

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report together with the unaudited condensed financial statements for the nine months ended 31 December 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 period ended 31 December 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 39 to 44.

## Members of the Committee

The members of the Committee during the period 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 reporting period.

On behalf of the Committee

**Rico Leung**

Chairman

23 February 2023

## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000	31 Dec 2022 \$'000	31 Dec 2021 \$'000
<b>Income</b>					
Interest income		40,107	4,544	22,169	1,512
Exchange (loss)/gain		(4,731)	3,812	(7,967)	2,032
Recoveries		-	119	-	119
		35,376	8,475	14,202	3,663
<b>Expenses</b>					
Investor Compensation Company Limited expenses	2	4,437	4,258	1,480	1,406
Auditor's remuneration		148	148	38	38
		4,585	4,406	1,518	1,444
<b>Surplus and total comprehensive income for the period</b>		30,791	4,069	12,684	2,219

The notes on pages 43 and 44 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Current assets</b>			
Interest receivable		28,835	1,689
Due from Investor Compensation Company Limited		325	106
Fixed deposits with banks		2,459,350	2,455,431
Cash at bank		815	1,346
		2,489,325	2,458,572
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		236	274
		3,630	3,668
<b>Net current assets</b>		2,485,695	2,454,904
<b>Net assets</b>		2,485,695	2,454,904
Representing:			
<b>Compensation fund</b>		2,485,695	2,454,904

The notes on pages 43 and 44 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the nine months ended 31 December 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
Surplus and total comprehensive income for the period	–	–	4,069	4,069
Balance at 31 December 2021	994,718	108,923	1,344,480	2,448,121
Balance at 1 April 2022	<b>994,718</b>	<b>108,923</b>	<b>1,351,263</b>	<b>2,454,904</b>
Surplus and total comprehensive income for the period	–	–	<b>30,791</b>	<b>30,791</b>
Balance at 31 December 2022	<b>994,718</b>	<b>108,923</b>	<b>1,382,054</b>	<b>2,485,695</b>

The notes on pages 43 and 44 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		30,791	4,069
Adjustments for:			
Interest income		(40,107)	(4,544)
Exchange loss/(gain)		4,731	(3,812)
		(4,585)	(4,287)
Increase in amount due from Investor Compensation Company Limited		(219)	(34)
Decrease in creditors and accrued charges		(38)	(38)
Net cash used in operating activities		(4,842)	(4,359)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(306,926)	(175,646)
Interest received		12,883	5,485
Net cash used in investing activities		(294,043)	(170,161)
<b>Net decrease in cash and cash equivalents</b>		<b>(298,885)</b>	<b>(174,520)</b>
Cash and cash equivalents at the beginning of the nine-month period		451,903	647,514
<b>Cash and cash equivalents at the end of the nine-month period</b>	3	<b>153,018</b>	472,994

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2022 \$'000	At 31 Dec 2021 \$'000
Fixed deposits with banks	152,203	472,408
Cash at bank	815	586
	<b>153,018</b>	472,994

The notes on pages 43 and 44 form part of these condensed financial statements.

## Investor Compensation Fund

### Notes to the condensed financial statements

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

#### 1. Basis of preparation

We have prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, Interim Financial Reporting issued 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 events and transactions that are significant to an understanding of the changes in the financial position and performance of the Investor Compensation Fund (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 as comparative information does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 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 of 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 nine months ended 31 December 2022, the ICC incurred costs of \$4,437,000 for its operation (for the nine months ended 31 December 2021: \$4,258,000) which were reimbursed by the Fund.

#### 3. Cash and cash equivalents

	Unaudited At 31 Dec 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	815	1,346
Fixed deposits with banks	2,459,350	2,455,431
Amounts shown in the condensed statement of financial position	2,460,165	2,456,777
Less: Amounts with an original maturity beyond three months	(2,307,147)	(2,004,874)
Cash and cash equivalents in the condensed statement of cash flows	153,018	451,903

# Investor Compensation Fund

## Notes to the condensed financial statements

For the nine months ended 31 December 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 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 31 December 2022 was \$3,394,000, which was 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 nine months ended 31 December 2022 and 2021.

### 6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 14 outstanding claims as at 31 December 2022 (12 outstanding claims as at 31 March 2022). The maximum liability in respect of these claims in aggregate was \$2,430,000 (as at 31 March 2022: \$1,875,000). 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. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the nine months ended 31 December 2022 and 2021, the Fund's exchange gain/loss was mainly driven by the revaluation of financial assets denominated in USD.