

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 September 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 37 to 43.

Members of the Committee

The members of the Committee during the six months ended 30 September 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 six months.

On behalf of the Committee

Rico Leung
Chairman

24 November 2021

Investor Compensation Fund

Report on review of interim financial information To the Securities and Futures Commission

Introduction

We have reviewed the interim financial information set out on pages 38 to 43, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2021 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Fund is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 November 2021

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income		
Interest income	1,357	5,306
Exchange gain/(loss)	3,278	(79)
	4,635	5,227
Expenses		
Investor Compensation Company Limited expenses	1,428	1,447
Auditor's remuneration	55	55
	1,483	1,502
Surplus and total comprehensive income for the quarter	3,152	3,725

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income			
Interest income		3,031	15,479
Exchange gain/(loss)		1,780	(157)
		4,811	15,322
Expenses			
Investor Compensation Company Limited expenses	2	2,852	3,006
Auditor's remuneration		110	110
		2,962	3,116
Surplus and total comprehensive income for the period		1,849	12,206

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		616	2,174
Due from Investor Compensation Company Limited		486	242
Fixed deposits with banks		2,447,843	2,444,671
Cash at bank		582	633
		2,449,527	2,447,720
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		232	274
		3,626	3,668
Net current assets		2,445,901	2,444,052
Net assets		2,445,901	2,444,052
Representing:			
Compensation fund		2,445,901	2,444,052

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 period	–	–	12,206	12,206
Balance at 30 September 2020	994,718	108,923	1,336,829	2,440,470
Balance at 1 April 2021	994,718	108,923	1,340,411	2,444,052
Surplus and total comprehensive income for the period	–	–	1,849	1,849
Balance at 30 September 2021	994,718	108,923	1,342,260	2,445,901

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Cash flows from operating activities			
Surplus for the period		1,849	12,206
Adjustments for:			
Interest income		(3,031)	(15,479)
Exchange (gain)/loss		(1,780)	157
		(2,962)	(3,116)
Increase in amount due from Investor Compensation Company Limited		(244)	(317)
Decrease in creditors and accrued charges		(42)	(36)
Net cash used in operating activities		(3,248)	(3,469)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		527,376	641,554
Interest received		4,589	18,404
Net cash generated from investing activities		531,965	659,958
Net increase in cash and cash equivalents		528,717	656,489
Cash and cash equivalents at the beginning of the six-month period		647,514	1,086,662
Cash and cash equivalents at the end of the six-month period	3	1,176,231	1,743,151

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,175,649	1,742,714
Cash at bank	582	437
	1,176,231	1,743,151

The notes on pages 42 and 43 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2021, the ICC incurred costs of \$2,852,000 for its operation (for the six months ended 30 September 2020: \$3,006,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	582	633
Fixed deposits with banks	2,447,843	2,444,671
Amounts shown in the condensed statement of financial position	2,448,425	2,445,304
Less: Amounts with an original maturity beyond three months	(1,272,194)	(1,797,790)
Cash and cash equivalents in the condensed statement of cash flows	1,176,231	647,514

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 September 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 six months ended 30 September 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 (10 outstanding claims as at the date of the report of 31 March 2021). The maximum liability in respect of these claims in aggregate is \$1,875,000 (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.

7. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. As at 30 September 2021 and 31 March 2021, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the six months ended 30 September 2021 and 2020, the Fund's exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.