

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 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 reporting period ended 30 June 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Mr Thomas Allan Atkinson
Dr Lin, James C.
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 reporting period or at any time during the quarter.

On behalf of the Committee

Rico Leung
Chairman

10 August 2021

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Income			
Interest income		1,674	10,173
Exchange loss		(1,498)	(78)
		176	10,095
Expenses			
Investor Compensation Company Limited expenses	2	1,424	1,559
Auditor's remuneration		55	55
		1,479	1,614
(Deficit)/surplus and total comprehensive income for the quarter		(1,303)	8,481

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		1,591	2,174
Due from Investor Compensation Company Limited		709	242
Fixed deposits with banks		2,443,439	2,444,671
Cash at bank		581	633
		2,446,320	2,447,720
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		177	274
		3,571	3,668
Net current assets		2,442,749	2,444,052
Net assets		2,442,749	2,444,052
Representing:			
Compensation fund		2,442,749	2,444,052

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the quarter	–	–	8,481	8,481
Balance at 30 June 2020	994,718	108,923	1,333,104	2,436,745
Balance at 1 April 2021	994,718	108,923	1,340,411	2,444,052
Deficit and total comprehensive income for the quarter	–	–	(1,303)	(1,303)
Balance at 30 June 2021	994,718	108,923	1,339,108	2,442,749

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Cash flows from operating activities			
(Deficit)/surplus for the quarter		(1,303)	8,481
Adjustments for:			
Interest income		(1,674)	(10,173)
Exchange loss		1,498	78
		(1,479)	(1,614)
Increase in amount due from Investor Compensation Company Limited		(467)	(400)
Decrease in creditors and accrued charges		(97)	(91)
Net cash used in operating activities		(2,043)	(2,105)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		586,930	367,425
Interest received		2,256	11,935
Net cash generated from investing activities		589,186	379,360
Net increase in cash and cash equivalents		587,143	377,255
Cash and cash equivalents at the beginning of the quarter		647,514	1,086,662
Cash and cash equivalents at the end of the quarter	3	1,234,657	1,463,917

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2021 \$'000	At 30 Jun 2020 \$'000
Fixed deposits with banks	1,234,076	1,463,566
Cash at bank	581	351
	1,234,657	1,463,917

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2021.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2021, the ICC incurred costs of \$1,424,000 for its operation (for the quarter ended 30 June 2020: \$1,559,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	581	633
Fixed deposits with banks	2,443,439	2,444,671
Amounts shown in the condensed statement of financial position	2,444,020	2,445,304
Less: Amounts with an original maturity beyond three months	(1,209,363)	(1,797,790)
Cash and cash equivalents in the condensed statement of cash flows	1,234,657	647,514

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Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

4. Provision for compensation

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit to claims is \$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.

The provision of compensation as at 30 June 2021 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2021: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision was expected to be paid within one year.

5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2021 and 2020.

6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there are 12 outstanding claims as at the date of this report (as at 31 March 2021: 10 outstanding claims). The maximum liability in respect of these claims in aggregate is \$1,875,000 (as at 31 March 2021: \$1,575,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.