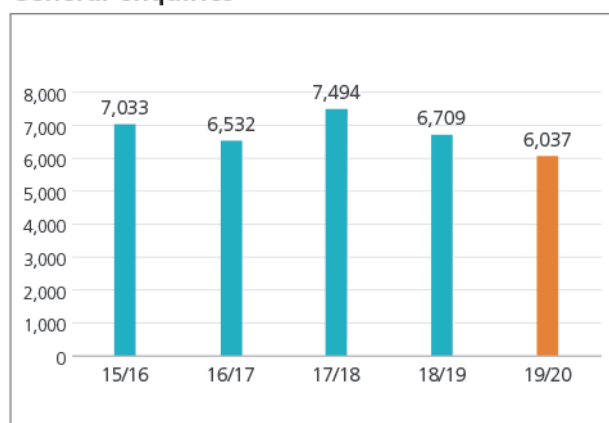
Investigations



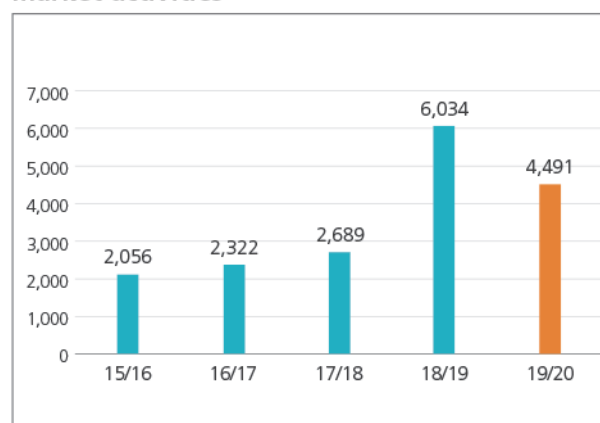
Persons/corporations subject to enforcement action



General enquiries



Complaints against intermediaries and market activities



Corporate Developments

Fostering a positive and supportive workplace culture and caring for the wellbeing of our staff help make our workforce more productive and engaged. To ensure our regulatory effectiveness, we use our resources prudently and regularly upgrade our systems and technology infrastructure to keep in step with market developments.



People

We are committed to making the SFC an employer of choice. The Employees Retraining Board (ERB) recognised our efforts to promote staff learning and development with an “ERB Manpower Developer” award for the seventh consecutive year.

Professional development

Our Chief Executive Officer (CEO) communicates important organisational matters and regulatory developments and addresses staff questions at regular CEO sharing sessions. We also arrange internal Commission Connection sessions to share new policy initiatives with our staff.

We strive to provide staff with career development opportunities. This year, we enhanced our human resources systems and fine-tuned our merit-based internal policies for performance evaluation, career progression and reward management to better align with our current regulatory approach. Building on these changes, an increasing number of staff are driving their career development within the SFC and broadening their work exposure and skills by transferring and advancing across functional areas.

Executives are also offered annual secondment opportunities with the Financial Services and Treasury Bureau, Financial Services Development Council and China Securities Regulatory Commission (CSRC).



Retirement planning workshop organised by the SFC Women's Network

We arrange visits to regulatory counterparts in Beijing and Shanghai as well as joint workshops with them. This year, one staff was seconded to the CSRC and two CSRC counterparts seconded to us under the SFC-CSRC memorandum of understanding.

Locally, we held joint training workshops with participants from the Hong Kong Monetary Authority, Hong Kong Police Force, Immigration Department and Independent Commission Against Corruption¹.

We also invited other local and overseas regulators, industry professionals and consultants to share with us their views and updates on a wide range of topics. This year, these talks focussed on emerging trends related to financial technology and the regulatory response.

During the year, our employees spent an average of 24.3 hours on structured learning including seminars, workshops, training programmes and online courses.

Our Graduate Trainee Programme is an essential component of our people development strategy. In its eleventh year, we recruited four graduate trainees. Additionally, we placed 38 interns in various divisions for summer, winter or full-year terms.

Engaged workforce

One of the SFC's core values — “People Count” — underpins our commitment to cultivating a supportive culture and a positive working environment.

This year, we incorporated mental wellbeing as an essential element of a more holistic Health, Safety and Wellbeing Policy and updated our Employee Handbook accordingly.

We promote good employment practices and a sense of belonging. To foster team spirit, staff participate with fellow regulators in inter-organisational activities such as tennis and basketball tournaments and dragon boat races. We also support staff volunteering and provide family-friendly work arrangements and staff activities to encourage work-life balance.

Members of the SFC Women's Network joined representatives of financial institutions in meetings to discuss best practices to advance women's professional development and inspire them for leadership roles.

¹ See Enforcement on pages 65-72.

Corporate Developments

Training and e-learning

	2019/20	2018/19	2017/18
Percentage of employees who participated in internal training [^]	93%	99%	89%
Average hours of internal training per employee [^]	24.3	30.6	31
Number of employees who undertook e-learning	881	195	185

[^] Including lectures, workshops and seminars.

Employee statistics

	As at 31.3.2020		As at 31.3.2019		As at 31.3.2018	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	736	805	727	779	701	759
Support	185	183	183	186	186	185
Total	921	988	910	965	887	944

	As at 31.3.2020	As at 31.3.2019	As at 31.3.2018
Male	312	303	289
Female	609	607	598
Average years of service	8.8	8.3	8
Female staff at Senior Manager grade or above	60%	60%	61%

For staff, the network organised educational talks on personal and leadership development as well as retirement planning.

To keep our operations sufficiently resourced at all times while safeguarding health and safety, we temporarily introduced a split-team arrangement starting from February 2020 for staff to work in the office on two-week rotations.

Quality workplace

To meet our projected operational needs, we secured an eight-year lease at a new office premises which will significantly reduce our rental expenses. Our relocation from Central to Quarry Bay is in progress.

The new office provides an open layout which increases capacity and space efficiency. Workstations are equipped with height-adjustable desks to help

improve staff health and productivity. Office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

We have a business resumption plan in place to address readily identifiable risks, including technical problems, fires, natural disasters and other emergencies.

Communications

We regularly communicate with the industry and the public through multiple channels², including senior executives' speaking engagements, consultations, industry briefings, circulars, publications, annual and quarterly reports and press releases. We address public complaints and enquiries about Hong Kong's securities and futures markets.

² See Stakeholders on pages 76-79.

Recognition for public service

Victor Wong received The Ombudsman's Awards 2019 for Officers of Public Organisations for his outstanding work in handling complaints from the public.

Prior to joining the SFC in 2010, Wong spent eight years working at the Office of The Ombudsman. The experience he gained there has helped him deal with public complaints more effectively in his current role. "The nature of both jobs is similar," Wong explained. "The most important thing is to be a good listener and be positive, polite and patient."

To conduct preliminary assessments of complaints in the first instance, Wong does background research and asks for clarification and additional information. This is the most critical part of his work, as it helps him understand the complainant's point of view and collect the facts needed to evaluate the complaint.

Wong derives great satisfaction from helping people in a meaningful way. When investors contact him to verify the licences of firms which asked them to make investments, he directs them to the SFC's public register of licensed persons and registered



Victor Wong, Manager, External Relations, Corporate Affairs

institutions as well as other public information which can prevent them from falling victim to fraudsters. "This award motivates me to work harder to give my best effort," Wong said.

Our press office formulates and executes media strategies to enhance public understanding of our work. It proactively leads organisation-wide efforts to engage the media and explain our policies, initiatives and regulatory actions.

Our corporate website (www.sfc.hk) provides up-to-date information about the SFC. During the year, we made enhancements to facilitate access to information on the website.



Basketball Supervisory Cup



Dragon boat race

Corporate Developments

Legal support

Our Legal Services Division³ handles criminal cases and manages civil litigation and Market Misconduct Tribunal (MMT) cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC. (See table below.)

The division supports our day-to-day work by providing advice and guidance on legislative drafting and regulatory matters such as licensing issues, supervision of risky brokers, front-loaded regulation of listing matters, takeovers activities, investor compensation and enforcement investigations, as well as on administrative affairs including employment, data privacy and procurement contracts.

Landmark court cases

2010	Rontex International Holdings Limited Obtained a court order that the company commence civil proceedings to recover loss and damage suffered as a result of the directors' misconduct.
2012	Chan Pak Hoe Decision by the Court of Final Appeal that the appropriate sentence for insider dealing offences is immediate imprisonment and a financial penalty.
2013	Tiger Asia Management LLC Decision by the Court of Final Appeal that section 213 ^a orders under the Securities and Futures Ordinance (SFO) may be sought in the absence of a finding by a criminal court or the MMT. Du Jun Insider dealing case – the first case where the court made restoration orders under section 213 of the SFO for the benefit of investors.
2014	China Metal Recycling (Holdings) Limited An order was made to wind up a Hong Kong-listed company under section 212 ^b of the SFO.
2016	AcrossAsia Limited The first MMT case under the Part XIVA ^c regime for breaches of the requirements to disclose inside information.
2018	Yiu Hoi Ying Charles The Court of Final Appeal set out the scope of the “innocent purpose defence” for insider dealing. Young Bik Fung The Court of Final Appeal upheld the lower court's finding of contraventions of section 300 ^d in relation to dealings in overseas-listed securities.

a Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for injunctions and other orders.

b Section 212 of the SFO permits the SFC to apply for an order to wind-up a company if it appears to the SFC that it is desirable in the public interest to do so.

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

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

³ Also see Our People on pages 34-35.

Technology

Our information technology (IT) strategy focuses on digitalisation, information sharing and risk-detection capabilities. To enhance operational efficiency and facilitate more user-friendly information submission, we added new functions to WINGS⁴, our integrated platform for electronic forms and submission services, to collect and manage survey data and licensed firms' self-reports of breaches or non-compliance.

To support our market supervision initiatives under Mainland-Hong Kong Stock Connect, the inclusion of investor identification in our systems during the year helped expedite our investigations into suspicious trading activities. We also adopted technologies incorporating advanced machine learning capabilities which organise large volumes of information from diverse sources for analysis, making our investigation and litigation work more efficient.

A new market monitoring tool was introduced to intelligently analyse listed companies' publications to identify irregularities which may indicate potential corporate misconduct. We plan to adopt more artificial intelligence-related technologies to build up our risk-detection capabilities.

Finance

As a publicly-funded organisation, we follow a disciplined approach to drawing up our budget. We appoint external investment managers to manage our reserves according to investment guidelines approved by the Financial Secretary. Each year, an independent external firm conducts an internal audit to assess the effectiveness of our controls and identify the key risks of our business processes⁵.

Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly lower than the initial rate of 0.0125% in 1989. We have not revised our fees and charges since 1994. A 50% discount was provided for annual licensing fees in 2019-20. We have offered waivers for annual licensing fees six times since 2009⁶. The current waiver is in effect for one year beginning 1 April 2020.



Moon cake workshop

⁴ Web-based INTeGrated Service.

⁵ See Corporate Governance on pages 12-33.

⁶ The previous waivers covered 2009-10, 2012-14, 2014-16, 2016-18 and 2018-19.

Corporate Developments

Income

Total income for the year was \$1,591 million, down 10% from \$1,759 million last year. Owing to the lower securities market turnover in the current year, our levy income decreased 4% from last year to \$1,431 million. Our income from fees and charges increased 28% to \$163 million from \$127 million. Our investment income dropped as a result of the performance of our equity fund investments.

