

Securities and Futures Commission

Independent auditor's report To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Opinion

What we have audited

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 105 to 131, which comprise:

- the consolidated statement of financial position as at 31 March 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is the valuation of investments.

Valuation of investments

The aggregate carrying value of the Group's investment portfolio was HK\$4,576 million, which represented 51% of consolidated total assets as at 31 March 2021.

The investment portfolio comprise of i) debt securities and pooled funds (equity instruments) with a total value of HK\$1,444 million which is carried at fair value through profit or loss and ii) debt investments with a total value of HK\$3,132 million which were accounted for at amortised cost.

The Group's debt and equity instruments at fair value through profit or loss are categorised under the Level 1 and 2 in the fair value hierarchy and valued based on market prices or valuation models using market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in assessing expected credit losses (ECL) associated with the financial instruments carried at amortised cost.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Key audit matters (continued)

How our audit addressed the Key audit matter

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis. For investments in the pooled funds, we performed a look-through analysis to understand the underlying investments and the basis of valuation for a sample of these investments.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.
- We assessed the appropriateness of the ECL methodologies and assumptions associated with the financial instruments carried at amortised cost. The methodologies and assumptions include economic indicators selected by management, economic scenarios and probability weightings applied by management. We assessed the reasonableness of the economic indicators and performed sensitivity analysis to understand the impact of changes in economic indicators, scenarios and weightings on the ECL result. We examined data inputs to the ECL calculation on a selected sample, including historical data and data at the measurement date, to assess their accuracy and completeness.

Based on the procedures we performed, we found that the valuation of investments are supported by available evidence and the models, key parameters, significant judgements and assumptions adopted by management were considered acceptable. We found that management's estimates and judgements made in determining the ECL for financial instruments carried at amortised cost to be acceptable.

Notes 3(h), 9, 10 and 21(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, detailed breakdown of these investments and the respective fair value hierarchy disclosures.

Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Responsibilities of directors and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 1 June 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Levies	2(a)	2,276,152	1,430,678
Fees and charges	2(b)	181,444	162,847
Net Investment income			
Investment income	5	538,489	48,233
Less: custody and advisory expenses		(10,563)	(7,857)
Recoveries from the Investor Compensation Fund		6,011	5,989
Exchange gain/(loss)		14,458	(49,510)
Other income	6	1,752	528
		3,007,743	1,590,908
Expenses			
Staff costs and directors' emoluments	7	1,485,446	1,419,420
Depreciation			
Fixed assets	11	85,216	44,015
Right-of-use assets	12	230,232	218,796
Other premises expenses		51,592	45,456
Finance costs	12	9,154	3,487
Other expenses	8	166,735	235,036
		2,028,375	1,966,210
Surplus/(loss) and total comprehensive income for the year		979,368	(375,302)

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current assets			
Fixed assets	11	291,496	135,712
Right-of-use assets	12	978,261	324,040
Deposits for leases		37,656	33,767
Financial assets at amortised costs – debt securities	9	3,023,857	1,600,123
		4,331,270	2,093,642
Current assets			
Financial assets at amortised costs – debt securities	9	107,673	984,239
Financial assets at fair value through profit or loss			
Debt securities	10	425,610	419,469
Pooled funds	10	1,018,610	648,510
Debtors, deposits and prepayments	17	336,704	265,200
Fixed deposits with banks	13	2,641,008	2,832,302
Cash at bank and in hand	13	65,287	51,871
		4,594,892	5,201,591
Current liabilities			
Fees received in advance		8,198	47,097
Creditors and accrued charges	15	186,408	167,043
Lease liabilities	12	137,461	96,115
Provisions	16	574	66,532
		332,641	376,787
Net current assets		4,262,251	4,824,804
Total assets less current liabilities		8,593,521	6,918,446

Consolidated statement of financial position (continued)

