

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 2022.

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 2022 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 2022 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

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

8 August 2022

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
Income			
Interest income		6,283	1,674
Exchange gain/(loss)		2,718	(1,498)
		9,001	176
Expenses			
Investor Compensation Company Limited expenses	2	1,484	1,424
Auditor's remuneration		55	55
		1,539	1,479
Surplus/(deficit) and total comprehensive income for the quarter		7,462	(1,303)

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 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Current assets			
Interest receivable		5,460	1,689
Due from Investor Compensation Company Limited		387	106
Fixed deposits with banks		2,459,794	2,455,431
Cash at bank		296	1,346
		2,465,937	2,458,572
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		177	274
		3,571	3,668
Net current assets		2,462,366	2,454,904
Net assets		2,462,366	2,454,904
Representing:			
Compensation fund		2,462,366	2,454,904

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 2022 (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 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
Balance at 1 April 2022	994,718	108,923	1,351,263	2,454,904
Surplus and total comprehensive income for the quarter	–	–	7,462	7,462
Balance at 30 June 2022	994,718	108,923	1,358,725	2,462,366

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 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
Cash flows from operating activities			
Surplus/(deficit) for the quarter		7,462	(1,303)
Adjustments for:			
Interest income		(6,283)	(1,674)
Exchange (gain)/loss		(2,718)	1,498
		(1,539)	(1,479)
Increase in amount due from Investor Compensation Company Limited		(281)	(467)
Decrease in creditors and accrued charges		(97)	(97)
Net cash used in operating activities		(1,917)	(2,043)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(152,804)	586,930
Interest received		2,515	2,256
Net cash (used in)/generated from investing activities		(150,289)	589,186
Net (decrease)/increase in cash and cash equivalents		(152,206)	587,143
Cash and cash equivalents at the beginning of the quarter		451,903	647,514
Cash and cash equivalents at the end of the quarter	3	299,697	1,234,657

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2022 \$'000	At 30 Jun 2021 \$'000
Fixed deposits with banks	299,401	1,234,076
Cash at bank	296	581
	299,697	1,234,657

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 2022 (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 2022. 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 2022 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 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2022.

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 2022, the ICC incurred costs of \$1,484,000 for its operation (for the quarter ended 30 June 2021: \$1,424,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	296	1,346
Fixed deposits with banks	2,459,794	2,455,431
Amounts shown in the condensed statement of financial position	2,460,090	2,456,777
Less: Amounts with an original maturity beyond three months	(2,160,393)	(2,004,874)
Cash and cash equivalents in the condensed statement of cash flows	299,697	451,903

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2022 (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 2022 was \$3,394,000, which related to a number of claims received in respect of a default case (as at 31 March 2022: \$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 2022 and 2021.

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 (11 outstanding claims as at the date of the report of 31 March 2022). The maximum liability in respect of these claims in aggregate is \$1,963,000 (31 March 2022: \$1,780,000). 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 June 2022 and 31 March 2022, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the quarters ended 30 June 2022 and 2021, the Fund's exchange gain/(loss) was mainly driven by the revaluation on financial assets denominated in USD.