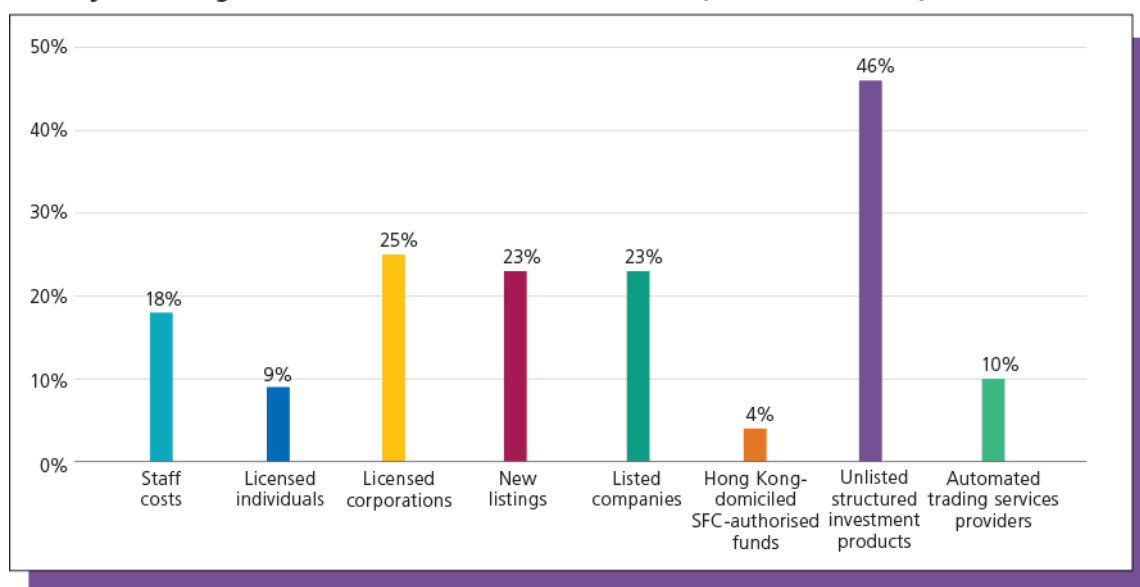
Expenditure

The costs of our operations totalled \$1,966 million, \$213 million below our original budget of \$2,179 million.

Over the past three years, our staff costs increased 18% while our regulatory work increased in both volume and complexity. The ratio of average expenses to income for the past three years was 104%. In the same period, the average increases in expenses and income were 5% and 9% respectively.

Owing to the decrease in income, we recorded a deficit of \$375 million for the year, compared to a deficit of \$95 million last year. As of 31 March 2020, our reserves stood at \$6.7 billion, of which \$3 billion was set aside for the possible future acquisition of office premises.

Three-year change in staff costs and market statistics (2016/17-2019/20)



Finance

(\$ million)	2019/20	2018/19	2017/18
Income	1,591	1,759	2,015
Expenses including depreciation	1,966	1,854	1,772
(Deficit)/Surplus	(375)	(95)	243

Income breakdown

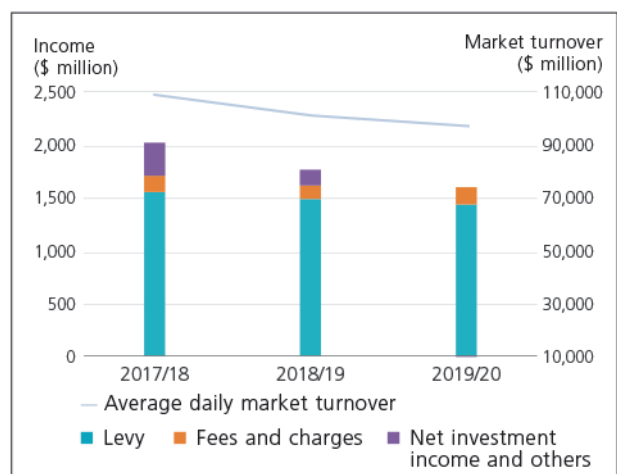
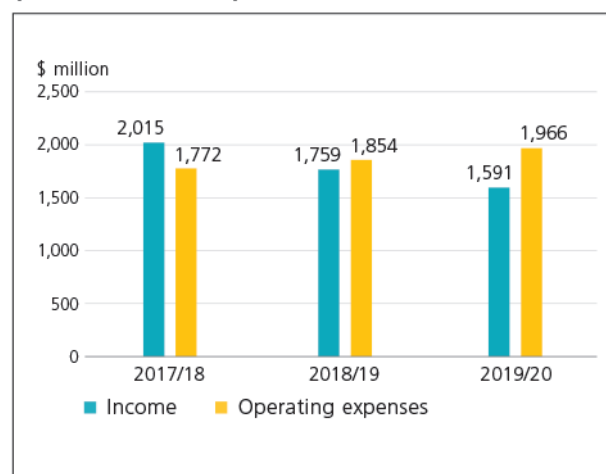
	2019/20	2018/19	2017/18
Levies	90%	84.3%	76.9%
Fees and charges	10.2%	7.2%	7.6%
Net investment income and others [^]	-0.2%	8.5%	15.5%

[^] Net investment income and others included foreign exchange gain or loss.

Expenditure breakdown

	2019/20	2018/19	2017/18
Staff costs	72.2%	73.1%	72.4%
Premises and related expenses [^]	2.3%	13.3%	14.2%
Other expenses	12.1%	11.7%	11.7%
Depreciation [^]	13.4%	1.9%	1.7%

[^] Operating lease expenses were recorded as depreciation in 2019/2020 due to a change in accounting policy.

Income vs market turnover
(2017/18-2019/20)Income and operating expenses
(2017/18-2019/20)

Corporate Social Responsibility

Our corporate social responsibility initiatives focus on promoting sustainability, caring for the community, protecting the environment and promoting staff wellness.



Governance

As a socially responsible organisation, we strive to incorporate corporate social responsibility (CSR) principles into our daily operational decisions and practices.

The CSR Committee coordinates all our CSR efforts. It reports directly to the SFC's Executive Committee and is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs (see sidebar on page 92). It includes members from different units across the organisation.

The committee is responsible for:

- formulating and developing our CSR vision, principles, framework and policies;
- organising and promoting CSR activities; and
- setting objectives, targets and key performance indicators to measure the effectiveness of our CSR efforts.

The CSR Committee has three working groups: the Commission Volunteers Group, Green Working Group and Wellness Group. Each is charged with planning and implementing initiatives under a specific theme.

We explain our CSR goals, principles and activities on our corporate website and intranet, and circulate a quarterly e-newsletter to update staff about our

CSR initiatives. The newsletter is also a platform for participants to share first-hand accounts of our CSR activities and for staff to provide feedback.

Our CSR efforts were recognised by the Hong Kong Council of Social Service which named us a "Caring Organisation" for the fourteenth consecutive year.

Marketplace support

As a regulator, we consider the impact of our work on Hong Kong's financial markets. We adopt measures to enhance industry-wide operational efficiency, minimise resource consumption and reduce paperwork for both the SFC and industry participants. We also encourage the industry to adopt environmentally-responsible behaviour.

Supporting sustainable finance

During the year, we made progress on a number of initiatives under our strategic framework to help develop Hong Kong as a leading centre for green finance and connect green finance flows between the Mainland and the rest of the world¹. Our strategy is in line with global market and regulatory developments in sustainable finance. We collaborate with stakeholders as well as local and international regulators to promote sustainable finance initiatives and investor awareness of them.

CSR working groups and themes

	Focus	2019/20	2020/21
Commission Volunteers Group 	Community	Sharing and caring	Spread love and joy
Green Working Group 	Environment	Live green, save green	Go the extra mile for a green lifestyle
Wellness Group 	People	Fitter, healthier, happier	Better health, better self

¹ See Green and sustainable finance on pages 58-59.

Fostering a sustainability mindset

Mr Andrew Wan, Chief Financial Officer and Senior Director, Corporate Affairs, chairs our CSR Committee. Here he talks about our corporate sustainability efforts.

The CSR Committee's overall objective is to foster a caring culture within the organisation as well as in the community, Mr Wan said. Staff from across the organisation take an active role in our meetings and our working groups.



Mr Andrew Wan, Chief Financial Officer and Senior Director, Corporate Affairs

The importance of adopting greener working practices and protecting the environment has grown significantly over the past few years and many staff members are especially passionate about these issues, he explained.

Within the organisation we have taken steps to cut energy consumption, use less water and reduce waste, and the CSR Committee has worked hard to foster awareness of the need for everyone to take an active part in these initiatives.

All sectors of society need to contribute to efforts to achieve more sustainable development, but the SFC has a special responsibility as a market regulator and a public body, Mr Wan emphasised. We not only need to do our part as we go about our daily work, we also have to set an example for the industry we regulate and the public at large.

At the end of the day, success will depend on having the right mindset.

Enhancing industry-wide operational efficiency

Our online portal, WINGS², is a one-stop platform for making electronic submissions to the SFC. All functions and submission services available on the existing SFC Online Portal and other SFC systems will be migrated to WINGS in phases.

To reduce the industry's compliance burden and paper consumption, we ceased to issue printed licences³ to licensed individuals in 2015. Details of licensed individuals are now only available on our online Public Register of Licensed Persons and Registered Institutions. Extending the mandatory online

submission of annual returns and notifications to cover all intermediaries starting April 2019 also saves paper. In addition, an online system is available to streamline the submission and posting of Rule 22⁴ dealing disclosures.

Promoting professional competence and financial literacy

Our continuous professional training (CPT) requirements⁵ help to enhance the competence of licensees. This year, our executives delivered 28 hours of CPT-eligible training.

² Web-based INTeGrated Service.

³ We continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.

⁴ Required disclosures during an offer period under the Code on Takeovers and Mergers.

⁵ 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.

We provide funding to the International Financial Reporting Standards (IFRS) Foundation⁶ to support its work. We also fund the Investor and Financial Education Council which is dedicated to improving financial literacy in Hong Kong.

Community

We provide our staff with volunteering and engagement opportunities to make a positive change in the community. Volunteering leave is offered to encourage staff participation in community service.

This year, 74 staff spent a total of 263 hours volunteering. They were involved in environmental conservation, animal care and helping the underprivileged.

Our staff also support community services through donations and participating in fundraising events. This year, we raised a total of \$82,246 through Pedal Power 9, the Standard Chartered Hong Kong Marathon⁷, our Christmas charity sale⁸, and three Community Chest events: Love Teeth Day, Dress Casual Day and Green Day.

Donating used items to charities enables us to help people in need and reduce waste. This year, we donated second-hand electrical appliances, clothes, books and toys to The Salvation Army.

Volunteering events

Month	Activity	Purpose	Outcome
May 2019	Beach clean-up at Wu Kai Sha Beach	To promote understanding of the impact of plastic pollution on our oceans	26 volunteers helped clean Wu Kai Sha Beach.
June 2019	Suicide Prevention Services – Solicit for Support: Flag Day 2019	To raise awareness about suicide prevention	11 volunteers took part in a fund-raising event.
Aug 2019	SPCA Care for Animals Workshop	To learn about caring for animals in shelters	20 volunteers interacted with the animals and recycled items to make toys for them.
Sep 2019	Volunteering at Mai Po	To raise awareness of environmental conservation through volunteering	17 volunteers helped remove harmful invasive species.
Dec 2019	Christmas Sale and Gift Collection	To raise funds and spread joy to the underprivileged	Proceeds supported participating charities. Our staff also donated second-hand items to The Salvation Army.

Contributions

	2019/2020	2018/19	2017/18
Number of staff participating in volunteering activities	74	120	134
Total volunteering hours	263	465	458
Funds raised for community causes	\$82,246	\$150,787	\$104,509
Corporate sponsorships for community causes [^]	\$31,535	\$17,000	\$13,000

[^] Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.

⁶ The IFRS Foundation is a not-for-profit organisation established to develop, promote and facilitate the adoption of the IFRS.

⁷ Although the marathon was cancelled, the organiser accepted pledged donations.

⁸ We cooperated with New Life Psychiatric Rehabilitation Association, Fu Hong Society and Hong Kong Society for Rehabilitation to sell groceries and hand-made items at our Christmas charity sale, with the funds raised supporting their operations.

