



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

Financial Review of the Securities Industry

For the half year ended 30 June 2017



Executive Summary

In the first half of 2017, the net profits of all securities dealers and securities margin financiers¹ totalled \$14.2 billion², up 10.6% from the previous six-month period. The increase was mainly attributable to decreases in overheads and interest expense.

The total value of transactions of all securities dealers and securities margin financiers increased by 8% in the first half of 2017. Average daily turnover on The Stock Exchange of Hong Kong Limited (SEHK) amounted to \$76 billion³, up 15% from the previous six months. The Hang Seng Index closed at 25,765 on 30 June 2017, up 17% as compared to its close on 31 December 2016.

In respect of SEHK participants, Category A, Category B and Category C brokerages reported net profits of \$1.3 billion, \$3.9 billion and \$2.5 billion respectively.

At the end of June 2017, outstanding margin loans totalled \$176.1 billion, up 3% from the end of 2016. Average collateral coverage (as defined in remark 1f in Table 1) was 3.9 times.

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 2017.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^{1a}		
	30/6/2017	31/12/2016
Total number of securities dealers and securities margin financiers	1,180	1,104
Total number of active cash clients ^{1b}	1,280,833	1,289,563
Total number of active margin clients ^{1b}	300,966	267,132
Balance sheet (\$ million)		
Cash in hand and at bank ^{1c}	453,507	446,465
Amounts receivable from margin clients	176,129	171,633
Amounts receivable from clients and other dealers arising from dealing in securities	222,950	125,471
Proprietary positions	105,978	110,756
Other assets	273,981	224,196
Total assets	1,232,544	1,078,521

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 of information: Hong Kong Exchanges and Clearing Limited.



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

	30/6/2017	31/12/2016
Balance sheet (\$ million) (cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	607,735	481,339
Total borrowings from financial institutions	95,319	86,731
Short positions held for own account	47,011	33,194
Other liabilities	133,456	143,941
Total shareholders' funds	349,023	333,316
Total liabilities and shareholders' funds	1,232,544	1,078,521
	Six months to 30/6/2017	Six months to 31/12/2016
Profit and loss (\$ million)		
Total value of transactions ^{1d}	33,453,091	30,954,875
Net securities commission income	10,229	9,973
Gross interest income	8,012	7,372
Other income ^{1e}	47,332	52,998
Net profit on proprietary trading	4,575	6,352
Total income	70,148	76,695
Total overheads and interest expense	55,991	63,899
Net profit	14,157	12,796
Remarks:		
1a. Excludes figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office.		
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 \$282.5 billion in trust monies held on behalf of clients (31/12/2016: \$248.1 billion).		
1d. Total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
1e. Other income includes inter-company management fee income, asset management fees, advisory fees, underwriting fees and corporate finance income.		
1f. Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:		
	<u>As at 30/6/2017</u>	<u>As at 31/12/2016</u>
	3.9 times	4.0 times
Source: Monthly financial returns submitted to the Securities and Futures Commission by 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 half year ended 30 June 2017 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	1H 2017	2H 2016	1H 2017	2H 2016	1H 2017	2H 2016	1H 2017	2H 2016
Total value of transactions ^{2b}	10,721,655	9,364,391	10,767,460	8,933,376	5,338,717	5,682,104	26,827,832	23,979,872
Net securities commission income	1,823	1,745	3,504	3,329	2,614	2,640	7,942	7,714
Gross interest income	1,139	401	2,748	2,761	3,427	3,555	7,313	6,718
Other income	3,265	2,668	5,512	5,949	4,941	4,624	13,717	13,241
Net profit on proprietary trading	233	203	87	70	246	201	566	475
Total income	6,460	5,018	11,851	12,110	11,228	11,020	29,539	28,147
Total overheads and interest expense	(5,175)	(4,876)	(7,962)	(8,890)	(8,696)	(9,433)	(21,832)	(23,199)
Net profit	1,285	142	3,889	3,219	2,532	1,587	7,707	4,948

Remarks:

2a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on SEHK. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th, and the remainder are 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 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 for use in benchmarking, research analysis or other purposes. Observations made here should not be taken as definitive market commentaries.