



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

## **Financial Review of the Securities Industry**

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For the half year ended 30 June 2020

## Executive Summary

In the first half of 2020, the total value of transactions and net securities commission income of all securities dealers and securities margin financiers<sup>1</sup> increased by 41.5% and 29.7%, respectively, compared to the previous six-month period. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$117.5 billion<sup>2</sup>, up 52.5% from the previous six months<sup>3</sup>. The Hang Seng Index closed at 24,427 on 30 June 2020, down 13.3% from its close on 31 December 2019.

The net profits of all securities dealers and securities margin financiers for the period totalled \$16.9 billion, up 91.8% from the previous six-month period, mainly due to an increase in net securities commission income and decreases in overhead and interest expenses.

In respect of SEHK participants, brokers in Categories A, B and C reported net profits of \$1.6 billion, \$4.2 billion and \$0.6 billion respectively. The net profits of all SEHK participants amounted to \$6.4 billion in the first half of 2020, up 418% from the previous six-month period.

At the end of June 2020, outstanding margin loans totalled \$161.8 billion, 2% lower than the end of 2019. The 20 largest providers of securities margin financing collectively accounted for 77% 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 June 2020.

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 first half of 2020.

<b>Table 1 Statistical information and financial position of securities dealers and securities margin financiers</b>		
	<b>30/6/2020</b>	<b>31/12/2019</b>
Total number of securities dealers and securities margin financiers	1,383	1,379
Total number of active cash clients <sup>1b</sup>	1,486,530	1,423,007
Total number of active margin clients <sup>1b</sup>	851,157	601,842
<b>Balance sheet (\$ million)</b>		
Cash in hand and at bank <sup>1c</sup>	582,729	505,627
Amounts receivable from margin clients	161,825	165,919
Amounts receivable from clients and other dealers arising from dealing in securities	271,276	186,361
Proprietary positions	157,646	133,663
Other assets	370,524	331,341
<b>Total assets</b>	<b>1,544,000</b>	<b>1,322,911</b>

<sup>1</sup> 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.

<sup>2</sup> Unless otherwise stated, figures are denominated in Hong Kong dollars.

<sup>3</sup> Source: Hong Kong Exchanges and Clearing Limited.

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

	<b>30/6/2020</b>	<b>31/12/2019</b>
<b>Balance sheet (\$ million) (cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	727,076	580,610
Total borrowings from financial institutions	146,558	119,934
Short positions held for own account	66,472	47,175
Other liabilities	176,805	159,784
Total shareholders' funds	427,089	415,408
<b>Total liabilities and shareholders' funds</b>	<b>1,544,000</b>	<b>1,322,911</b>
	<b>Six months to 30/6/2020</b>	<b>Six months to 31/12/2019</b>
<b>Profit and loss (\$ million)</b>		
Total value of transactions <sup>1d</sup> (+41.5%)	58,222,641	41,145,755
Net securities commission income	12,471	9,618
Gross interest income	10,083	11,904
Other income <sup>1e</sup>	59,870	62,947
Net profit on proprietary trading	9,790	6,507
<b>Total income (+1.4%)</b>	<b>92,214</b>	<b>90,976</b>
Total overhead and interest expenses	(75,357)	(82,186)
<b>Net profit (+91.8%)</b>	<b>16,857</b>	<b>8,790</b>
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 30/6/2020</u>	<u>As at 31/12/2019</u>
	3.9 times	3.9 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 \$337,548 million in trust monies held on behalf of clients (31/12/2019: \$288,016 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 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<sup>2a</sup> by category for the half year ended 30 June 2020 (\$ million)**

	Category A		Category B		Category C		All SEHK participants	
	1H 2020	2H 2019	1H 2020	2H 2019	1H 2020	2H 2019	1H 2020	2H 2019
Total value of transactions <sup>2b</sup>	22,252,457	14,601,460	18,247,113	12,080,608	7,638,079	6,781,947	48,137,649	33,464,015
Net securities commission income	2,627	1,525	5,064	3,943	2,746	2,074	10,437	7,542
Gross interest income	1,381	1,627	3,691	3,901	3,974	4,617	9,046	10,145
Other income	4,859	4,798	5,061	4,608	6,231	6,343	16,151	15,749
Net profit/(loss) on proprietary trading	186	272	434	392	348	100	968	764
<b>Total income</b>	<b>9,053</b>	<b>8,222</b>	<b>14,250</b>	<b>12,844</b>	<b>13,299</b>	<b>13,134</b>	<b>36,602</b>	<b>34,200</b>
Salary and staff benefits	(2,103)	(1,871)	(3,232)	(3,228)	(4,458)	(4,698)	(9,793)	(9,797)
Other overhead and interest expenses	(5,311)	(4,846)	(6,841)	(8,113)	(8,237)	(10,204) <sup>2c</sup>	(20,389)	(23,163) <sup>2c</sup>
<b>Net profit</b>	<b>1,639</b>	<b>1,505</b>	<b>4,177</b>	<b>1,503</b>	<b>604</b>	<b>(1,768)</b>	<b>6,420</b>	<b>1,240</b>

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.
- 2c. 2H 2019 figures were restated to reflect revised figures provided by some licensed corporations.

Source: Monthly Financial Returns submitted to the Securities and Futures Commission 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.