Corporate Social Responsibility

Environment

We are dedicated to managing and reducing our impact on the environment. Staff are encouraged to reduce, reuse, repair and recycle through our internal protocol, *A guide to working "Green" at the SFC*.

To reduce paper consumption, we use electronic processes for internal matters including training course enrollments, conference room bookings, expense claims, overseas travel records, pay slips, leave applications and appraisals. Meeting materials are shared on tablet computers and paperless diaries are available.

Other green practices adopted in our workplace to use resources more efficiently include:

- adjusting indoor lighting after office hours using auto timers and encouraging colleagues to turn off lights every day;
- reducing electricity usage at our data centres;
- automatically turning off desktop computers every weekend;
- providing recycling bins for newspapers;
- sorting cans and bottles for recycling;

- using e-cards instead of paper holiday greeting cards; and
- recycling used red packets in support of Greeners Action's campaign.

Our staff and their family members participate in activities we organise to raise environmental awareness. In the past year, we arranged a beach clean-up at Wu Kai Sha Beach to promote understanding of the impact of plastic pollution on the oceans as well as a coral research tour to learn about the importance of marine biodiversity. We also arranged a workshop on low-carbon diets to promote an eco-friendly lifestyle.

We support the World Wide Fund for Nature's global warming prevention and environmental conservation causes.

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve shark fins at any SFC event.
- Earth Hour 2020: We took part in this annual energy conservation event for the tenth year. We encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.



Red packet recycling



Low-carbon diet workshop

Corporate Social Responsibility

Message from
Chairman and CEO

Strategic
Priorities

Mission and
Mandates

Corporate
Governance

Our People

Operational
Review

Corporate
Developments

Corporate
Social Responsibility

Financial
Statements

Supplementary
Information



- ◀ Coral research boat tour
- ▼ Beach cleanup



- Taking care of animals ▶
- Removing harmful species at Mai Po ▼



- ◀ Thai boxing class
- ▼ Trampoline class



Corporate Social Responsibility

Consumption and recycling

	2019/20	2018/19	2017/18
Consumption			
Paper (pieces/head)	8,712	9,977	9,563
Electricity (kWh)	4,188,211	4,095,518	4,018,442
Recycling			
Paper (kg)	35,897	31,251	37,815
Toner and printer ink cartridges	949	1,151	1,106

Workplace

The wellbeing of our staff is crucial to us. During the year, we organised activities to promote health awareness and encourage healthier lifestyles:

- classes to demonstrate stretching and yoga exercise techniques;
- free on-site influenza vaccinations and health screenings with individual consultations;
- Thai boxing and trampoline classes and bowling night to promote a healthy lifestyle;
- a low-carbon diet workshop to learn how our food choices have an impact on the planet; and
- a massage week to improve physical wellbeing.

As a founding member of the City Mental Health Alliance Hong Kong (CMHA HK), we are dedicated to promoting and raising awareness of mental health both in the workplace and the wider community. Our Deputy Chief Executive Officer and Executive Director, Intermediaries, Ms Julia Leung, is a member of CMHA HK's Advisory Board. The SFC actively participates in CMHA HK events, workshops and discussion panels to raise awareness about mental health and promote best practices for corporate mental health policies.

Clinical psychology services are offered as part of our Employee Assistance Programme and counselling is also available for staff as well as their immediate family members. This year, we organised Stress Awareness Month for our staff and took part in World Mental Health Day. To provide useful information and updates on our intranet, we launched a mental health and wellbeing page and a COVID-19 information portal.

Securities and Futures Commission

Independent auditor's report To the Securities and Futures Commission

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

Opinion

What we have audited

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 101 to 131, which comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is the valuation of investments.

Valuation of investments

The aggregate carrying value of the Group's investment portfolio was HK\$3,652 million, which represented 50% of consolidated total assets as at 31 March 2020.

The investment portfolio comprise of i) debt securities and pooled funds (equity instruments) with a total value of HK\$1,068 million which is carried at fair value through profit or loss and ii) debt investments with a total value of HK\$2,584 million which were accounted for at amortised cost.

The Group's debt and equity instruments at fair value through profit or loss are categorised under the Level 1 and 2 in the fair value hierarchy and valued based on market prices or valuation models using market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in assessing expected credit losses (ECL) associated with the financial instruments carried at amortised cost.

Independent auditor's report (continued) To the Securities and Futures Commission

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

Key audit matters (continued)

How our audit addressed the Key audit matter

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis. For investments in the pooled funds, we performed a look-through analysis to understand the underlying investments and the basis of valuation for a sample of these investments.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.
- We assessed the appropriateness of the ECL methodologies and assumptions associated with the financial instruments carried at amortised cost. The methodologies and assumptions include economic indicators selected by management, economic scenarios and probability weightings applied by management. We assessed the reasonableness of the economic indicators and performed sensitivity analysis to understand the impact of changes in economic indicators, scenarios and weightings on the ECL result. We examined data inputs to the ECL calculation on a selected sample, including historical data and data at the measurement date, to assess their accuracy and completeness.

Based on the procedures we performed, we found that the valuation of investments are supported by available evidence and the models, key parameters, significant judgements and assumptions adopted by management were considered acceptable. We found that management's estimates and judgements made in determining the ECL for financial instruments carried at amortised cost to be acceptable.

Notes 3(h), 9, 10 and 22(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, detailed breakdown of these investments and the respective fair value hierarchy disclosures.

Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, 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.

Independent auditor's report (continued) To the Securities and Futures Commission

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

Responsibilities of directors and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report (continued) To the Securities and Futures Commission

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 May 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Income			
Levies	2(a)	1,430,678	1,483,846
Fees and charges		162,847	127,343
Investment income net of third party expenses			
Investment income	5	48,233	138,565
Less: custody and advisory expenses		(7,857)	(7,717)
Recoveries from the Investor Compensation Fund		5,989	5,859
Exchange loss		(49,510)	(190)
Other income	6	528	11,600
		1,590,908	1,759,306
Expense			
Staff costs and directors' emoluments	7	1,419,420	1,354,504
Premises expenses			
Rent	3(q)	–	200,710
Rates, management fees and others		45,456	46,700
Depreciation			
Fixed assets	11(a)	44,015	35,798
Right-of-use assets	12	218,796	–
Finance costs	12	3,487	–
Other expenses	8	235,036	216,136
		1,966,210	1,853,848
Loss and total comprehensive income for the year		(375,302)	(94,542)

The notes on pages 108 to 131 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Non-current assets			
Fixed assets	11(a)	135,712	94,835
Right-of-use assets	12	324,040	–
Deposits for leases		33,767	–
Financial assets at amortised costs – debt securities	9	1,600,123	981,502
		2,093,642	1,076,337
Current assets			
Financial assets at amortised costs – debt securities	9	984,239	563,877
Financial assets at fair value through profit or loss			
Debt securities	10	419,469	795,946
Pooled funds	10	648,510	925,476
Debtors, deposits and prepayments	17	265,200	227,018
Fixed deposits with banks	13	2,832,302	3,653,456
Cash at bank and in hand	13	51,871	71,908
		5,201,591	6,237,681
Current liabilities			
Fees received in advance		47,097	8,850
Creditors and accrued charges	15	167,043	189,855
Lease liabilities	12	96,115	–
Provisions	16	66,532	–
		376,787	198,705
Net current assets		4,824,804	6,038,976
Total assets less current liabilities		6,918,446	7,115,313

Consolidated statement of financial position (continued)

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Non-current liabilities			
Lease liabilities	12	203,558	–
Provisions	16	19,968	45,091
		223,526	45,091
Net assets		6,694,920	7,070,222
Funding and reserves			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	24	3,000,000	3,000,000
Accumulated surplus		3,652,080	4,027,382
		6,694,920	7,070,222

Approved and authorised for issue by the SFC on 28 May 2020 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 108 to 131 form part of these financial statements.

Statement of financial position

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Non-current assets			
Fixed assets	11(b)	135,658	94,738
Right-of-use assets	12	324,040	–
Deposits for leases		33,767	–
Financial assets at amortised costs – debt securities	9	1,600,123	981,502
		2,093,588	1,076,240
Current assets			
Financial assets at amortised costs – debt securities	9	984,239	563,877
Financial assets at fair value through profit or loss			
Debt securities	10	419,469	795,946
Pooled funds	10	648,510	925,476
Debtors, deposits and prepayments	17	274,141	233,187
Fixed deposits with banks		2,832,302	3,653,456
Cash at bank and in hand		29,836	49,747
		5,188,497	6,221,689
Current liabilities			
Fees received in advance		47,097	8,850
Creditors and accrued charges	15	153,895	173,766
Lease liabilities	12	96,115	–
Provisions	16	66,532	–
		363,639	182,616
Net current assets		4,824,858	6,039,073
Total assets less current liabilities		6,918,446	7,115,313

Statement of financial position (continued)

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Non-current liabilities			
Lease liabilities	12	203,558	–
Provisions	16	19,968	45,091
		223,526	45,091
Net assets		6,694,920	7,070,222
Funding and reserves			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	24	3,000,000	3,000,000
Accumulated surplus		3,652,080	4,027,382
		6,694,920	7,070,222

Approved and authorised for issue by the SFC on 28 May 2020 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 108 to 131 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2018	42,840	3,000,000	4,121,924	7,164,764
Loss and total comprehensive income for the year	–	–	(94,542)	(94,542)
Balance at 31 March 2019 and 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the year	–	–	(375,302)	(375,302)
Balance at 31 March 2020	42,840	3,000,000	3,652,080	6,694,920

The notes on pages 108 to 131 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Loss for the year		(375,302)	(94,542)
Adjustments for:			
Depreciation – Fixed assets		44,015	35,798
Depreciation – Right-of-use assets		218,796	–
Finance costs		3,487	–
Interest income on deposits for leases		(16)	–
Investment income		(48,233)	(138,565)
Exchange difference		49,680	218
Loss on disposal of fixed assets		3	–
		(107,570)	(197,091)
Decrease in right-of-use assets		303	–
(Increase)/decrease in debtors, deposits and prepayments		(89,464)	8,003
Increase in fees received in advance		38,247	40
(Decrease)/increase in creditors and accrued charges		(22,135)	76,538
Increase in provisions		–	4,267
Net cash used in operating activities		(180,619)	(108,243)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		1,298,674	19,061
Interest received		161,139	121,268
Debt securities at fair value through profit or loss purchased		(544,263)	(381,883)
Debt securities at fair value through profit or loss sold or redeemed		934,628	366,534
Pooled funds sold		154,595	4,201
Debt securities at amortised cost purchased		(1,642,784)	–
Debt securities at amortised cost redeemed at maturity		573,495	35,324
Fixed assets purchased		(84,895)	(58,710)
Net cash generated from investing activities		850,589	105,795
Cash flows from financing activities			
Principal element of lease payments		(202,734)	–
Interest element of lease payment		(3,487)	–
Net cash used in financing activities		(206,221)	–
Net increase/(decrease) in cash and cash equivalents		463,749	(2,448)
Cash and cash equivalents at the beginning of the year		289,657	292,105
Cash and cash equivalents at the end of the year	13	753,406	289,657

Analysis of the balance of cash and cash equivalents

	2020 \$'000	2019 \$'000
Fixed deposits with banks	701,535	217,749
Cash at bank and in hand	51,871	71,908
	753,406	289,657

The notes on pages 108 to 131 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (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 SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

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

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

3. Significant accounting policies

(a) Statement of compliance

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

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

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(b) Basis of preparation

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

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

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires significant judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

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 those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

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

(d) Recognition of income

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

(i) Levies

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

(ii) Fees and charges

We recognise 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. We record other fees and charges received in advance as a liability.

