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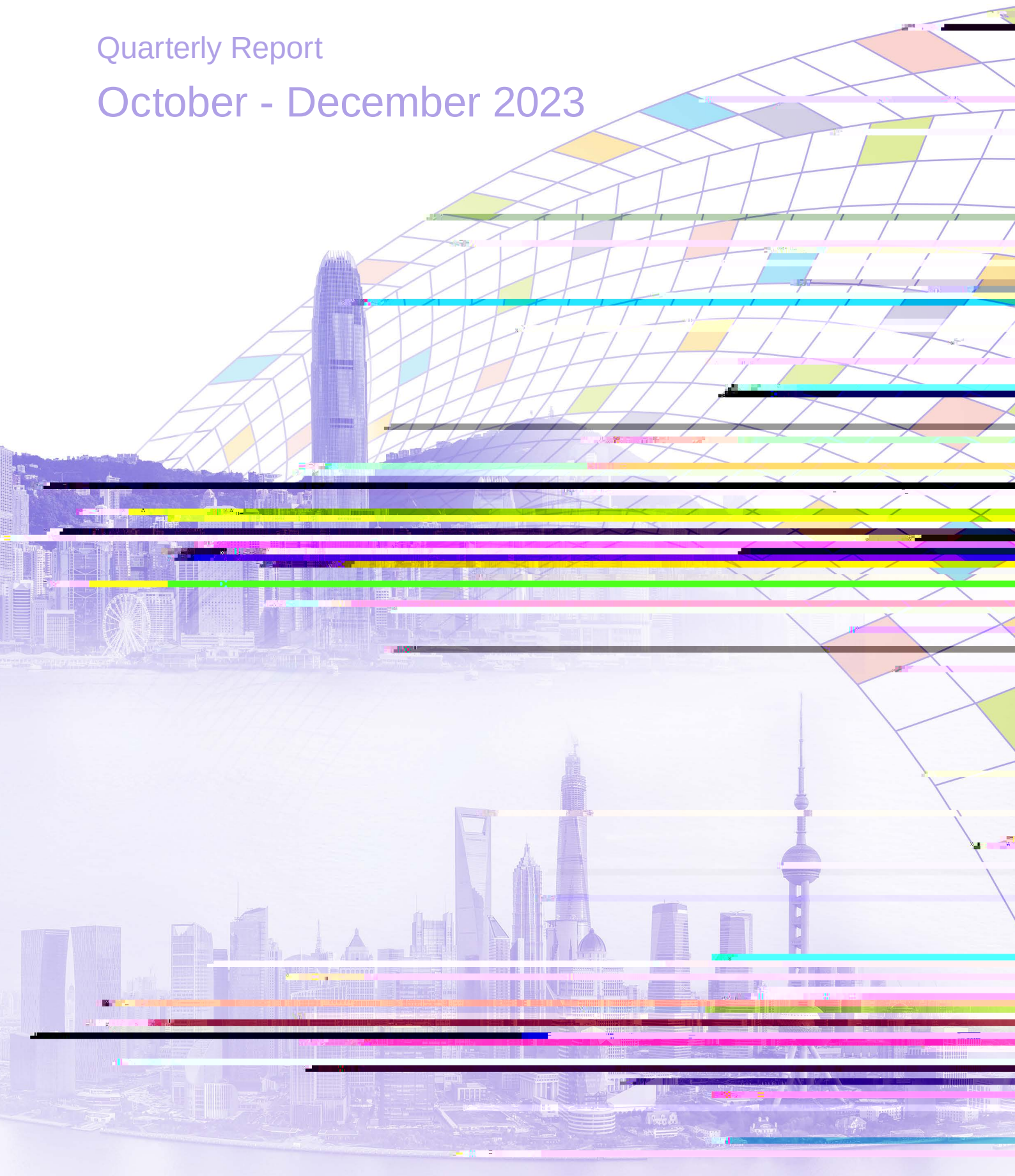
Quarterly Report

# October - December 2023



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This third Quarterly Report of the Securities and Futures Commission for financial year 2023-24 covers the period from 1 October to 31 December 2023.

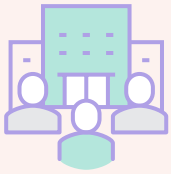
# Highlights



## Intermediaries

### Increase in licensing applications

We received around 7,200 licence applications in 2023[3], up by 16% from 2022, in which those for Type 9 licences increased 9%. In the quarter ended December, we received 1,581 licence applications, up 8% year-on-year. Six virtual asset trading platforms (VATPs) applied for a corporate licence.



up 16%

### Supervision

We inspected 52 licensed corporations on site to review their compliance with regulatory requirements.

## Virtual assets (VA) and tokenisation

### Guidance on VA activities, VA products and tokenisation

We refined our VA regulatory regime by enabling retail investors to access VA dealing and advisory services provided by SFC-regulated intermediaries. We further set out our requirements for intermediaries involved in distributing investment products with exposure to VAs.

We also guided the industry on tokenised securities-related activities and tokenisation of SFC-authorised investment products, to support the industry to experiment with tokenisation with greater certainty. In addition, we provided guidance on authorising investment funds with VA exposure of more than 10% of their net asset value for public offering in Hong Kong, including VA spot exchange-traded funds (ETFs).