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current liabilities			
Lease liabilities	12	830,887	203,558
Provisions	16	88,346	19,968
		919,233	223,526
Net assets			
		7,674,288	6,694,920
Funding and reserves			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	23	3,125,000	3,000,000
Accumulated surplus		4,506,448	3,652,080
		7,674,288	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the year	–	–	(375,302)	(375,302)
Balance at 31 March 2020 and 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the year	–	–	979,368	979,368
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
Balance at 31 March 2021	42,840	3,125,000	4,506,448	7,674,288

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus/(loss) for the year		979,368	(375,302)
Adjustments for:			
Depreciation – Fixed assets		85,216	44,015
Depreciation – Right-of-use assets		230,232	218,796
Reversal of reinstatement provision		(21,976)	–
Finance costs		9,154	3,487
Interest income on deposits for leases		(284)	(16)
Investment income		(538,489)	(48,233)
Exchange (gain)/loss		(14,574)	49,680
Loss on disposal of fixed assets		4,889	3
		733,536	(107,570)
(Increase)/decrease in right-of-use assets		(50)	303
Increase in deposits for leases		(5,143)	(33,751)
Increase in debtors, deposits and prepayments		(79,297)	(55,713)
(Decrease)/increase in fees received in advance		(38,899)	38,247
Decrease in creditors and accrued charges		(3,223)	(22,135)
Decrease in provisions for reinstatement		(44,556)	–
Net cash generated from/(used in) operating activities		562,368	(180,619)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		280,413	1,298,674
Interest received		119,761	161,139
Debt securities at fair value through profit or loss purchased		(199,107)	(544,263)
Debt securities at fair value through profit or loss sold or redeemed		192,697	934,628
Pooled funds sold		80,978	154,595
Debt securities at amortised cost purchased		(1,542,688)	(1,642,784)
Debt securities at amortised cost redeemed at maturity		984,463	573,495
Fixed assets purchased		(218,840)	(84,895)
Proceeds from fixed assets disposal		2	–
Net cash (used in)/generated from investing activities		(302,321)	850,589
Cash flows from financing activities			
Principal element of lease payments		(149,200)	(202,734)
Interest element of lease payments		(9,154)	(3,487)
Net cash used in financing activities		(158,354)	(206,221)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		753,406	289,657
Cash and cash equivalents at the end of the year	13	855,099	753,406

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	789,812	701,535
Cash at bank and in hand	65,287	51,871
	855,099	753,406

The notes on pages 110 to 131 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the SFC and its subsidiaries (together, the Group or We) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these new and revised HKFRSs have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(b) Basis of preparation

We have prepared these financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the Group entities.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

(i) Levies

We recognise levies from SEHK and HKFE as income over time on an accrual basis.

(ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income once the service is performed. We record other fees and charges received in advance as a liability.

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

(g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of profit or loss and other comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

FVPL:

Changes on fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/losses in the period in which they arise.

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets (cont'd)

(iv) Impairment

We assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

(j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting policy for impairment.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

(m) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be material, in which case they are stated at cost.

(n) Separate financial statements

We state investment in a subsidiary at cost less any impairment losses in the statement of financial position.

(o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

(p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that the Group will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

5. Investment income

	2021 \$'000	2020 \$'000
Interest income from bank deposits	25,513	86,295
Interest income from financial assets at FVPL – debt securities	7,923	15,468
Interest income from debt securities at amortised cost	58,634	38,573
Net gain/(loss) on financial assets at FVPL – pooled funds	447,985	(112,043)
Net (loss)/gain on financial assets at FVPL – debt securities	(1,566)	19,940
	538,489	48,233

6. Other income

	2021 \$'000	2020 \$'000
Investigation costs awarded	1,349	163
Sale of SFC publications	114	138
Others	289	227
	1,752	528

7. Staff costs and directors' emoluments

	2021 \$'000	2020 \$'000
Salaries and allowances	1,345,042	1,289,531
Retirement benefits	91,299	85,187
Medical and life insurance	44,692	39,343
Staff functions	1,058	1,924
Recruitment	2,379	1,833
Registration and membership fees	976	1,602
	1,485,446	1,419,420