(iii) Interest income

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

(iv) Net gain/loss on financial assets

Gains and losses from changes in fair value or disposal of financial assets are recognised in profit or loss as they arise.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Leases

We have applied HKFRS 16 *Leases* as issued by the HKICPA and effective for accounting periods beginning on or after 1 April 2019. The impact of the adoption of HKFRS 16 is disclosed in note 3(q).

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as a lessee are classified as operating leases. We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

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

(g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

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

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(g) Fixed assets and depreciation (cont'd)

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

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

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. 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.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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:

Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets (cont'd)

(iii) Measurement (cont'd)

FVPL:

Changes on fair value of investments in debt securities and equity funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/(losses) in the period in which they arise.

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. Unlisted equity investments are comprised of shares in equity funds. The fair value is determined based on the Group's share of the net assets of the equity funds as determined by the custodian.

(iv) Impairment

We assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(i) Related parties

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

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.

- (b) An entity is related to the Group if any of the following conditions applies:

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, 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.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(j) Translation of foreign currencies

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

(k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting for impairment.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

(m) 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 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 of non-financial assets

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

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 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.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(q) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except as described below, these developments have had no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

HKFRS 16, *Leases*

The Group has applied HKFRS 16 from 1 April 2019. The Group applied the simplified transition approach and did not restate comparative amounts. In applying HKFRS 16 for the first time, the Group has adopted the following practical expedients as permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Upon the adoption of HKFRS 16, leases that were previously been classified as "operating leases" under the HKAS 17 *Leases* are now recognised in the consolidated statement of financial position as lease liabilities with a corresponding right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period. The right-of-use assets are measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments or provisions for reinstatement relating to that lease as at 31 March 2019. The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

As at 31 March 2019, the Group has non-cancellable operating lease commitments for properties of \$285,809,000. As a result of initially applying HKFRS 16, the Group recognised right-of-use assets of \$303,807,000 and lease liabilities of \$282,469,000 discounted at 1.55% as at 1 April 2019.

For the year ended 31 March 2019, the Group recognised rent expense for the operating lease of \$200,710,000. Following the adoption of HKFRS 16, the Group recognised depreciation expense for right-of-use assets of \$218,796,000 and interest expense on lease liabilities of \$3,487,000 for the year ended 31 March 2020.

See note 12 for further information.

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 2020 (Expressed in Hong Kong dollars)

5. Investment income

	2020 \$'000	2019 \$'000
Interest income from bank deposits	86,295	80,445
Interest income from financial assets at FVPL – debt securities	15,468	18,438
Interest income from debt securities at amortised cost	42,157	37,628
Net loss on financial assets at FVPL – pooled funds	(112,043)	(4,806)
Net gain on financial assets at FVPL – debt securities	19,940	8,604
Net loss on debt securities at amortised cost	(3,584)	(1,744)
	48,233	138,565

Certain comparative information have been reclassified to conform with the current year's presentation.

6. Other income

	2020 \$'000	2019 \$'000
Investigation costs awarded	163	11,272
Sale of SFC publications	138	277
Others	227	51
	528	11,600

7. Staff costs and directors' emoluments

	2020 \$'000	2019 \$'000
Salaries and allowances	1,289,531	1,223,668
Retirement benefits	85,187	84,736
Medical and life insurance	39,343	38,487
Staff functions	1,924	2,216
Recruitment	1,833	3,912
Registration and membership fees	1,602	1,485
	1,419,420	1,354,504

The total number of staff as at 31 March 2020 was 947 (921 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2019: the total number of staff was 935 comprising 910 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2020 Total \$'000	2019 Total \$'000
Chief Executive Officer						
Ashley Alder, JP	–	7,146	2,382	715	10,243	10,243
Executive Directors						
Julia Leung Fung-yee, SBS	–	5,150	1,545	515	7,210	7,335
Thomas Atkinson	–	4,623	1,110	462	6,195	5,895
Christina Choi Fung-yee	–	4,382	1,139	438	5,959	5,754
Brian Ho Yin-tung	–	4,962	1,241	496	6,699	6,568
Rico Leung Chung-yin (appointed 28 August 2019 ³)	–	2,612	653	261	3,526	–
Keith Lui Kei-kwong (retired 27 August 2019 ²)	–	2,701	504	201	3,406	6,568
	–	31,576	8,574	3,088	43,238	42,363
Non-executive Chairman						
Tim Lui Tim-leung, SBS, JP (appointed 20 October 2018)	1,255	–	–	–	1,255	564
Carlson Tong Ka-shing, GBS, JP (retired 19 October 2018 ⁴)	–	–	–	–	–	558
Non-executive Directors						
Albert Au Siu-cheung, BBS (retired 25 May 2019 ⁵)	48	–	–	–	48	280
Agnes Chan Sui-kuen (appointed 20 October 2018)	314	–	–	–	314	141
Clement Chan Kam-wing, MH (appointed 26 May 2019)	267	–	–	–	267	–
Edward Cheng Wai-sun, GBS, JP	314	–	–	–	314	280
Lester Garson Huang, SBS, JP	314	–	–	–	314	280
Teresa Ko, JP (retired 31 July 2018 ⁴)	–	–	–	–	–	84
Dr James C Lin (appointed 1 August 2018)	314	–	–	–	314	196
Nicky Lo Kar-chun, SBS, JP (appointed 24 April 2019)	294	–	–	–	294	–
Mary Ma Xuezheng (retired 23 April 2019 ⁶)	18	–	–	–	18	280
Dr William Wong Ming-fung, SC, JP	314	–	–	–	314	280
Dr Kelvin Wong Tin-yau, JP (retired 19 October 2018 ⁴)	–	–	–	–	–	140
	3,452	–	–	–	3,452	3,083
Total directors' emoluments	3,452	31,576	8,574	3,088	46,690	45,446

¹ This represents net contribution expenses accrued during the year ended 31 March 2020 in accordance with the accounting policy set out in note 3(f) on page 110. 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 2020 was \$2,365,000 (as at 31 March 2019: \$2,099,000).

² Retired having completed appointment period.

³ Mr Rico Leung's emoluments covered the period from 28 August 2019, when his appointment took effect, to 31 March 2020.

⁴ Retired having completed appointment period of six years.

⁵ Retired having completed appointment period of four years.

⁶ Retired having completed appointment period of five and a half years.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

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

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$36,433,000 (2019: \$36,609,000) with the breakdown as follows:

	2020 \$'000	2019 \$'000
Salaries and allowances	26,244	26,527
Discretionary pay	7,565	7,429
Retirement scheme contributions	2,624	2,653
	36,433	36,609

Their emoluments are within the following bands:

	2020 No. of individuals	2019 No. of individuals
\$5,500,001 to \$6,000,000	0	1
\$6,000,001 to \$6,500,000	2	0
\$6,500,001 to \$7,000,000	1	2
\$7,000,001 to \$7,500,000	1	1
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	0
\$9,500,001 to \$10,000,000	0	0
\$10,000,001 to \$10,500,000	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 2020 (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 which are a percentage 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 (2019: nil).

(ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$4,410,000 (2019: \$3,372,000) and the amount so forfeited available at the end of the reporting period was \$20,000 (2019: \$684,000).

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

	2020 \$'000	2019 \$'000
Learning and development	3,480	7,700
Legal and professional services	99,025	72,047
Information and systems services	78,266	64,854
Auditor's remuneration	946	894
Funding for the Financial Reporting Council	–	8,496
Funding for the International Financial Reporting Standards Foundation	394	393
General office and insurance	9,440	10,302
Investor and other education programme costs to the Investor and Financial Education Council	33,491	38,721
Overseas travelling, regulatory meeting expenses and others	9,991	12,729
Loss on disposal of fixed assets	3	–
	235,036	216,136

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

9. Financial assets at amortised cost – debt securities

The Group and the SFC

		2020 \$'000	2019 \$'000
Maturing after one year in the second to sixth years	– unlisted	–	78,696
	– listed in Hong Kong	631,979	157,269
	– listed outside Hong Kong	968,144	745,537
		1,600,123	981,502
Maturing within one year	– unlisted	77,540	–
	– listed in Hong Kong	170,610	261,173
	– listed outside Hong Kong	736,089	302,704
		984,239	563,877
		2,584,362	1,545,379
Amortised cost at 31 March	– unlisted	77,540	78,696
	– listed in Hong Kong	802,589	418,442
	– listed outside Hong Kong	1,704,233	1,048,241
		2,584,362	1,545,379
Market value at 31 March	– unlisted	77,285	77,975
	– listed in Hong Kong	804,711	416,182
	– listed outside Hong Kong	1,699,709	1,042,376
		2,581,705	1,536,533

The weighted average yield to maturity of the debt securities was 2.4% p.a. as at 31 March 2020 (2019: 2.8% p.a.).

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

10. Financial assets at fair value through profit or loss

The Group and the SFC

	2020 \$'000	2019 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	413,300	597,932
Listed – in Hong Kong	–	49,053
Unlisted	6,169	148,961
	419,469	795,946
(ii) Maturity profile		
Within one year	21,739	259,207
After one year but within two years	58,909	184,416
After two years but within five years	226,748	352,323
After five years	112,073	–
	419,469	795,946
(iii) The weighted average effective interest rate of debt securities on 31 March 2020 was 2.1% p.a. (2019: 2.4% p.a.).		
(b) Pooled funds – unlisted	648,510	925,476
The pooled funds comprise mainly listed equity securities.		

Notes to the consolidated financial statements

For the year ended 31 March 2020 (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 computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2019	127,970	10,998	270,272	144,716	2,735	556,691
Additions	27,212	59	38,588	19,036	–	84,895
Disposal	(16)	(33)	(290)	(4,499)	–	(4,838)
At 31 March 2020	155,166	11,024	308,570	159,253	2,735	636,748
Accumulated depreciation						
At 1 April 2019	118,720	9,731	209,194	121,651	2,560	461,856
Charge for the year	2,892	485	25,602	14,955	81	44,015
Written back on disposals	(16)	(33)	(290)	(4,496)	–	(4,835)
At 31 March 2020	121,596	10,183	234,506	132,110	2,641	501,036
Net book value						
At 31 March 2020	33,570	841	74,064	27,143	94	135,712
Cost						
At 1 April 2018	126,190	10,760	235,112	125,974	2,735	500,771
Additions	1,941	350	35,160	21,259	–	58,710
Disposal	(161)	(112)	–	(2,517)	–	(2,790)
At 31 March 2019	127,970	10,998	270,272	144,716	2,735	556,691
Accumulated depreciation						
At 1 April 2018	113,198	9,291	192,427	111,453	2,479	428,848
Charge for the year	5,683	552	16,767	12,715	81	35,798
Written back on disposals	(161)	(112)	–	(2,517)	–	(2,790)
At 31 March 2019	118,720	9,731	209,194	121,651	2,560	461,856
Net book value						
At 31 March 2019	9,250	1,267	61,078	23,065	175	94,835

Notes to the consolidated financial statements

For the year ended 31 March 2020 (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 computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2019	127,953	10,931	270,272	143,387	2,735	555,278
Additions	27,212	59	38,588	19,036	–	84,895
Disposal	(16)	(33)	(290)	(4,499)	–	(4,838)
At 31 March 2020	155,149	10,957	308,570	157,924	2,735	635,335
Accumulated depreciation						
At 1 April 2019	118,704	9,664	209,194	120,418	2,560	460,540
Charge for the year	2,893	484	25,600	14,914	81	43,972
Written back on disposals	(16)	(33)	(290)	(4,496)	–	(4,835)
At 31 March 2020	121,581	10,115	234,504	130,836	2,641	499,677
Net book value						
At 31 March 2020	33,568	842	74,066	27,088	94	135,658
Cost						
At 1 April 2018	126,174	10,691	235,112	124,729	2,735	499,441
Additions	1,940	349	35,160	21,175	–	58,624
Disposal	(161)	(109)	–	(2,517)	–	(2,787)
At 31 March 2019	127,953	10,931	270,272	143,387	2,735	555,278
Accumulated depreciation						
At 1 April 2018	113,182	9,222	192,427	110,272	2,479	427,582
Charge for the year	5,683	551	16,767	12,663	81	35,745
Written back on disposals	(161)	(109)	–	(2,517)	–	(2,787)
At 31 March 2019	118,704	9,664	209,194	120,418	2,560	460,540
Net book value						
At 31 March 2019	9,249	1,267	61,078	22,969	175	94,738

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

12. Leases

The Group has applied HKFRS 16 from 1 April 2019. Please see Note 3(q) for further information.

