

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 quarter ended 30 June 2017.

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 30 June 2017 and the financial position of the Fund's affairs as at that date are set out in the unaudited condensed financial statements on pages 32 to 37.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2017 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

Interests in contracts

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

On behalf of the Committee

Keith Lui
Chairman

15 August 2017

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income			
Net investment income		30,226	23,729
Exchange difference		7,503	258
		37,729	23,987
Expenses			
Investor Compensation Company Limited expenses	2	1,450	1,390
Compensation expenses	3	–	289
Auditor's remuneration		34	33
Bank charges		236	235
Professional fees		1,059	974
		2,779	2,921
Surplus and total comprehensive income for the quarter		34,950	21,066

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,883,375	1,893,248
Pooled fund		347,718	330,386
Interest receivable		13,946	13,651
Due from Investor Compensation Company Limited		516	75
Fixed deposits with banks		70,298	26,201
Cash at bank		1,405	18,770
		2,317,258	2,282,331
Current liabilities			
Provision for compensation	3	326	476
Creditors and accrued charges		1,576	1,449
		1,902	1,925
Net current assets		2,315,356	2,280,406
Net assets		2,315,356	2,280,406
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,211,715	1,176,765
		2,315,356	2,280,406

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the quarter	–	–	21,066	21,066
Balance at 30 June 2016	994,718	108,923	1,128,304	2,231,945
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the quarter	–	–	34,950	34,950
Balance at 30 June 2017	994,718	108,923	1,211,715	2,315,356

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities		
Surplus for the quarter	34,950	21,066
Adjustments for:		
Net investment income	(30,226)	(23,729)
Exchange difference	(7,503)	(258)
	(2,779)	(2,921)
Increase in amount due from Investor Compensation Company Limited	(441)	(490)
(Decrease)/ increase in provision for compensation	(150)	289
Increase in creditors and accrued charges	127	104
<i>Net cash used in operating activities</i>	(3,243)	(3,018)
Cash flows from investing activities		
Debt securities purchased	(255,998)	(119,283)
Debt securities sold or redeemed	273,651	80,243
Equity securities sold	399	335
Interest received	11,923	12,782
<i>Net cash generated from/(used in) investing activities</i>	29,975	(25,923)
Net increase/(decrease) in cash and cash equivalents	26,732	(28,941)
Cash and cash equivalents at beginning of the quarter	44,971	50,963
Cash and cash equivalents at end of the quarter	71,703	22,022

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	70,298	5,980
Cash at bank	1,405	16,042
	71,703	22,022

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (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 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The 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 2017. 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.

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2017 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 2017 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2017.

2. Investor Compensation Company Limited expenses

The 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. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2017, the ICC incurred \$1,450,000 for its operation (for the quarter ended 30 June 2016: \$1,390,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2016	1,412
Add: compensation expenses during the year ended 31 March 2017	476
Less: compensation write-backs during the year ended 31 March 2017	(294)
Less: compensation paid during the year ended 31 March 2017	(1,118)
Balance as at 31 March 2017 and 1 April 2017	476
Less: compensation paid during the three months ended 30 June 2017	(150)
Balance as at 30 June 2017	326

As at 30 June 2017, 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 30 June 2017 was \$326,000 (31 March 2017: \$476,000). As at 30 June 2017, all provisions were expected to be paid within one year.

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Notes to the condensed financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

4. Material related party transactions

We have related party relationships with the Securities and Futures Commission, 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 quarters ended 30 June 2016 and 2017.

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 \$2,558,000 (31 March 2017: \$2,558,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.