The total number of staff as at 31 March 2021 was 959 (933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2020: the total number of staff was 947 comprising 921 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2021 Total \$'000	2020 Total \$'000
Chief Executive Officer						
Ashley Alder, SBS, JP	-	7,146	2,144	715	10,005	10,243
Executive Directors						
Julia Leung Fung-yee, SBS	-	5,150	1,545	515	7,210	7,210
Thomas Atkinson	-	4,635	1,112	463	6,210	6,195
Christina Choi Fung-yee	-	4,473	1,163	447	6,083	5,959
Brian Ho Yin-tung	-	4,962	1,290	496	6,748	6,699
Rico Leung Chung-yin (appointed 28 August 2019 ²)	-	4,397	1,143	440	5,980	3,526
Keith Lui Kei-kwong (retired 27 August 2019 ³)	-	-	-	-	-	3,406
	-	30,763	8,397	3,076	42,236	43,238
Non-executive Chairman						
Tim Lui Tim-leung, SBS, JP	1,255	-	-	-	1,255	1,255
Non-executive Directors						
Albert Au Siu-cheung, BBS (retired 25 May 2019 ⁴)	-	-	-	-	-	48
Agnes Chan Sui-kuen	314	-	-	-	314	314
Clement Chan Kam-wing, MH, JP (appointed 26 May 2019)	314	-	-	-	314	267
Edward Cheng Wai-sun, GBS, JP	314	-	-	-	314	314
Victor Dawes, SC (appointed 1 August 2020)	209	-	-	-	209	-
Lester Garson Huang, SBS, JP	314	-	-	-	314	314
Dr James C Lin	314	-	-	-	314	314
Nicky Lo Kar-chun, SBS, JP (appointed 24 April 2019)	314	-	-	-	314	294
Mary Ma Xuezheng (retired 23 April 2019 ⁵)	-	-	-	-	-	18
Dr William Wong Ming-fung, SC, JP (retired 31 July 2020 ⁶)	105	-	-	-	105	314
	3,453	-	-	-	3,453	3,452
Total directors' emoluments	3,453	30,763	8,397	3,076	45,689	46,690

¹ This represents net contribution expenses accrued during the year ended 31 March 2021 in accordance with the accounting policy set out in note 3(f) on page 112. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2021 was \$2,521,000 (as at 31 March 2020: \$2,365,000).

² Mr Rico Leung's emoluments in prior year covered the period from 28 August 2019, when his appointment took effect, to 31 March 2020.

³ Retired having completed appointment period.

⁴ Retired having completed appointment period of four years.

⁵ Retired having completed appointment period of five and a half years.

⁶ Retired having completed appointment period of six years.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$36,403,000 (2020: \$36,433,000) with the breakdown as follows:

	2021 \$'000	2020 \$'000
Salaries and allowances	26,387	26,244
Discretionary pay	7,377	7,565
Retirement scheme contributions	2,639	2,624
	36,403	36,433

Their emoluments are within the following bands:

	2021 No. of individuals	2020 No. of individuals
\$6,000,001 to \$6,500,000	2	2
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	1	1
\$10,000,001 to \$10,500,000	1	1

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Employee benefits (cont'd)

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2020: nil).

(ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$3,323,000 (2020: \$4,410,000) and the amount so forfeited available at the end of the reporting period was \$658,000 (2020: \$20,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

8. Other expenses

	2021 \$'000	2020 \$'000
Learning and development	2,426	3,480
Legal and professional services and others	47,805	99,025
Information and systems services	88,050	78,266
Auditor's remuneration	932	946
Funding for the International Financial Reporting Standards Foundation	(394)	394
General office and insurance	9,481	9,440
Investor and other education programme costs to the Investor and Financial Education Council	33,423	33,491
Overseas travelling, regulatory meeting expenses and others	2,099	9,991
Loss on disposal of fixed assets	4,889	3
Reversal of reinstatement provision	(21,976)	–
	166,735	235,036