As of 31 March 2020, the Group has right-of-use assets and lease liabilities as follows:

The Group and the SFC

	2020 \$'000	At 1 April 2019 \$'000
Right-of-use assets – Premises	324,040	303,807
Lease liabilities		
Current	96,115	198,160
Non-current	203,558	84,309
	299,673	282,469

- (i) The Group has entered a new lease for premises during the year and recognised right-of-use assets of \$239,030,000 and lease liabilities of \$219,938,000.
- (ii) The Group recognised depreciation expense for right-of-use assets for premises of \$218,796,000 and interest expense on lease liabilities of \$3,487,000 for the year ended 31 March 2020. The total cash outflow for leases during the year was \$206,221,000.
- (iii) During the year, the Group entered into new operating leases for premises and equipment with commencement date after the reporting period. Minimum lease payment throughout the lease term is \$837,057,000.

13. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2020 ranged from 1.1% p.a. to 3.0% p.a. (2019: 1.2% p.a. to 3.2% p.a.). These balances matured within one year as at both 31 March 2020 and 31 March 2019.

Reconciliation to cash and cash equivalents:

	2020 \$'000	2019 \$'000
Cash at bank and in hand	51,871	71,908
Fixed deposits with banks	2,832,302	3,653,456
Amounts shown in the consolidated statement of financial position	2,884,173	3,725,364
Less: Amounts with an original maturity beyond three months	(2,130,767)	(3,435,707)
Cash and cash equivalents in the consolidated statement of cash flows	753,406	289,657

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

14. Investments in subsidiaries

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

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

The objective of the IFEC 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 2020, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2019: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

15. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2020 and 2019.

16. Provisions

Provisions represent reinstatement cost to restore the premises to its original condition when the lease expires.

17. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$230,320,000 in receivables (2019: \$194,404,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2020 and 2019.

18. 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.

19. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$142,962,000 (2019: \$30,044,000).

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

20. Operating lease commitment

From 1 April 2019, the Group has recognised right-of-use assets for operating leases (see note 3(q) and note 12).

At 31 March 2019, the minimum amount of rent committed to pay for our offices up to 16 December 2021 are as follows:

The Group and the SFC

	2020 \$'000	2019 \$'000
Payable in next year	–	201,162
Payable in one to five years	–	84,647
	–	285,809

During the year ended 31 March 2019, \$200,710,000 net of lease incentives was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases.

21. 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 related parties relationship disclosed in note 23 in these statements, we have the following significant related party transactions and balances.

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

During the year, \$5,989,000 was recovered from the ICF for the ICC's expenses (2019: \$5,859,000). As at 31 March 2020, the amount due to the ICF from the ICC was \$138,000 (as at 31 March 2019: \$54,000).

(b) Remuneration of key management personnel

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

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

22. Financial risk management and fair values

Financial instruments of the Group mainly comprise 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 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, interest rate risk, liquidity risk, foreign exchange risk and market 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 dated securities rated A or above and bank deposits with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(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 to the investments. 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 2020, 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 \$34,369,000 (2019: \$39,921,000). As at 31 March 2020, the average duration of the Group's investment portfolio was 1.39 years (31 March 2019: 1.32 years). At 31 March 2020, 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 Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$15,806,000 (2019: \$14,430,000).

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 2019.

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

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

(c) Liquidity risk

The Group'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. See note 24 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As of 31 March 2020, the contractual undiscounted cash flows for financial liabilities are as follows:

The Group

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2020</u>						
Creditors and accrued charges	167,043	167,043	167,043	–	–	–
Lease liabilities	299,673	313,591	99,449	30,968	118,695	64,479
	466,716	480,634	266,492	30,968	118,695	64,479
<u>2019</u>						
Creditors and accrued charges	189,855	189,855	189,855	–	–	–

(d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated either in USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2020 and 2019, the exchange loss was mainly driven by the USD revaluation on financial assets.

As at 31 March 2020, the Group had financial assets denominated in USD of \$3,785,308,000 (2019: \$3,858,653,000). The USD/HKD exchange rate was 7.75 (2019: 7.85), it was estimated that a general change of 100 basis points in the USD/HKD exchange rate, with all other variables held constant, would increase the Group's surplus and accumulated surplus by approximately \$37,853,000 (2019: decrease by \$38,586,000).

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

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

(e) Market risk

The investment activities of the Group also 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 risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. 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 ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (21.6%) in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 21.6% (2019: 15.2%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$139,938,000 (2019: \$145,149,000).

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

(f) Fair value measurement

(i) Financial assets measured at fair value

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

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

(f) Fair value measurement (cont'd)

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

The Group

	2020			
	Level 1 \$' 000	Level 2 \$' 000	Level 3 \$' 000	Total \$' 000
Assets				
Debt securities				
– Listed	–	413,300	–	413,300
– Unlisted	–	6,169	–	6,169
Pooled funds				
– Unlisted	648,510	–	–	648,510
	648,510	419,469	–	1,067,979
	2019			
	Level 1 \$' 000	Level 2 \$' 000	Level 3 \$' 000	Total \$' 000
Assets				
Debt securities				
– Listed	3,933	643,051	–	646,984
– Unlisted	–	148,962	–	148,962
Pooled funds				
– Unlisted	925,476	–	–	925,476
	929,409	792,013	–	1,721,422

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which is publicly available in the active market. The majority of the underlying assets of the pooled 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, and no 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 2020 (Expressed in Hong Kong dollars)

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

(f) 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 2020 and 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

The Group

	2020				
	Carrying amount \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets at amortised costs – debt securities	2,584,362	2,581,705	970,893	1,610,812	–

	2019				
	Carrying amount \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets at amortised costs – debt securities	1,545,379	1,536,533	1,536,533	–	–

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

- The fair value of listed 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 2020 (Expressed in Hong Kong dollars)

23. 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 the 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 2020, the ICF's maximum liability in respect of claims received was \$2,204,000 (2019: \$2,121,000) and the net asset value was \$2.4 billion (2019: \$2.4 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 2020, the UECF's maximum liability in respect of claims received was \$10,245,000 (2019: \$10,245,000) and the net asset value was \$82,045,000 (2019: \$79,332,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2020. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2019: nil). The related party relationships with these entities are disclosed in note 21 of these financial statements.

24. 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 18, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2020.

Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

Financial statements

The financial performance of the Fund for the financial year ended 31 March 2020 and the financial position of the Fund as at that date are set out in the financial statements on pages 135 to 145.

Members of the Committee

The members of the Committee during the year ended 31 March 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC, JP	
Mr Kok Ka Keung	(appointed on 1 April 2020)
Mr Tai Chi Kin Calvin	(retired on 31 March 2020)

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

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

By order of the Committee

Rico Leung
Chairman

22 May 2020

Independent auditor's report To the Securities and Futures Commission

Opinion

What 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 135 to 145, which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued) To the Securities and Futures Commission

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 May 2020

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Income			
Net investment income	5	59,928	38,557
Exchange loss		(17,001)	(490)
Recoveries		–	50
Compensation payment given up		–	150
		42,927	38,267
Expenses			
Investor Compensation Company Limited expenses	7	5,989	5,859
Auditor's remuneration		179	172
Bank charges		–	409
Professional fees		–	1,472
		6,168	7,912
Surplus and total comprehensive income for the year		36,759	30,355

The notes on pages 139 to 145 form part of these financial statements.

Statement of financial position

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Current assets			
Interest receivable		7,185	25,425
Due from Investor Compensation Company Limited		138	54
Fixed deposits with banks	8	2,420,558	2,365,483
Cash at bank	8	651	845
		2,428,532	2,391,807
Current liabilities			
Creditors and accrued charges		268	302
		268	302
Net current assets		2,428,264	2,391,505
Net assets		2,428,264	2,391,505
Representing:			
Compensation fund		2,428,264	2,391,505

Approved and authorised for issue by the Securities and Futures Commission on 22 May 2020 and signed on its behalf by

Tim Lui
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 139 to 145 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 9) \$'000	Contributions from Commodity Exchange Compensation Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Surplus and total comprehensive income for the year	–	–	30,355	30,355
Balance at 31 March 2019 and 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the year	–	–	36,759	36,759
Balance at 31 March 2020	994,718	108,923	1,324,623	2,428,264

The notes on pages 139 to 145 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Surplus for the year		36,759	30,355
Adjustments for:			
Net investment income		(59,928)	(38,557)
Exchange loss		17,001	490
		(6,168)	(7,712)
(Increase)/decrease in amount due from Investor Compensation Company Limited		(84)	149
Decrease in creditors and accrued charges		(34)	(1,062)
Net cash used in operating activities		(6,286)	(8,625)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		981,929	(2,333,384)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	2,092,869
Pooled fund sold		–	338,934
Interest received		78,075	52,523
Net cash generated from/(used in) from investing activities		1,060,004	(14,364)
Net increase/(decrease) in cash and cash equivalents		1,053,718	(22,989)
Cash and cash equivalents at beginning of the year		32,944	55,933
Cash and cash equivalents at end of the year	8	1,086,662	32,944

Analysis of the balance of cash and cash equivalents

	2020 \$'000	2019 \$'000
Fixed deposits with banks	1,086,011	32,099
Cash at bank	651	845
	1,086,662	32,944

The notes on pages 139 to 145 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

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 The Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of a Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 6), and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

(a) Statement of compliance

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

Notes to the financial statements

For the year ended 31 March 2020 (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 Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis.

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

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

(c) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the 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 record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

(e) Financial assets

(i) Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Fund. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial assets (cont'd)

(iii) Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies its debt instruments as financial assets measured at amortised cost.

Amortised cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL: A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Fund assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(g) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(e)(iv)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(h) Provisions 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 reflect 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 is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the 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.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(i) 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.

(j) 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.

(k) 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 Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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 2020 (Expressed in Hong Kong dollars)

5. Net investment income

	2020 \$'000	2019 \$'000
Interest income from bank deposits	59,928	34,947
Interest income on financial assets at fair value through profit or loss	–	22,629
Realised loss on disposal of pooled fund	–	(10,350)
Realised loss on redemption/disposal of debt securities	–	(8,669)
Net investment income	59,928	38,557

6. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE 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 2019 which came into effect on 1 January 2020, the Fund is entitled for levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of a Stock Connect

arrangement), futures contracts traded on HKFE and Stock Connect Securities and the trigger levels for levy suspension and re-instatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to 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. The changes in trigger levels do not affect the levy suspension in effect.

7. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2020, the ICC incurred costs of \$5,989,000 for its operations (2019: \$5,859,000) which were reimbursed by the Fund.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

8. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2020 ranged from 0.93% p.a. to 2.86% p.a. (2019: 1.40% p.a. to 3.44% p.a.). The balances of deposits at both 31 March 2020 and 31 March 2019 mature within one year.

