

**Press Release**

**LCQ7: Business conditions of small and medium brokers**

Wednesday, June 4, 2014

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 4):

Question:

According to the Financial Review of the Securities Industry for the year ended 2013 (the Review) published by the Securities and Futures Commission (SFC), Category C brokers (i.e. brokers ranked 66th or after by monthly turnover on The Stock Exchange of Hong Kong) recorded a total net profit of \$1.758 billion last year, which was 3.95 times higher than that of 2012. Quite a number of small and medium brokers have questioned the credibility of the aforesaid statistics. In this connection, will the Government inform this Council if it knows:

(1) whether SFC compiled statistics, broken down by the capital background of the brokers, on (i) the number and percentage of Category C brokers recording a profit and (ii) the number and percentage of Category C brokers recording a loss, in each of the past three years; if SFC did, set out the statistics in tables of the same format as the table below;

Year:

Capital background	(i)	(ii)
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Foreign-funded

Mainland-funded

Local Chinese-funded

Others

(2) the types of income included in the item "Other income" in Table 2 of the Review; and

(3) whether SFC will amend the definition of Category C brokers or create a new category in order to reflect more accurately the actual business conditions of small and medium brokers?

Reply:

President,

The "Financial Review of the Securities Industry" report (the Report) is issued by the Securities and Futures Commission (SFC) on a half-yearly basis. It provides information and financial highlights relating to securities dealers and securities margin financiers. The financial data provided in the Report are headline summary data, which are compiled based on the information submitted by the relevant organisations to the SFC pursuant to the Securities and Futures (Financial Resources) Rules.

"Table 2" of the Report sets out the financial performance of three Categories of the Stock Exchange of Hong Kong Limited (SEHK) participants. SEHK participants are classified by the SEHK into Categories A, B and C based on their monthly turnover on the 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 is grouped under Category C. According to this classification system, Category C participants are not only restricted to small and medium-sized brokers.

As regards the further analysis of the data contained in the Report, the information provided by the SFC is as follows:

(1) The breakdown of shareholder background is based on the country of the controlling shareholder reported to the SFC by the brokers. It is broadly classified into overseas, Mainland China and Hong Kong. The information currently available to the SFC does not enable them to classify the background of Hong Kong controlling shareholders of brokers further into local Chinese or other nationalities.

The breakdown of the profit and loss position of Category C brokers (classified by shareholder background) in the past three years is set out in Table 1 to 3 of Annex.

(2) The breakdown of "Other income" of Category C brokers under "Table 2" for the year of 2013 per the report is set out in Table 4 of Annex.

(3) The classification of the brokers constituency into Categories A, B and C has

been adopted by the SEHK in the past two decades. The financial industry is familiar with such classification. The SFC has no intention to create a new category at this stage.

Ends