



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 2011



Executive Summary

The total net profit of all securities dealers and securities margin financiers¹ for 2011 was \$9.7 billion², down 64% from 2010. The drop in net profit mainly was attributable to decreases in proprietary trading profit, commission and other income.

The Hang Seng Index closed at 18,434 at the end of December 2011, 20% lower than that its close on 31 December 2010. During the period, the average daily turnover on the Stock Exchange of Hong Kong Limited (SEHK) stood at \$69.7 billion³, up 1% from 2010. The total net profit of SEHK participants amounted to \$5.6 billion, of which \$3.9 billion was attributable to Category A brokerages, \$1.6 billion to Category B brokerages and \$0.1 billion to Category C brokerages.

At the end of 2011, the total outstanding margin loan was \$50.2 billion, down 14% from the end of 2010. The decrease was attributable mainly to the 20 largest securities margin financing providers that collectively account for 78% of the industry's total outstanding margin loan. Average collateral coverage at the end of 2011 decreased to 3.9 times from 4.7 times in 2010.

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 2011.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^a		
	31/12/2011	31/12/2010
Total number of securities dealers & securities margin financiers	856	831
Total number of active cash clients ^b	1,042,151	1,036,897 ⁴
Total number of active margin clients ^b	135,201	132,101
Balance sheet (\$ mn)		
Cash in hand and at bank ^c	294,981	292,827
Amounts receivable from margin clients ^d	50,171	58,468
Amounts receivable from clients and other dealers arising from dealing in securities	99,286	138,422
Proprietary positions	114,284	173,873
Other assets	142,096	147,754
Total assets	700,818	811,344

¹ "Securities dealers and securities margin financiers" refers 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 given in the report are denominated in Hong Kong dollars.

³ Source of information: Hong Kong Exchanges and Clearing Ltd's website.

⁴ The discrepancy between the figure in this report and that in the December 2010 report is attributed to revisions by licensed corporations.



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

	31/12/2011	31/12/2010				
Balance sheet (\$ mn) (Cont'd)						
Amounts payable to clients and other dealers arising from dealing in securities	252,342	287,645				
Total borrowings from financial institutions	61,430	71,558				
Short positions held for own account	62,492	107,211				
Other liabilities	96,764	126,899				
Total shareholders' funds	227,790	218,031				
Total liabilities and shareholders' funds (-14%)	700,818	811,344				
	2011	2010				
Profit and loss (\$ mn)						
Total value of transactions ^e	57,159,686	54,372,754				
Net securities commission income	25,953	31,079				
Gross interest income	6,399	5,280				
Other income ^f	77,524	82,365				
Net profit on proprietary trading	3,671	10,606				
Total income (-12%)	113,547	129,330				
Total overheads and interest expense	103,764	102,224				
Net profit for the period (-64%)	9,783	27,106				
Remarks:						
<p>a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.</p> <p>b Active clients are 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.</p> <p>c Cash in hand and at bank includes \$115,368 mn in trust monies held on behalf of clients (31/12/2010: \$119,475 mn).</p> <p>d 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:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>As at 31/12/2011</u></td> <td style="text-align: center;"><u>As at 31/12/2010</u></td> </tr> <tr> <td style="text-align: center;">3.9 times</td> <td style="text-align: center;">4.7 times</td> </tr> </table> <p>e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.</p> <p>f Other income comprises fund management fee income, corporate finance income, inter-company management fee income and others.</p>			<u>As at 31/12/2011</u>	<u>As at 31/12/2010</u>	3.9 times	4.7 times
<u>As at 31/12/2011</u>	<u>As at 31/12/2010</u>					
3.9 times	4.7 times					
<p>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.</p>						



Table 2 Financial performance of each of the categories^a of SEHK participants for the year ended 31 December 2011 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	2011	2010	2011	2010	2011	2010	2011	2010
Total value of transactions ^b	23,532,597	22,172,029	13,348,145	13,119,355	6,171,092	6,229,233	43,051,835	41,520,617
Net securities commission income	8,230	14,145	7,976	8,249	4,017	4,879	20,223	27,273
Gross interest income	707	592	2,267	1,901	2,092	1,606	5,066	4,099
Other income	12,155	11,314	4,036	5,928	4,413	4,192	20,604	21,434
Net profit on proprietary trading	99	37	(26)	633	(163)	708	(90)	1,378
Total income	21,191	26,088	14,253	16,711	10,359	11,385	45,803	54,184
Salary and staff benefits	(6,637)	(5,596)	(5,528)	(6,345)	(4,428)	(3,919)	(16,593)	(15,860)
Other overheads and interest expense	(10,618)	(13,364)	(7,140)	(7,279)	(5,802)	(5,137)	(23,560)	(25,780)
Net profit for the period	3,936	7,128	1,585	3,087	129	2,329	5,650	12,544

Remarks:

a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the exchange. Category A refer to the top 14 SEHK participants by market turnover, Category B refer to those ranked 15th to 65th and the remainder is grouped under Category C.

b. 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: As 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.