Reconciliation to cash and cash equivalents

	2020 \$' 000	2019 \$' 000
Cash at bank	651	845
Fixed deposits with banks	2,420,558	2,365,483
Amounts shown in the statement of financial position	2,421,209	2,366,328
Less: Amounts with an original maturity of beyond three months	(1,334,547)	(2,333,384)
Cash and cash equivalents in the statement of cash flows	1,086,662	32,944

9. 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 2020, the SFC had \$994,718,000 (2019: \$994,718,000) and \$108,923,000 (2019: \$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.

10. Related party transactions

The Fund has related party relationships with the SFC, the 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 2019 and 2020 (refer to notes 7 and 9).

11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed 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 2020, it was 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 \$24,206,000 (2019: \$23,655,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

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.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

11. Financial risk management (cont'd)

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

The Fund's policy allows the Fund to have US dollars (USD) and renminbi foreign exchange exposures. As at 31 March 2020, the Fund had exposure to USD only. As Hong Kong dollars (HKD) are pegged with USD, the Fund was exposed to limited foreign exchange risk at the end of the reporting period. For the years ended 31 March 2020 and 2019, the Fund's exchange loss was mainly driven by the USD revaluation on financial assets.

As at 31 March 2020, the Fund had financial assets denominated in USD of \$1,339,501,000 (2019: \$1,320,894,000). The USD/HKD exchange rate was 7.75 (2019: 7.85), it was estimated that a change of 100 basis points in the USD/HKD exchange rate, with all other variables held constant, would increase the Fund's surplus and accumulated surplus by approximately \$13,395,000 (2019: decrease by \$13,209,000).

12. Provision for compensation and contingent liabilities

The Fund assessed and concluded that there was no provision for compensation as at 31 March 2020 and 2019.

As at the date of this report, there are 15 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,204,000 (2019: \$2,121,000). This is determined based on the lower of the maximum compensation limit per claimant (detailed in note 3(h)) or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2020.

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 2020, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (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 financial performance of the Fund for the financial year ended 31 March 2020 and the financial position of the Fund as at that date are set out in the financial statements on pages 149 to 159.

Members of the Committee

The members of the Committee during the year ended 31 March 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC, JP	
Mr Yiu Ka Yan Wilfred	(appointed on 1 April 2020)
Ms Kwok Hom Siu	(appointed on 1 April 2020)
Mr Tai Chi Kin Calvin	(retired on 31 March 2020)
Ms Mak Po Shuen	(retired on 31 March 2020)

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

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

By order of the Committee

Rico Leung
Chairman

11 May 2020

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 149 to 159, which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. 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. Our opinion is not modified in respect of this matter.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report (continued) To the Securities and Futures Commission

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 May 2020

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Income			
Interest income		1,846	1,534
Recoveries	4	(1)	1,074
		1,845	2,608
Expenses			
Auditor's remuneration		82	79
Bank charges		–	1
		82	80
Surplus and total comprehensive income for the year		1,763	2,528

The notes on pages 153 to 159 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of financial position

As at 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Current assets			
Equity securities received under subrogation	4	–	1
Interest receivable		243	187
Accounts receivable		9	9
Fixed deposits with banks	6	92,879	88,338
Cash at bank	6	470	1,922
		93,601	90,457
Current liabilities			
Creditors and accrued charges	7	10,306	10,325
Relinquished trading rights payable to SEHK	8	1,250	800
		11,556	11,125
Net current assets		82,045	79,332
Net assets		82,045	79,332
Representing:			
Compensation fund		82,045	79,332

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 11 May 2020 and signed on its behalf by

Rico Leung

Chairman

Wilfred Yiu

Committee Member

The notes on pages 153 to 159 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund (note 12) \$'000	Total \$'000
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	1,000	–	–	–	–	–	1,000
Surplus and total comprehensive income for the year	–	–	–	–	2,528	–	2,528
Balance at 31 March 2019 and 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	950	–	–	–	–	–	950
Surplus and total comprehensive income for the year	–	–	–	–	1,763	–	1,763
Balance at 31 March 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045

The notes on pages 153 to 159 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of cash flows

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$' 000	2019 \$' 000
Cash flows from operating activities			
Surplus for the year		1,763	2,528
Adjustments for:			
Interest income		(1,846)	(1,534)
Recoveries		1	–
		(82)	994
(Decrease)/increase in creditors and accrued charges		(19)	22
Increase in relinquished trading rights payable to SEHK		450	50
Net cash generated from operating activities		349	1,066
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(61,350)	–
Interest received		1,790	1,445
Net cash (used in)/generated from investing activities		(59,560)	1,445
Cash flows from financing activities			
Net trading rights deposits from SEHK		950	1,000
Net cash generated from financing activities		950	1,000
Net (decrease)/increase in cash and cash equivalents		(58,261)	3,511
Cash and cash equivalents at beginning of the year		90,260	86,749
Cash and cash equivalents at end of the year	6	31,999	90,260

Analysis of the balance of cash and cash equivalents

	2020 \$' 000	2019 \$' 000
Fixed deposits with banks	31,529	88,338
Cash at bank	470	1,922
	31,999	90,260

The notes on pages 153 to 159 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2020 (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 the 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, it 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 the 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 (2019: 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 detailed in note 4; replenishments from SEHK detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF (note 12) and less contributions from SEHK (trading rights deposits from SEHK detailed in note 8).

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

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

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

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Recognition of income (cont'd)

(iii) Replenishments from 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 of financial assets

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(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 an 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 an outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

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

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Recoveries/Equity securities received under subrogation

For the year ended 31 March 2019, the Fund recognised as recoveries the payment from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd (for the year ended 31 March 2020: nil).

As at 31 March 2020, the equity securities received under subrogation amounted to \$142 (as at 31 March 2019: \$1,191). The balance as at 31 March 2020 is too small to appear on the statement of financial position which is expressed in thousands of dollars.

5. 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.

6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2020 ranged from 1.06% p.a. to 2.33% p.a. (2019: 1.31% p.a. to 2.00% p.a.). The balances of deposits at both 31 March 2020 and 31 March 2019 mature within one year.

Reconciliation to cash and cash equivalents

	2020 \$'000	2019 \$'000
Cash at bank	470	1,922
Fixed deposits with banks	92,879	88,338
Amounts shown in the statement of financial position	93,349	90,260
Less: Amounts with an original maturity of beyond three months	(61,350)	–
Cash and cash equivalents in the statement of cash flows	31,999	90,260

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than 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 HKFRS 9, Financial instruments 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.

8. Trading rights deposits from SEHK/ Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC 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 \$2,000,000 in respect of 40 new trading rights were received from SEHK and deposits of \$600,000 in respect of 12 relinquished trading rights were refunded to SEHK. As at 31 March 2020, 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded (2019: 16 trading rights totalling \$800,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2020 \$'000	2019 \$'000
Balance brought forward	54,500	53,500
Add: new trading rights issued	2,000	1,350
Less: relinquished trading rights refunded	(600)	(300)
Adjustment for: increase in relinquished trading rights payable to SEHK	(450)	(50)
Balance carried forward	55,450	54,500

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. A portion of this balance was contributed to the ICF and note 12 provides more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions 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 from 1998 to 2001. A portion of this balance was contributed to the ICF and note 12 provides more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF and note 12 provides more details on the contributions made to the ICF.

12. 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 from the Fund up to 31 March 2020 amounted to \$994,718,000 (2019: \$994,718,000), no further contributions has been made to the ICF since 1 April 2005.

13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2020 and 2019.

14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed 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 2020, it was 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 \$929,000 (2019: \$883,000). 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.

Notes to the financial statements

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2020, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,816,000 to the Fund as follows:

	2020 \$'000	2019 \$'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 to request replenishment from SEHK in the near future.

Breakdown of SFC activity data

Table 1 Authorised unit trusts and mutual funds – by type

	As at 31.3.2020		As at 31.3.2019	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	465 (24.3%)	497,526 (36.4%)	474 (23.9%)	534,298 (34.2%)
Equity	945 (49.3%)	571,506 (41.8%)	1,005 (50.7%)	721,365 (46.2%)
Mixed ¹	184 (9.6%)	138,382 (10.1%)	181 (9.1%)	165,708 (10.6%)
Money market	43 (2.2%)	21,208 (1.6%)	44 (2.2%)	22,284 (1.4%)
Fund of funds	104 (5.4%)	17,908 (1.3%)	110 (5.5%)	22,581 (1.4%)
Index ²	170 (8.9%)	119,204 (8.7%)	162 (8.2%)	96,164 (6.2%)
Guaranteed	3 (0.2%)	59 (0%)	3 (0.2%)	72 (0%)
Hedge	1 (0.1%)	142 (0%)	0 (0%)	0 (0%)
Other specialised ³	0 (0%)	0 (0%)	5 (0.3%)	748 (0%)
Sub-total	1,915 (100%)	1,365,935 (100%) ⁴	1,984 (100%) ⁴	1,563,220 (100%)
Umbrella structures	220		232	
Total	2,135		2,216	

1 Previously presented as “Diversified”.

2 Including leveraged and inverse products.

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

4 Percentages do not add up to total due to rounding.

Table 2 Authorised unit trusts and mutual funds – by origin

	As at 31.3.2020					As at 31.3.2019	
	Umbrella funds	Sub-funds	Single funds	Total	Total NAV (US\$ million)	Total	Total NAV (US\$ million)
Hong Kong	142	543	77	762 (35.7%)	138,163 (10.1%)	789 (35.6%)	154,831 (9.9%)
Luxembourg	46	985	1	1,032 (48.3%)	884,587 (64.8%)	1,064 (48%)	1,059,476 (67.8%)
Ireland	23	197	2	222 (10.4%)	204,602 (15%)	218 (9.8%)	207,154 (13.3%)
United Kingdom	3	10	24	37 (1.7%)	60,602 (4.4%)	53 (2.4%)	73,987 (4.7%)
Mainland China	2	2	46	50 (2.3%)	18,496 (1.4%)	50 (2.3%)	19,615 (1.3%)
Other Europe	0	0	0	0 (0%)	0 (0%)	3 (0.1%)	140 (0%)
Bermuda	0	0	1	1 (0%)	142 (0%)	1 (0%)	153 (0%)
Cayman Islands	4	17	5	26 (1.2%)	4,705 (0.3%)	30 (1.4%)	7,718 (0.5%)
Others	0	0	5	5 (0.2%)	54,638 (4%)	8 (0.4%)	40,146 (2.6%)
Total	220	1,754	161	2,135 (100%)¹	1,365,935 (100%)	2,216 (100%)	1,563,220 (100%)¹

1 Percentages do not add up to total due to rounding.

Table 3 Takeovers activities

	2019/20	2018/19	2017/18
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under Code on Takeovers and Mergers	41	55	59
Privatisations	15	6	11
Whitewash waiver applications	13	21	41
Other applications under Code on Takeovers and Mergers ¹	281	275	289
Off-market and general offer share buy-backs	7	9	1
Other applications under Code on Share Buy-backs ¹	2	7	0
Total	359	373	401
Executive Statements			
Sanctions imposed with parties' agreement ²	3	2	5
Takeovers and Mergers Panel			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	2
Hearings before the Panel (disciplinary and non-disciplinary)	2	0	1
Statements issued by the Panel ³	2	0	1

1 Including stand-alone applications and those made during the course of a code-related transaction.

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

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

Breakdown of SFC activity data

Table 4 Breaches noted during on-site inspections

	2019/20	2018/19	2017/18
Failure to comply with Securities and Futures (Financial Resources) Rules	9	9	12
Failure to safekeep client securities	31	32	38
Failure to maintain proper books and records	19	13	33
Failure to safekeep client money	42	28	59
Unlicensed dealing and other registration issues	14	17	23
Breach of licensing conditions	3	5	7
Breach of requirements of contract notes/statements of account/receipts	33	31	62
Failure to make filing/notification	5	1	2
Breach of margin requirements	5	8	5
Dealing malpractices	5	3	3
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	273	275	320
Breach of Corporate Finance Adviser Code of Conduct	7	8	8
Breach of Fund Manager Code of Conduct	79	67	93
Breach of regulation of online trading	7	3	4
Non-compliance with anti-money laundering guidelines	331	201	175
Breach of other rules and regulations of the Exchanges ²	11	12	17
Internal control weaknesses ³	451	443	535
Others	164	80	80
Total	1,489	1,236	1,476

1 Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

2 The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

3 Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

Table 5 Successful prosecutions

Defendants	Date of conviction	Fine / Penalty	Investigation costs awarded
Insider dealing			
YIU Ka Lun Ken	5.11.2019	\$165,000 and imprisonment for two months and two weeks	\$147,560
Market manipulation			
TSOI Wan	23.5.2019	\$60,000	–
Provision of false/misleading statements			
CHAN Wai Chuen	11.4.2019	\$60,000	\$15,151

Note: Cases with fines below \$10,000 are not shown in this table.