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

9. Financial assets at amortised cost – debt securities

	2021 \$'000	2020 \$'000
(a) Amortised costs		
Listed – outside Hong Kong	1,653,827	1,704,233
Listed – in Hong Kong	1,360,340	802,589
Unlisted	117,363	77,540
	3,131,530	2,584,362
(b) Fair values		
Listed – outside Hong Kong	1,676,171	1,699,709
Listed – in Hong Kong	1,362,707	804,711
Unlisted	120,556	77,285
	3,159,434	2,581,705
(c) Maturity profile		
Within one year	107,673	984,239
After one year but within two years	185,288	74,491
After two years but within five years	1,677,369	970,343
After five years	1,161,200	555,289
	3,131,530	2,584,362

The weighted average yield to maturity of the debt securities was 1.6% p.a. as at 31 March 2021 (2020: 2.4% p.a.).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

10. Financial assets at fair value through profit or loss

	2021 \$'000	2020 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	287,787	413,300
Listed – in Hong Kong	12,414	–
Unlisted	125,409	6,169
	425,610	419,469
(ii) Maturity profile		
Within one year	34,269	21,739
After one year but within two years	54,087	58,909
After two years but within five years	189,244	226,748
After five years	148,010	112,073
	425,610	419,469

The weighted average effective interest rate of debt securities on 31 March 2021 was 1.7% p.a. (2020: 2.1% p.a.)

	2021 \$'000	2020 \$'000
(b) Pooled funds – unlisted	1,018,610	648,510

The pooled funds comprise mainly listed equity securities.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Fixed assets

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2020	155,166	11,024	308,570	159,253	2,735	636,748
Additions	154,076	19,148	41,551	30,230	886	245,891
Disposals	(123,459)	(7,968)	(139)	(9,098)	–	(140,664)
At 31 March 2021	185,783	22,204	349,982	180,385	3,621	741,975
Accumulated depreciation						
At 1 April 2020	121,596	10,183	234,506	132,110	2,641	501,036
Charge for the year	30,638	2,960	29,375	21,941	302	85,216
Written back on disposals	(118,970)	(7,567)	(139)	(9,097)	–	(135,773)
At 31 March 2021	33,264	5,576	263,742	144,954	2,943	450,479
Net book value						
At 31 March 2021	152,519	16,628	86,240	35,431	678	291,496
Cost						
At 1 April 2019	127,970	10,998	270,272	144,716	2,735	556,691
Additions	27,212	59	38,588	19,036	–	84,895
Disposals	(16)	(33)	(290)	(4,499)	–	(4,838)
At 31 March 2020	155,166	11,024	308,570	159,253	2,735	636,748
Accumulated depreciation						
At 1 April 2019	118,720	9,731	209,194	121,651	2,560	461,856
Charge for the year	2,892	485	25,602	14,955	81	44,015
Written back on disposals	(16)	(33)	(290)	(4,496)	–	(4,835)
At 31 March 2020	121,596	10,183	234,506	132,110	2,641	501,036
Net book value						
At 31 March 2020	33,570	841	74,064	27,143	94	135,712

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

12. Leases

As of 31 March 2021, the Group had right-of-use assets and lease liabilities as follows:

	2021 \$'000	2020 \$'000
Right-of-use assets		
Premises	974,557	324,040
Office equipment	3,704	–
	978,261	324,040
Lease liabilities		
Current	137,461	96,115
Non-current	830,887	203,558
	968,348	299,673

- (i) During the year, the Group entered new leases for premises and office equipment and recognised additional right-of-use assets of \$884,453,000 (2020: \$239,030,000).
- (ii) For the year ended 31 March 2021, the Group recognised depreciation expense for the right-of-use assets for premises of \$229,546,000 (2020: \$218,796,000) and office equipment of \$686,000 (2020: nil). The interest expense on lease liabilities was \$9,154,000 (2020: \$3,487,000). The total cash outflow for leases during the year was \$158,354,000 (2020: \$206,221,000).

13. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2021 ranged from 0.07% p.a. to 0.68% p.a. (2020: 1.1% p.a. to 3.0% p.a.). These balances matured within one year as at both 31 March 2021 and 31 March 2020.

