

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 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 31 December 2017 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 30 to 35.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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 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

20 February 2018

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Income					
Net investment income		80,346	26,092	23,249	(28,438)
Exchange difference		9,836	(736)	1,413	(576)
Recovery income		–	1	–	1
		90,182	25,357	24,662	(29,013)
Expenses					
Investor Compensation Company Limited expenses	2	4,314	4,133	1,431	1,353
Compensation expenses	3	–	6	–	11
Auditor's remuneration		132	127	33	33
Bank charges		727	727	248	245
Professional fees		3,097	2,879	1,041	964
		8,270	7,872	2,753	2,606
Surplus/ (loss) and total comprehensive income for the period		81,912	17,485	21,909	(31,619)

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

Investor Compensation Fund

Condensed statement of financial position

At 31 December 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2017 \$'000	Audited At 31 Mar 2017 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,983,317	1,893,248
Pooled fund		351,630	330,386
Interest receivable		14,514	13,651
Due from Investor Compensation Company Limited		172	75
Fixed deposits with banks		11,407	26,201
Cash at bank		2,967	18,770
		2,364,007	2,282,331
Current liabilities			
Provision for compensation	3	300	476
Creditors and accrued charges		1,389	1,449
		1,689	1,925
Net current assets		2,362,318	2,280,406
Net assets		2,362,318	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		1,258,677	1,176,765
		2,362,318	2,280,406

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

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited 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 period	–	–	17,485	17,485
Balance at 31 December 2016	994,718	108,923	1,124,723	2,228,364
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the period	–	–	81,912	81,912
Balance at 31 December 2017	994,718	108,923	1,258,677	2,362,318

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

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2017 (Expressed in Hong Kong dollars)

	Unaudited Nine months ended	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from operating activities		
Surplus for the period	81,912	17,485
Adjustments for:		
Net investment income	(80,346)	(26,092)
Exchange difference	(9,836)	736
	(8,270)	(7,871)
Increase in amount due from Investor Compensation Company Limited	(97)	(261)
Decrease in provision for compensation	(176)	(1,073)
(Decrease)/increase in creditors and accrued charges	(60)	68
<i>Net cash used in operating activities</i>	(8,603)	(9,137)
Cash flows from investing activities		
Purchase of debt securities	(919,710)	(407,885)
Sale or maturity of debt securities	825,678	341,989
Sale of equity securities	36,356	1,081
Interest received	35,682	35,509
<i>Net cash used in investing activities</i>	(21,994)	(29,306)
Net decrease in cash and cash equivalents	(30,597)	(38,443)
Cash and cash equivalents at beginning of the nine-month period	44,971	50,963
Cash and cash equivalents at end of the nine-month period	14,374	12,520

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2017 \$'000	At 31 Dec 2016 \$'000
Fixed deposits with banks	11,407	9,195
Cash at bank	2,967	3,325
	14,374	12,520

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

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 (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 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 (HKFRSs).

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 the condensed interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2017.

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 2017, the ICC incurred \$4,314,000 for its operations (for the nine months ended 31 December 2016: \$4,133,000).

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 nine months ended 31 December 2017	(176)
Balance as at 31 December 2017	300

As at 31 December 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 is set at \$150,000 per claimant. The provision for compensation at 31 December 2017 was \$300,000 (31 March 2017: \$476,000). As at 31 December 2017, all provisions were expected to be paid within one year.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2017 (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 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 \$2,258,000 (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.