Table 6 Other public disciplinary actions

Name	Date	Conduct	Action
SHIU Kin Keung Sammy	31.3.2020	Illegal short selling and regulatory breaches regarding cross trades	Banned from re-entering the industry for 28 months
WAT Hin Pong	31.3.2020	Failing to monitor staff dealings and supervise the operation of clients' discretionary accounts	Licence suspended for seven months
CHAN Tan Lo	19.3.2020	Overcharging clients in bond transactions and failing to provide accurate transaction information	Banned from re-entering the industry for 14 months
TSE Christopher	6.2.2020	Trading through his father's account without informing his employer and trading in a stock on the employer's restricted list	Banned from re-entering the industry for 12 months
SHIU Yau Wah	29.1.2020	Conducting trades for a client account on a discretionary basis without written authorisation	Licence suspended for five months
SONG Baojun	6.11.2019	Failing to obtain a client's specific authorisation before conducting unit trust transactions and advise the client to adopt a lower-cost option for other transactions	Banned from re-entering the industry for 12 months
NG Lok Kan, Vincent	2.10.2019	Unauthorised use of a client's account to push up a warrant's price when disposing of his holdings in the warrant	Banned from re-entering the industry for 30 months
CHEUNG Chiu Hung, Jacky	12.9.2019	Unauthorised transactions in a customer's accounts and forging a customer's signature	Banned from re-entering the industry for 24 months
LEE Kwok Tung, Samuel	19.8.2019	Impersonating a client to confirm trade orders	Banned from re-entering the industry for eight months
LAM Wai Kwong, Alfred and WONG Eva	15.7.2019	Failure to diligently supervise account executives and implement effective controls on short selling	Licences suspended for six months
HUI Kwok Piu	15.7.2019	Illegal short selling	Licence suspended for 16 months
SONG Peng	12.7.2019	Effecting transactions in a client's accounts without written authorisation and his employer's knowledge and approval	Banned from re-entering the industry for 10 months
WONG Ka Hang	28.5.2019	Accepting a third party's instructions to trade in a client's account without written authorisation	Banned from re-entering the industry for nine months
WANG Can	16.5.2019	Failure to comply with the firm's staff dealing policy	Banned from re-entering the industry for 30 months and fined \$7,800

Note: See Enforcement on pages 65-72 for details of the most significant disciplinary actions.

Breakdown of SFC activity data

Table 7 Other enforcement actions

	2019/20	2018/19	2017/18
S179 ¹ inquiries commenced	31	26	24
S181 ² inquiries commenced (number of letters sent)	231 (8,767)	294 (9,074)	261 (8,461)
S182 ³ directions issued	187	231	274
Rule 8 directions ⁴ issued	1	4	12
Show cause letters ⁴ issued	0	2	11
Cases with search warrants executed	17	30	22
Compliance advice letters issued	218	234	277
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	1 (2)	1 (5)	4 (7)
Individuals/corporations involved in ongoing civil proceedings	11	11	13
Individuals/corporations involved in ongoing MMT proceedings	7	5	0
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	1 (3)	0 (0)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	18	0	0
Individuals/corporations involved in ongoing MMT proceedings	0	0	3
(c) Others			
Individuals/corporations summonsed (summons laid)	5 (5)	4 (37)	10 (47)
Individuals/corporations involved in ongoing civil proceedings	129	90	84
Individuals/corporations involved in ongoing MMT proceedings	27	25	13
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁵ issued	35	22	29
Notices of Decision ⁶ issued (including S201 ⁷ agreement)	46	34	32
Securities and Futures Appeals Tribunal (SFAT) hearings			
Applications to SFAT	3	4	4
Applications/hearings completed	2	5	3

1 Section 179 of the Securities and Futures Ordinance (SFO) gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

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

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

4 A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

5 A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

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

7 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 8 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2019	As at 31.12.2018	As at 31.12.2017
Securities dealers and securities margin financiers	1,379	1,312	1,222
Active cash clients ²	1,423,007	1,410,319	1,320,332
Active margin clients ²	601,842	463,970	337,599
Active clients	2,024,849	1,874,289	1,657,931
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	505,627	515,715	515,547
Amounts receivable from margin clients ⁴	165,919	180,800	205,977
Amounts receivable from clients and other dealers arising from dealing in securities	186,361	158,495	164,226
Proprietary positions	133,663	89,096	139,502
Other assets	331,341	282,426	312,152
Total assets	1,322,911	1,226,532	1,337,404
Amounts payable to clients and other dealers arising from dealing in securities	580,610	531,638	568,641
Total borrowings from financial institutions	119,934	111,396	170,411
Short positions held for own account	47,175	38,285	62,161
Other liabilities	159,784	148,483	164,033
Total shareholders' funds	415,408	396,730	372,158
Total liabilities and shareholders' funds	1,322,911	1,226,532	1,337,404
	12 months to 31.12.2019 (\$ million)	12 months to 31.12.2018 (\$ million)	12 months to 31.12.2017 (\$ million)
Profit and loss			
Total value of transactions ⁵	85,831,384	89,678,389	73,901,390
Net securities commission income	19,901	24,197	23,079
Gross interest income	23,172	22,471	17,259
Other income ⁶	118,809	114,637	107,079
Total operating income	161,882	161,305	147,417
Total overheads and interest expense	149,920	137,757	123,878
Total operating profit	11,962	23,548	23,539
Net profit on proprietary trading	13,201	14,783	11,667
Net profit for the period	25,163	38,331	35,206

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

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

3 Cash in hand and at bank includes \$288,016 million in trust monies held on behalf of clients (31.12.2018: \$285,686 million).

4 As at 31.12.2019, the average collateral coverage was 3.9 times (as at 31.12.2018: 3.7 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis.

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

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

Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see Corporate Governance on pages 12-33.

SFC Committees

Advisory Committee

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

Chairman	
LUI Tim Leung Tim, SBS, JP	
Members	
ALDER Ashley Ian, JP	LEUNG Chung Yin Rico (from 20.9.2019)
Dr AU King-lun, MH (to 31.5.2019)	LEUNG Fung Yee Julia, SBS (to 31.5.2019)
BENNETT Prudence Ann (to 31.5.2019)	LUI Kei Kwong Keith (from 1.6.2019 to 27.8.2019)
Prof CHAN Ka-lok	PUN Wing-nin Winnie (from 1.6.2019)
CHAN Lap-tak Jeffrey	SHIPMAN Mark Graham (to 31.5.2019)
CHAN Yuk-sing Freeman (from 1.6.2019)	Dr TAN Yue-heng
CHOI Fung Yee Christina (to 31.5.2019)	WINTER Richard David (to 31.5.2019)
CHRISTIANSON Sun Wei (to 31.5.2019)	WONG Wai-man June (from 1.6.2019)
DING Chen	YIEN Yu-yu Catherine (from 1.6.2019)
GRAHAM David	YIM Lok-kui (from 1.6.2019)
HO Yin Tung Brian (from 1.6.2019)	YIN Ke
KUNG Yeung Ann Yun-Chi	
Number of meetings: 2	Average attendance rate: 84%

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 (CPT), advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters, including an application to be a recognised institution for providing CPT and a review of the SFC's CPT regime and competency requirements.

Chairperson	
LEUNG Fung Yee Julia, SBS	
Members	
Dr CHAN Fung Cheung Wilson	LO Wai Shun Wilson
Dr CHAN Wing Ho Alex (from 12.9.2019)	PAN San Kong Terry
Prof CHENG Wui Wing Joseph	PONG Po Lam Paul
CHEUNG Wai Kwok Gary	WONG Wing Fai Joseph
Prof LEUNG Siu Fai	
Secretary	
MAN Hoi Yee Holly (from 2.12.2019)	
Number of meetings: 1	Average attendance rate: 70%

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 policy issues in relation to REITs.

Chairperson	
CHOI Fung Yee Christina	
Members	
CHAN Duen Grace	KWOK Lam Kwong Larry, SBS, JP
Dr CHAN Ho Wah Terence	LAU Chun Kong, JP
CHAN Wing Hing Barry	LAU Ka Shi Betsy, BBS
CHIANG Sui Fook Lilian	NG Yiu Fai (Curtis NG)
HO Edmund	WONG Chi Ming Sally
HO Yin Tung Brian	WU Thomas Jefferson, JP
Prof HUI Chi Man, MH	YEONG Wei Ming Alexandra
Secretary	
LAU Tin Mei	
Number of meetings: 1	Average attendance rate: 93%

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.

Members	
DAWES Victor, SC	LI Gladys Veronica, SC
JAT Sew Tong, SC, JP	SHIEH Wing Tai Paul, SC
LAM Douglas Tak Yip, SC	WONG Man Kit Anson, SC

Fintech Advisory Group

Aims to broaden the SFC's understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met twice to discuss a range of topics, such as cloud computing, big data, blockchain, virtual assets, artificial intelligence and machine learning.

Chairperson	
LEUNG Fung Yee Julia, SBS	
Members	
ARSLANIAN Henri-Kevork	MA Henry
CHENG Andrew	MCCORMACK Urszula
JOHNSTONE Syren	Dr SPIEGL Florian Matthaeus
LEWIS Antony	TAN Jessica
Ex-officio member	
CHIU Ka Lai Clara	
Number of meetings: 2	Average attendance rate: 94%

Committees, panels and tribunal

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman	
LUI Kei Kwong Keith (to 27.8.2019)	LEUNG Chung Yin Rico (from 30.8.2019)
Members	
ATKINSON Thomas Allan TAI Chi Kin (Calvin TAI)	Dr WONG Ming Fung William, SC, JP
Number of meetings: 1	Average attendance rate: 100%

Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund.

Chairman	
Dr WONG Ming Fung William, SC, JP	
Members	
CHAN Lui (Clara CHAN) FUNG Wei Lung Brian (to 7.8.2019) LEE Jor Hung (Dannis LEE) (from 8.8.2019) LEUNG Chung Yin Rico (from 6.9.2019) LO Dak Wai Alexandra, JP LUI Kei Kwong Keith (to 27.8.2019)	MAK Po Shuen (Olivia MAK) MONG Yee Wai (Lavina MONG) MUKADAM Thrity Homi TSO Pui Sze Teresa WAN Chi Yiu Andrew
Number of meetings: 0	Average attendance rate: N/A

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the above-mentioned panel and committees.

Chairman (ex-officio member)	
ALDER Ashley Ian, JP	
Members	
LUI Tim Leung Tim, SBS, JP Ex-officio members CLARK Stephen Edward Alternate members to CLARK Stephen Edward CHAN Yuk Sing Freeman KO Teresa Yuk Yin, JP LIU Chee Ming	Dr WONG Ming Fung William, SC, JP HO Yin Tung Brian MAGUIRE John Martin WEBB David Michael
Number of meetings: 1	Average attendance rate: 100%

Products Advisory Committee

The SFC may consult the Committee 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 met once to discuss a review of the Code on Pooled Retirement Funds and proposed regulations for the offering of listed private equity funds.