Reconciliation to cash and cash equivalents:

	2021 \$'000	2020 \$'000
Cash at bank and in hand	65,287	51,871
Fixed deposits with banks	2,641,008	2,832,302
Amounts shown in the consolidated statement of financial position	2,706,295	2,884,173
Less: Amounts with an original maturity beyond three months	(1,851,196)	(2,130,767)
Cash and cash equivalents in the consolidated statement of cash flows	855,099	753,406

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

14. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2020: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

15. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2021 and 2020.

16. Provisions

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

17. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$294,199,000 of receivables (2020: \$230,320,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2021 and 2020.

18. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

19. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$84,468,000 (2020: \$142,962,000).

20. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the related parties relationship disclosed in note 22 in these financial statements, we have the following significant related party transactions and balances.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$6,011,000 was recovered from the ICF for the ICC's expenses (2020: \$5,989,000). As at 31 March 2021, the amount due to the ICF from the ICC was \$242,000 (2020: \$138,000).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

20. Related party transactions (cont'd)

(b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

(c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED continued to provide services in respect of matters commenced prior to his appointment. Since the appointment date, fees paid or payable to him for such services amounted to \$1,211,000 during the year and under normal commercial terms and conditions.

21. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in pooled funds. The underlying investments of the pooled funds mainly comprise equity securities.

The main financial risks of the Group arise from its investments in debt securities and units in pooled funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 by Moody's or A-1 or above by S&P. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(b) Interest rate risk

The Group's interest bearing assets mainly comprise debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements.

As at 31 March 2021, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$26,824,000 (2020: \$34,369,000). As at 31 March 2021, the average duration of the Group's investment portfolio was 4.14 years (2020: 1.39 years). It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$16,856,000 (2020: \$15,806,000).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(b) Interest rate risk (cont'd)

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2020.

(c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. See note 23 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As of 31 March 2021, the contractual undiscounted cash flows for financial liabilities were as follows:

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2021</u>						
Creditors and accrued charges	186,408	186,408	186,408	–	–	–
Lease liabilities	968,348	999,284	145,317	121,925	434,212	297,830
	1,154,756	1,185,692	331,725	121,925	434,212	297,830
<u>2020</u>						
Creditors and accrued charges	167,043	167,043	167,043	–	–	–
Lease liabilities	299,673	313,591	99,449	30,968	118,695	64,479
	466,716	480,634	266,492	30,968	118,695	64,479

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2021 and 2020, the exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2021, the Group had financial assets denominated in USD of \$4,887,901,000 (2020: \$3,785,308,000). The USD/HKD exchange rate was 7.7745 (2020: 7.7509). Movement in USD/HKD exchange rate within the upper and lower bounds of the Convertibility Zone, holding all other variables constant, would increase and decrease the Group's surplus and accumulated surplus by approximately \$47,499,000 and \$15,372,000 respectively (2020: increase and decrease by approximately \$48,397,000 and \$440,000 respectively).

(e) Market risk

The Group's investment activities also expose to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and pooled funds. Such risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 21.5% (2020: 21.6%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$214,104,000 (2020: \$139,938,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's investment in pooled funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(f) Fair value measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>2021</u>				
Debt securities				
– Listed	–	300,201	–	300,201
– Unlisted	–	125,409	–	125,409
Pooled funds – unlisted	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220
<u>2020</u>				
Debt securities				
– Listed	–	413,300	–	413,300
– Unlisted	–	6,169	–	6,169
Pooled funds – unlisted	648,510	–	–	648,510
	648,510	419,469	–	1,067,979

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which is publicly available in the active market. The majority of the underlying assets of the pooled funds are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

During the year, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(f) Fair value measurement (cont'd)

(ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2021 and 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2021</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–
<u>2020</u>					
Financial assets at amortised costs					
– debt securities	2,584,362	2,581,705	970,893	1,610,812	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

22. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2) (b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2021, the ICF's maximum liability in respect of claims received was \$4,969,000 (2020: \$2,204,000) and the net asset value was \$2.4 billion (2020: \$2.4 billion).