## Highlights

## Products

### New integrated fund platform

The SFC has been working closely with Hong Kong Exchanges and Clearing Limited (HKEX) and related parties to set up an integrated fund platform for distributing retail funds. This platform is expected to drive business opportunities, increase participation and promote investor access to Hong Kong's retail fund market.

### World's largest Saudi ETF authorised

We authorised Asia's first and the world's largest ETF investing in Saudi Arabian listed stocks. Tracking the FTSE Saudi Arabia Index, the ETF was listed on SEHK in November 2023 and provides investors with equity market exposure to Saudi Arabia.

### Increase in net fund inflows into Hong Kong-domiciled funds

As at 31 December, assets under management of Hong Kong-domiciled funds increased 4.7% from the previous quarter and 4.9% from a year ago to $1,353.7 billion (US$173 billion). Net fund inflows of about $33.5 billion (US$4.3 billion) were recorded in the quarter, up 179.0% from the previous quarter. In 2023, net fund inflows amounted to $87.1 billion (US$11.1 billion), up 92.9% year-on-year.

### Product authorisations and registrations

During the quarter, we authorised 32 unit trusts and mutual funds (including 15 Hong Kong-domiciled funds) and 66 unlisted structured investment products for public offering in Hong Kong. As at 31 December, 244 open-ended fund companies were registered, up by 118% year-on-year. 57 were newly registered in the quarter.

## Markets

### China treasury bond futures

The SFC announced the upcoming launch of China treasury bond futures contracts in Hong Kong. This important risk management tool can facilitate further participation by offshore institutional investors in the Mainland treasury bond market. We are working closely with HKEX on its launch.

### Stock Connect net buys in 2023

Stock Connect continued to account for an important share of stock market turnover. In 2023, daily turnover was up 8% for northbound (NB) trading and stable for southbound (SB) trading compared to 2022. Their shares of Mainland and Hong Kong stock market turnover both increased. Both NB and

# Intermediaries

## Strengthening risk management for IPO subscription services

In November, we issued a circular to remind licensed corporations to implement robust risk management measures for client credit risk control, funding arrangement, safeguarding of client subscription deposits, and financial assessment when providing initial public offering (IPO) subscription and financing services under Fast Interface for New Issuance.

## Combatting anti-money laundering

In November, we updated the anti-money laundering and counter-financing of terrorism (AML/CFT) self-assessment checklist to reflect the latest AML/CFT guidelines. The checklist provides a structured framework for licensed corporations, SFC-licensed VA service providers and associated entities to assess their compliance with the key requirements.

## Licensees and registrants

## Issuing restriction notices

In September, we issued a restriction notice to China Prospect Securities Limited which had a managerial vacuum, raising our concerns on the continued safeguarding and handling of its client assets.

In November, we issued a restriction notice to Profitech Securities Limited due to its breach of the Securities and Futures (Client Securities) Rules for a protracted period and our grave concern about its financial and operational viability. The restriction notice froze Profitech's house assets and required the broker to immediately rectify the breach and return all client assets in an orderly manner.

# Activity data

## Table 4 Non-Hong Kong-domiciled authorised funds

| a) Number of funds by origin | As at 31.12.2023 | As at 31.3.2023 | Change (%) | As at 31.12.2022 | YoY change (%) |
|---|---|---|---|---|---|
| Luxembourg | 1,070 | 1,063 | 0.7 | 1,063 | 0.7 |
| Ireland | 252 | 250 | 0.8 | 245 | 2.9 |
| United Kingdom | 29 | 29 | 0.0 | 29 | 0.0 |
| Mainland China | 46 | 49 | -6.1 | 49 | -6.1 |
| Bermuda | 1 | 1 | 0.0 | 1 | 0.0 |
| Cayman Islands | 20 | 20 | 0.0 | 21 | -4.8 |
| Others | 5 | 5 | 0.0 | 5 | 0.0 |
| Total | 1,423 | 1,417 | 0.4 | 1,413 | 0.7 |

| b) Assets under management by origin | Total NAV (US$ million) as at 31.12.2023 | Total NAV (US$ million) as at 31.3.2023 | Change (%) | Total NAV (US$ million) as at 31.12.2022 | YoY change (%) |
|---|---|---|---|---|---|
| Luxembourg | 1,134,538 | 1,119,869 | 1.3 | 1,067,718 | 6.3 |
| Ireland | 237,766 | 222,462 | 6.9 | 210,146 | 13.1 |
| United Kingdom | 71,652 | 65,319 | 9.7 | 57,010 | 25.7 |
| Mainland China | 17,729 | 22,786 | -22.2 | 21,841 | -18.8 |
| Bermuda | 105 | 116 | -9.5 | 127 | -17.3 |
| Cayman Islands | 1,191 | 1,446 | -17.6 | 1,447 | -17.7 |
| Others | 62,948 | 63,634 | -1.1 | 58,017 | 8.5 |
| Total [1] | 1,525,928 | 1,495,633 | 2.0 | 1,416,305 | 7.7 |

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

[1] Figures may not add up to total due to rounding.