Chairperson	
CHOI Fung Yee Christina	
Members	
ABRAT Katherine Anna	LYU Hong (Sandra LU)
AU Chi San Charity (Charity AU) (to 29.4.2019)	Dr MAK Sui Choi Billy
CHAN Duen Grace	Dr MALDONADO-CODINA Guillermo Eduardo (Bill MALDONADO)
CHAN Siu Ping Chordio	MILLS Guy Raymond Adam (from 14.6.2019)
CHIA Su Yen (from 21.2.2020 to 25.3.2020)	NOYES Keith Samuel (to 22.5.2019)
DING Chen	PAN San Kong Terry
FUNG Ka Shing Bernard	PANG Wai Sau Queenie
HUI Mei Ying (Carol HUI)	SHIPMAN Mark Graham
Dr HUNG Tin Yau Victor (to 7.4.2019)	TAM Sau Ngor Vera (from 21.2.2020)
LAU Karen Ga-Yun	TURL Graham Douglas (to 10.9.2019)
LAW Shing Mui Alice	TZATZAKIS Costa (Con TZATZAKIS)
LECKIE Stuart Hamilton, OBE, JP	WONG Man Yee (Fanny WONG)
LEE Chi Kee Trevor	WONG Pui Ling Pauline
LEE Kam Wing Bruno (from 20.9.2019)	YEONG Wei Ming Alexandra
LIU Yun Bonn	
Secretary	
POON Wing Yee Loreen	
Number of meetings: 1	Average attendance rate: 85%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met two times to discuss various policies, including a revised operational model for implementing an uncertificated securities market in Hong Kong.

Chairman	
HO Yin Tung Brian	
Members	
BENNETT Prudence Ann	TYE Philip Andrew
CHIA Chin-Ping (to 16.5.2019)	WANG Fang
HO Chi On John	WEI Zhen (from 13.8.2019)
HUANG Zhi Hong Rawen	WONG Chi Ming Sally
MO Yuen Man Anita (from 28.10.2019)	WONG David Nicholas
PARK Yoo Kyung	WONG Yu Tsang Alex
SCHLABBERS Manuel	WOO Ka Biu Jackson
Number of meetings: 2	Average attendance rate: 66%

Committees, panels and tribunal

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and to deal with other administrative matters.

Chairman	
LUI Kei Kwong Keith (to 27.8.2019)	LEUNG Chung Yin Rico (from 30.8.2019)
Members	
ATKINSON Thomas Allan MAK Po Shuen (Olivia MAK)	TAI Chi Kin (Calvin TAI) Dr WONG Ming Fung William, SC, JP
Number of meetings: 1	Average attendance rate: 100%

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) as the holding company of SEHK and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

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 ATKINSON Thomas Allan CHAN Yuk Sing Freeman CHOI Fung Yee Christina EMSLEY Matthew Calvert LEUNG Chung Yin Rico (from 28.8.2019)	LEUNG Fung Yee Julia, SBS LUI Kei Kwong Keith (to 27.8.2019) PHADNIS Dhananjay Shrikrishna TYE Philip Andrew WONG David Nicholas YOUNG Andrew John
Number of meetings: 0	Average attendance rate: N/A

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
AU Siu Cheung Albert, BBS (to 25.5.2019)	Dr LIN James C
CHAN Kam Wing Clement, MH (from 26.5.2019)	LO Kar Chun Nicky, SBS, JP (from 24.4.2019)
CHAN Sui Kuen Agnes	LUI Tim Leung Tim, SBS, JP
CHENG Wai Sun Edward, GBS, JP	MA Xuezheng Mary (to 23.4.2019)
HUANG Lester Garson, SBS, JP	Dr WONG Ming Fung William, SC, JP
Number of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There was no circumstance which called for a meeting of the Committee during the year.

Chairman	
NORMAN David Michael	
Deputy Chairman	
CHAN Henry	
Members	
CHUI Ming Wai (Vivian CHUI)	LO Dak Wai Alexandra, JP
FOOTMAN Michael Henry Charles	TSAI Wing Chung Philip, BBS, JP
LAM Hui Yip (Clement LAM)	WONG Man Yee (Fanny WONG)
LEE Virginia Yuen Man	
Number of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Each appeal is heard by members of the Share Registrars' Disciplinary Committee who did not preside or participate in the case's disciplinary hearing.

There were no circumstances which called for a meeting of the Committee during the year.

Committees, panels and tribunal

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive¹ at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met twice to discuss non-disciplinary matters.

Chairman	
CLARK Stephen Edward	
Deputy Chairpersons	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
Members	
BIDLAKE Alexandra	SABINE Martin Nevil
BROWN Melissa	SCHWILLE Mark Andrew
CHAN Che Chung (Conrad CHAN)	SHAH Asit Sudhir
CHARLTON Julia Frances	SOUTAR James Alexander
CHENG Wai Sun Edward, GBS, JP	VAS CHAU Lai Kun Judy
FU Yat Hung David (to 14.1.2020)	WINTER Richard David
IP Koon Wing Ernest	WOLHARDT Julian Juul
LAM Chor Lai Celia	WONG Wai Ming
LEE Kam Hung Lawrence, BBS, JP	WONG Yu Tsang Alex
LIU Yun Bonn	WOO Ka Biu Jackson
NORMAN David Michael	YU Ka Po Benita
NORRIS Nicholas Andrew	YUEN Ka Fai (Frank YUEN)
PARK Yoo Kyung	
Number of policy meetings: 0	Average attendance rate: N/A
Number of non-disciplinary hearings: 2	Average attendance rate: N/A²
Number of disciplinary hearings: 0	Average attendance rate: N/A

¹ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

² The Chairman will appoint not less than four panel members to participate in hearings, and the attendance of other members is not required.

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	
BIDLAKE Alexandra	NORRIS Nicholas Andrew
BROWN Melissa	PARK Yoo Kyung
CHAN Che Chung (Conrad CHAN)	SABINE Martin Nevil
CHAN Yuk Sing Freeman	SCHWILLE Mark Andrew
CHARLTON Julia Frances	SHAH Asit Sudhir
CHENG Wai Sun Edward, GBS, JP	SOUTAR James Alexander
CLARK Stephen Edward	VAS CHAU Lai Kun Judy
FU Yat Hung David (to 14.1.2020)	WEBB David Michael
IP Koon Wing Ernest	WINTER Richard David
KO Teresa Yuk Yin, JP	WOLHARDT Julian Juul
LAM Chor Lai Celia	WONG Wai Ming
LEE Kam Hung Lawrence, BBS, JP	WONG Yu Tsang Alex
LIU Chee Ming	Woo Ka Biu Jackson
LIU Yun Bonn	YU Ka Po Benita
MAGUIRE John Martin	YUEN Ka Fai (Frank YUEN)
NORMAN David Michael	
Number of meetings: 0	Average attendance rate: N/A

Independent Panels and Tribunal

Leveraged Foreign Exchange Trading Arbitration Panel

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman	
LAM Yuk Kun Lawrence	
Deputy Chairman	
LEE Pui Shan Rosita	
Members	
CHAN Siu-ping Chordio	LEUNG Tak-lap
CHEUNG Tai Keung Jack	

Committees, panels and tribunal

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, investment products authorisation, exercise of investigation and disciplinary action, and corporate finance transactions (including the administration of listing rules).

Chairman	
LEE Kam-hung Lawrence, BBS, JP	
Members	
CHAN Lap-tak Jeffrey	KWAN Wing-han Margaret
CHAN Lena	KWOK Tun-ho Chester
CHAU Suet-fung Dilys	LAI Hin-wing Henry
CHUA Suk-lin Ivy	Dr MAK Sui-choi Billy
CHUI Yik-chiu Vincent	TSANG Sui-cheong Frederick
DING Chen	YUEN Shuk-kam Nicole
Ex-officio members	
CHEUNG Kam-Wai Christina, JP	LUI Tim Leung Tim, SBS, JP

Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairman	
HARTMANN Michael John, GBS KWOK Hing Wai Kenneth, SBS, SC, JP TALLENTIRE Garry LUNN Michael Victor, GBS	
Members	
CHAN Chun-hung Vincent	MAK Kwong-fai
Prof CHAN Koon-hung	Dr MAK Sui-choi Billy
CHAN Lap-tak Jeffrey	MUH Yi-tong Anthony
CHAN Mei-bo Mabel	NG Joo-yeow Gerry
CHENG Wai-sum Yvonne	SHIH Edith
CHING Kim-wai Kerry	TSANG Chi-wai Roy
DATWANI Mohan	TSANG Kam-yin Wendy
HUI Ming-ming Cindi	WONG Hin-wing Simon
KONG Chi-how Johnson	WONG Kwok-ching Jamee
LAI Hin-wing Henry	YAU Yu-xin Amelia
LAM Chi-yuen Nelson	YUEN Miu-ling Wendy
LEUNG Ming-hym Peter	ZEE Helen
Prof LEUNG Siu-fai	

Glossary and abbreviations

Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter derivatives.

Central counterparty

Facilitates trading in derivatives and equities markets by acting as the buyer to every seller and the seller to every buyer, thereby ensuring the performance of open contracts.

Circuit breaker

A mechanism which temporarily halts trading when triggered by extreme price movements. It may be imposed on individual securities or the market as a whole.

Crypto-assets

Includes cryptocurrencies, funds investing in cryptocurrencies and related products, cryptocurrency futures contracts and structured products.

Exchange participant

A company with rights to trade on or through The Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

Financial Action Task Force (FATF)

An inter-governmental body established to set standards and promote measures to combat money laundering, terrorist financing and related threats to the integrity of the international financial system.

Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

Group of Twenty (G20)

An international forum for the governments and central bank governors from 19 of the world's major economies plus the European Union.

Hong Kong Trade Repository

A centralised registry of records of over-the-counter derivatives transactions.

International Organization of Securities Commissions (IOSCO)

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements which provides both insurance protection and investment options, usually through funds.

Leveraged and inverse products

Products structured as exchange-traded funds for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

Mandatory general offer

A general offer to buy the remaining shares in a company when a person or a group of persons acting together acquires 30% or more of the company's voting rights, or if the person or group already holds between 30% and 50% of the voting rights, when that holding increases by more than 2% in any 12-month period.

Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

Open-ended fund companies (OFC)

Collective investment schemes structured in corporate form with limited liability and variable share capital.

Glossary and abbreviations

Over-the-counter (OTC) derivatives

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

Prime services

One-stop-shop services—including trade execution and clearing, securities borrowing and lending, custody, financing solutions, reporting, capital introduction and consulting services—provided to institutional clients.

Real estate investment trust (REIT)

A collective investment scheme constituted as a trust which invests primarily in real estate with the aim to provide returns derived from rental income.

Securities and Futures Appeals Tribunal (SFAT)

A body established under the Securities and Futures Ordinance to review specified decisions made by the SFC, the Hong Kong Monetary Authority or a recognised investor compensation company.

Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products, the securities and futures market and industry, as well as to their regulation and other matters including investor protection.

Security tokens

Digital representations of ownership of assets (eg, gold or real estate) or economic rights (eg, a share of profits or revenue) utilising blockchain technology.

Undertakings for the Collective Investment in Transferable Securities (UCITS)

A single European regulatory framework which allows funds to be distributed publicly to investors across the European Union (EU). UCITS funds are also distributed outside the EU.

Unit trust

A collective investment scheme constituted in trust form.

Virtual assets

Digital representations of value, such as cryptocurrencies, crypto-assets and digital tokens.

Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders under the Takeovers Code.

**Contact
information**

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Auditor

PricewaterhouseCoopers

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