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2021, the UECF's maximum liability in respect of claims received was \$10,245,000 (2020: \$10,245,000) and the net asset value was \$86,072,000 (2020: \$82,045,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2021. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2020: nil). The related party relationships with these entities are disclosed in note 20 of these financial statements.

23. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 18, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3.125 billion (2020: \$3 billion) from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

24. Statement of financial position of the SFC

	2021 \$'000	2020 \$'000
Non-current assets		
Fixed assets	291,289	135,658
Right-of-use assets	978,183	324,040
Deposits for leases	37,656	33,767
Financial assets at amortised costs – debt securities	3,023,857	1,600,123
	4,330,985	2,093,588
Current assets		
Financial assets at amortised costs – debt securities	107,673	984,239
Financial assets at fair value through profit or loss		
Debt securities	425,610	419,469
Pooled funds	1,018,610	648,510
Debtors, deposits and prepayments	344,809	274,141
Fixed deposits with banks	2,641,008	2,832,302
Cash at bank and in hand	42,179	29,836
	4,579,889	5,188,497
Current liabilities		
Fees received in advance	8,198	47,097
Creditors and accrued charges	171,198	153,895
Lease liabilities	137,443	96,115
Provisions	574	66,532
	317,413	363,639
Net current assets	4,262,476	4,824,858
Total assets less current liabilities	8,593,461	6,918,446
Non-current liabilities		
Lease liabilities	830,827	203,558
Provisions	88,346	19,968
	919,173	223,526
Net assets	7,674,288	6,694,920
Funding and reserves		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	3,125,000	3,000,000
Accumulated surplus	4,506,448	3,652,080
	7,674,288	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2021.

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 financial year ended 31 March 2021 and the financial position of the Fund as at that date are set out in the financial statements on pages 135 to 144.

Members of the Committee

The members of the Committee during the year ended 31 March 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung Kenneth

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 financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

27 May 2021

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 135 to 144, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued) To the Securities and Futures Commission

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 May 2021

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Interest income		21,279	59,928
Exchange gain/(loss)		4,100	(17,001)
		25,379	42,927
Expenses			
Investor Compensation Company Limited expenses	6	6,011	5,989
Auditor's remuneration		186	179
Compensation expenses	8	3,394	–
		9,591	6,168
Surplus and total comprehensive income for the year		15,788	36,759

The notes on pages 139 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Current assets			
Interest receivable		2,174	7,185
Due from Investor Compensation Company Limited		242	138
Fixed deposits with banks	7	2,444,671	2,420,558
Cash at bank	7	633	651
		2,447,720	2,428,532
Current liabilities			
Provision for compensation	8	3,394	–
Creditors and accrued charges		274	268
		3,668	268
Net current assets		2,444,052	2,428,264
Net assets		2,444,052	2,428,264
Representing:			
Compensation fund		2,444,052	2,428,264

Approved and authorised for issue by the Securities and Futures Commission on 27 May 2021 and signed on its behalf by

Tim Lui
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 139 to 144 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 9) \$'000	Contributions from Commodity Exchange Compensation Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the year	–	–	36,759	36,759
Balance at 31 March 2020 and 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the year	–	–	15,788	15,788
Balance at 31 March 2021	994,718	108,923	1,340,411	2,444,052

The notes on pages 139 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus for the year		15,788	36,759
Adjustments for:			
Interest income		(21,279)	(59,928)
Exchange (gain)/loss		(4,100)	17,001
		9,591	(6,168)
Increase in amount due from Investor Compensation Company Limited		(104)	(84)
Increase in provision for compensation		3,394	–
Increase/(decrease) in creditors and accrued charges		6	(34)
Net cash used in operating activities		(6,295)	(6,286)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(459,146)	981,929
Interest received		26,293	78,075
Net cash (used in)/generated from investing activities		(432,853)	1,060,004
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		1,086,662	32,944
Cash and cash equivalents at the end of the year	7	647,514	1,086,662

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	646,881	1,086,011
Cash at bank	633	651
	647,514	1,086,662

The notes on pages 139 to 144 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation – Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on The Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 5), and returns earned on any investment of the Fund.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(a) Statement of compliance (cont'd)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

(e) Impairment of financial assets

The Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(g) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(e)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(h) Provisions for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation – Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Provisions for compensation (cont'd)

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

(i) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(j) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(k) Related parties (cont'd)

(b) An entity is related to the Fund if any of the following conditions applies: (cont'd)

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

5. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and reinstatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion.

Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2019 which came into effect on 1 January 2020, the Fund is entitled to a levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities. In addition, the trigger levels for levy suspension and reinstatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.

6. ICC expenses

The SFC formed the 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 SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2021, the ICC incurred costs of \$6,011,000 for its operations (2020: \$5,989,000) which were reimbursed by the Fund.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2021 ranged from 0.07% p.a. to 1.98% p.a. (2020: 0.93% p.a. to 2.86% p.a.). The balances of deposits at both 31 March 2021 and 31 March 2020 mature within one year.

Reconciliation to cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash at bank	633	651
Fixed deposits with banks	2,444,671	2,420,558
Amounts shown in the statement of financial position	2,445,304	2,421,209
Less: Amounts with an original maturity of beyond three months	(1,797,790)	(1,334,547)
Cash and cash equivalents in the statement of cash flows	647,514	1,086,662

8. Provision for compensation

	\$'000
Balance as at 1 April 2019, 31 March 2020 and 1 April 2020	–
Add: Compensation expenses during the year ended 31 March 2021	3,394
Balance as at 31 March 2021	3,394

As at 31 March 2021, the provision for compensation relates to a number of claims received in respect of a default case (2020: nil). The maximum liability of the Fund to these claims is \$150,000 per claimant. The provision was expected to be paid within one year.

9. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2021, the SFC had \$994,718,000 (2020: \$994,718,000) and \$108,923,000 (2020: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

10. Related party transactions

The Fund has related party relationships with the SFC, the ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2021 and 2020 (refer to notes 6 and 9).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2021, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$24,447,000 (2020: \$24,206,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities are due within one year or payable on demand.

The Fund's policy allows the Fund to have US dollars (USD) and renminbi foreign exchange exposures. As at 31 March 2021, the Fund had exposure to USD only. As Hong Kong dollars (HKD) are pegged with USD, the Fund was exposed to limited foreign exchange risk at the end of the reporting period. For the years ended 31 March 2021 and 2020, the Fund's exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2021, the Fund had financial assets denominated in USD of \$1,353,810,000 (2020: \$1,339,501,000). The USD/HKD exchange rate was 7.7745 (2020: 7.7509). Movement in USD/HKD exchange rate within the upper and lower bounds of the Convertibility Zone, holding all other variables constant, would increase and decrease the Fund's surplus and accumulated surplus by approximately \$13,156,000 and \$4,258,000 respectively (2020: increase and decrease by approximately \$17,126,000 and \$156,000 respectively).

12. Contingent liabilities

In addition to the provision for compensation made as described in note 8, there are 10 outstanding claims as at the date of this report (at 31 March 2020: 15 outstanding claims). The maximum liability in respect of these claims in aggregate is \$1,575,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 3(h)) or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2021.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 March 2021, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the financial year ended 31 March 2021 and the financial position of the Fund as at that date are set out in the financial statements on pages 148 to 158.

Members of the Committee

The members of the Committee during the year ended 31 March 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Mr Thomas Allan Atkinson
Dr Lin, James C. (appointed on 1 August 2020)
Dr William Wong Ming Fung, SC, JP (retired on 31 July 2020)
Mr Yiu Ka Yan Wilfred
Ms Kwok Hom Siu Sally

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 financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

14 May 2021

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 148 to 158, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor’s report (continued) To the Securities and Futures Commission

Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA’s will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA’s, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 May 2021

Unified Exchange Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Interest income		744	1,846
Recoveries	4	4,069	(1)
		4,813	1,845
Expenses			
Auditor's remuneration		86	82
		86	82
Surplus and total comprehensive income for the year		4,727	1,763

The notes on pages 152 to 158 form part of these financial statements.

Statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Current assets			
Interest receivable		27	243
Accounts receivable		–	9
Fixed deposits with banks	6	97,518	92,879
Cash at bank	6	336	470
		97,881	93,601
Current liabilities			
Creditors and accrued charges	7	10,309	10,306
Relinquished trading rights payable to SEHK	8	1,500	1,250
		11,809	11,556
Net current assets		86,072	82,045
Net assets		86,072	82,045
Representing:			
Compensation fund		86,072	82,045

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2021 and signed on its behalf by

Rico Leung
Chairman

Wilfred Yiu
Committee Member

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to the ICF (note 12) \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	950	–	–	–	–	–	950
Surplus and total comprehensive income for the year	–	–	–	–	1,763	–	1,763
Balance at 31 March 2020 and 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(700)	–	–	–	–	–	(700)
Surplus and total comprehensive income for the year	–	–	–	–	4,727	–	4,727
Balance at 31 March 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072

The notes on pages 152 to 158 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus for the year		4,727	1,763
Adjustments for:			
Interest income		(744)	(1,846)
Recoveries		–	1
		3,983	(82)
Decrease in accounts receivable		9	–
Increase/(decrease) in creditors and accrued charges		3	(19)
Increase in relinquished trading rights payable to SEHK		250	450
Net cash generated from operating activities		4,245	349
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		16,401	(61,350)
Interest received		960	1,790
Net cash generated from/(used in) investing activities		17,361	(59,560)
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(700)	950
Net cash (used in)/generated from financing activities		(700)	950
Net increase/(decrease) in cash and cash equivalents			
		20,906	(58,261)
Cash and cash equivalents at the beginning of the year		31,999	90,260
Cash and cash equivalents at the end of the year	6	52,905	31,999

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	52,569	31,529
Cash at bank	336	470
	52,905	31,999

The notes on pages 152 to 158 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31

March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2020: nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries detailed in note 4; replenishments from SEHK detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity, less contributions to the ICF (note 12) and less contributions from SEHK (trading rights deposits from SEHK detailed in note 8).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Recognition of income (cont'd)

(iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

(d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of an outflow of economic benefits is remote. We also disclose possible obligations,

whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of an outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

- (b) An entity is related to the Fund if any of the following conditions applies: (cont'd)
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2021 ranged from 0.08% p.a. to 0.40% p.a. (2020: 1.06% p.a. to 2.33% p.a.). The balances of deposits at both 31 March 2021 and 31 March 2020 mature within one year.

Reconciliation to cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash at bank	336	470
Fixed deposits with banks	97,518	92,879
Amounts shown in the statement of financial position	97,854	93,349
Less: Amounts with an original maturity of beyond three months	(44,949)	(61,350)
Cash and cash equivalents in the statement of cash flows	52,905	31,999

4. Recoveries/Equity securities received under subrogation

The Fund received \$4,069,000 from certain liquidators which was recognised as recoveries for the year ended 31 March 2021 (2020: nil).

As at 31 March 2021, the equity securities received under subrogation amounted to \$150 (as at 31 March 2020: \$142). The balances as at 31 March 2021 and 31 March 2020 are too small to appear on the statement of financial position which is expressed in thousands of dollars.

5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are due on demand or within one year and are unsecured.

8. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right is relinquished. During the year, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 March 2021, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2021 \$'000	2020 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	350	2,000
Less: relinquished trading rights refunded	(800)	(600)
Adjustment for: increase in relinquished trading rights payable to SEHK	(250)	(450)
Balance carried forward	54,750	55,450

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

12. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2021 amounted to \$994,718,000 (2020: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2021 and 2020.

14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2021, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$975,000 (2020: \$929,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2021, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,776,000 to the Fund as follows:

	2021 \$'000	2020 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,986)	(29,946)
Add: recoveries re-distributed to claimants	16,385	16,385
Less: replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,776	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.