



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

Financial Review of the Securities Industry

For the year ended 31 December 2019

Executive Summary

The total net profits of all securities dealers and securities margin financiers¹ for 2019 was \$25.2 billion², down 34% from 2018. The decline was mainly attributable to an increase in total overheads and interest expense. Net securities commission income and net profit on proprietary trading also declined.

In 2019, the total value of transactions of all securities dealers and securities margin financiers decreased by 4%. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$87.2 billion³, down 19% from 2018. As of the end of 2019, the Hang Seng Index closed at 28,190, 9% higher than its close at the end of the previous year.

In respect of SEHK participants, brokerages in Categories A, B and C reported total net profits of \$4.6 billion, \$4 billion and \$2.1 billion respectively.

At the end of 2019, outstanding margin loans totalled \$165.9 billion, 8% lower than a year earlier. The 20 largest providers of securities margin financing collectively accounted for 75% of the industry's total outstanding margin loans. Average collateral coverage (as defined in remark 1a in Table 1) was 3.9 times at the end of 2019.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the year ended 31 December 2019.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers		
	31/12/2019	31/12/2018
Total number of securities dealers and securities margin financiers	1,379	1,312
Total number of active cash clients ^{1b}	1,423,007	1,410,319
Total number of active margin clients ^{1b}	601,842	463,970
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	505,627	515,715
Amounts receivable from margin clients	165,919	180,800
Amounts receivable from clients and other dealers arising from dealing in securities	186,361	158,495
Proprietary positions	133,663	89,096
Other assets	331,341	282,426
Total assets	1,322,911	1,226,532

¹ Securities dealers and securities margin financiers refer to corporations licensed for dealing in securities or securities margin financing. Both SEHK participants and non-SEHK participants are included unless otherwise specified.

² Unless otherwise stated, figures provided in this report are denominated in Hong Kong dollars.

³ Source: Hong Kong Exchanges and Clearing Limited.

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

	31/12/2019	31/12/2018
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	580,610	531,638
Total borrowings from financial institutions	119,934	111,396
Short positions held for own account	47,175	38,285
Other liabilities	159,784	148,483
Total shareholders' funds	415,408	396,730
Total liabilities and shareholders' funds	1,322,911	1,226,532
	2019	2018
Profit and loss (\$ million)		
Total value of transactions ^{1d} (-4%)	85,831,384	89,678,389
Net securities commission income	19,901	24,197
Gross interest income	23,172	22,471
Other income ^{1e}	118,809	114,637
Net profit on proprietary trading	13,201	14,783
Total income (-1%)	175,083	176,088
Total overheads and interest expense	(149,920)	(137,757)
Net profit (-34%)	25,163	38,331
Remarks:		
1a. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis:		
	<u>As at 31/12/2019</u>	<u>As at 31/12/2018</u>
	3.9 times	3.7 times
1b. Active clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
1c. Cash in hand and at bank includes \$288,016 million in trust monies held on behalf of clients (31/12/2018: \$285,686 million).		
1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1e. Other income comprises inter-company management fee income, advisory fees, asset management fees, underwriting fees and corporate finance income.		
Source: Monthly Financial Returns submitted to the Securities and Futures Commission (SFC) by licensed corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.		

Table 2 Financial performance of SEHK participants^{2a} by category for the year ended 31 December 2019 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	2019	2018	2019	2018	2019	2018	2019	2018
Total value of transactions ^{2b}	30,424,101	30,470,389	26,371,475	30,564,717	13,769,553	13,524,561	70,565,129	74,559,667
Net securities commission income	3,727	4,793	7,823	8,883	4,614	5,967	16,164	19,643
Gross interest income	3,154	2,380	7,326	7,462	9,085	9,107	19,565	18,949
Other income	10,608	11,964	9,564	9,742	11,956	10,436	32,128	32,142
Net profit/(loss) on proprietary trading	419	495	568	491	419	(346)	1,406	640
Total income	17,908	19,632	25,281	26,578	26,074	25,164	69,263	71,374
Salary and staff benefits	(3,522)	(4,303)	(6,348)	(5,550)	(9,340)	(9,166)	(19,210)	(19,019)
Other overheads and interest expense	(9,749)	(9,689)	(14,921)	(13,133)	(14,625)	(12,011)	(39,295)	(34,833)
Net profit	4,637	5,640	4,012	7,895	2,109	3,987	10,758	17,522

Remarks:

- 2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on SEHK. Category A participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th and the remainder is grouped under Category C.
- 2b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Source: Monthly Financial Returns submitted to the SFC by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules.

Disclaimer: The objective of this paper is to provide summary financial data for interested parties to use in benchmarking, research analysis or other purposes. Observations made here should not be taken as definitive market commentaries.