

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2016.

### Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### Financial statements

The financial performance of the Fund for the reporting period ended 31 December 2016 and the financial position of the Fund as at that date are set out in the financial statements on pages 30 to 35.

### Members of the Committee

The members of the Committee during the nine months ended 31 December 2016 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

**Keith Lui**  
Chairman

17 February 2017

## Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000	Unaudited Three months ended 31 December 2016 \$'000	Unaudited Three months ended 31 December 2015 \$'000
<b>Income</b>				
Net investment income/(loss)	26,092	(18,743)	(28,438)	10,672
Exchange difference	(736)	(571)	(576)	18
Recovery income	1	–	1	–
	25,357	(19,314)	(29,013)	10,690
<b>Expenses</b>				
Investor Compensation Company Limited expenses	2 4,133	4,015	1,353	1,327
Compensation expenses/(write-backs)	3 6	5,636	11	(3,800)
Auditor's remuneration	98	93	33	31
Bank charges	727	709	245	235
Professional fees	2,908	2,850	964	922
	7,872	13,303	2,606	(1,285)
<b>Surplus/(loss) and total comprehensive income for the period</b>	<b>17,485</b>	<b>(32,617)</b>	<b>(31,619)</b>	<b>11,975</b>

The notes on pages 34 to 35 form part of the condensed financial statements.

## Condensed statement of financial position

At 31 December 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2016 \$'000	Audited At 31 March 2016 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
Debt securities		1,910,861	1,866,404
Pooled fund		293,676	282,860
Interest receivable		12,756	13,367
Due from Investor Compensation Company Limited		334	73
Fixed deposits with banks		9,195	7,788
Cash at bank		3,325	43,175
		2,230,147	2,213,667
<b>Current liabilities</b>			
Provision for compensation	3	339	1,412
Creditors and accrued charges		1,444	1,376
		1,783	2,788
<b>Net current assets</b>		2,228,364	2,210,879
<b>Net assets</b>		2,228,364	2,210,879
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,124,723	1,107,238
		2,228,364	2,210,879

The notes on pages 34 to 35 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2015	994,718	108,923	1,111,180	2,214,821
Loss and total comprehensive income for the period	–	–	(32,617)	(32,617)
Balance at 31 December 2015	994,718	108,923	1,078,563	2,182,204
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the period	–	–	17,485	17,485
Balance at 31 December 2016	994,718	108,923	1,124,723	2,228,364

The notes on pages 34 to 35 form part of the condensed financial statements.

## Condensed statement of cash flows

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2016 \$'000	Unaudited Nine months ended 31 December 2015 \$'000
<b>Cash flows from operating activities</b>		
Surplus/(loss) for the period	17,485	(32,617)
Adjustments for:		
Net investment (income)/loss	(26,092)	18,743
Exchange difference	736	571
	(7,871)	(13,303)
Increase in amount due from Investor Compensation Company Limited	(261)	(102)
Decrease in provision for compensation	(1,073)	(25,729)
Increase/(decrease) in creditors and accrued charges	68	(17)
Net cash used in operating activities	(9,137)	(39,151)
<b>Cash flows from investing activities</b>		
Increase in fixed deposits other than cash and cash equivalents	–	(3,035)
Purchase of debt securities	(407,885)	(440,175)
Sale or maturity of debt securities	341,989	397,362
Sale of equity securities	1,081	1,107
Interest received	35,509	36,619
Net cash used in investing activities	(29,306)	(8,122)
<b>Net decrease in cash and cash equivalents</b>	<b>(38,443)</b>	<b>(47,273)</b>
<b>Cash and cash equivalents at beginning of the nine-month period</b>	<b>50,963</b>	<b>54,045</b>
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>12,520</b>	<b>6,772</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2016 \$'000	Unaudited At 31 December 2015 \$'000
Fixed deposits with banks	9,195	4,411
Cash at bank	3,325	2,361
	12,520	6,772

The notes on pages 34 to 35 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2016 to the condensed interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2016.

### 2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the nine months ended 31 December 2016, the ICC incurred \$4,133,000 for its operations (for the nine months ended 31 December 2015: \$4,015,000).

### 3. Provision for compensation

	\$'000
Balance as at 1 April 2015	43,808
Add: compensation expenses during the year ended 31 March 2016	11,142
Less: compensation write-backs during the year ended 31 March 2016	(3,801)
Less: compensation paid during the year ended 31 March 2016	(49,737)
Balance as at 31 March 2016 and 1 April 2016	1,412
Add: compensation expenses during the nine months ended 31 December 2016	300
Less: compensation write-backs during the nine months ended 31 December 2016	(294)
Less: compensation paid during the nine months ended 31 December 2016	(1,079)
Balance as at 31 December 2016	339

As at 31 December 2016, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 December 2016 was \$339,000 (31 March 2016: \$1,412,000). As at 31 December 2016, all provisions were expected to be paid within one year.

## Notes to the condensed financial statements

For the Nine months ended 31 December 2016 (Expressed in Hong Kong dollars)

### 4. Material related party transactions

We have related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the nine months ended 31 December 2015 and 2016.

### 5. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims is \$3,008,000 (31 March 2016: \$2,619,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.