

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities 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 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 December 2022, 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 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 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 46 to 51.

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.
Mr Yiu Ka Yan Wilfred
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

8 February 2023

Unified Exchange 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)

	Unaudited Nine months ended		Unaudited Three months ended	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Income				
Interest income	1,340	123	832	43
Expenses				
Recoveries re-distributed	22	–	–	–
Auditor's remuneration	70	70	16	16
	92	70	16	16
Surplus and total comprehensive income for the period	1,248	53	816	27

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange 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
Current assets			
Interest receivable		517	34
Fixed deposits with banks		97,203	97,670
Cash at bank		262	180
		97,982	97,884
Current liabilities			
Creditors and accrued charges		10,309	10,309
Relinquished trading rights payable to the SEHK	4	1,600	1,850
		11,909	12,159
Net current assets		86,073	85,725
Net assets		86,073	85,725
Representing:			
Compensation fund		86,073	85,725

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

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

	Unaudited							Total \$'000
	Trading rights deposits from the SEHK (note 4) \$'000	Excess transaction levy from the SEHK \$'000	Additional contributions from the SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000		
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions to the SEHK	(200)	-	-	-	-	-	(200)	
Surplus and total comprehensive income for the period	-	-	-	-	53	-	53	
Balance at 31 December 2021	54,550	353,787	630,000	6,502	35,804	(994,718)	85,925	
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725	
Net contributions to the SEHK	(900)	-	-	-	-	-	(900)	
Surplus and total comprehensive income for the period	-	-	-	-	1,248	-	1,248	
Balance at 31 December 2022	53,400	353,787	630,000	6,502	37,102	(994,718)	86,073	

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange 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
Cash flows from operating activities			
Surplus for the period		1,248	53
Adjustment for:			
Interest income		(1,340)	(123)
		(92)	(70)
Decrease in creditors and accrued charges		–	(16)
(Decrease)/Increase in relinquished trading rights payable to the SEHK		(250)	250
Net cash (used in)/generated from operating activities		(342)	164
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		10,055	15,570
Interest received		857	132
Net cash generated from investing activities		10,912	15,702
Cash flows from financing activities			
Net trading rights deposits refunded to the SEHK		(900)	(200)
Net cash used in financing activities		(900)	(200)
Net increase in cash and cash equivalents		9,670	15,666
Cash and cash equivalents at the beginning of the nine-month period		71,486	52,905
Cash and cash equivalents at the end of the nine-month period	3	81,156	68,571

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2022 \$'000	At 31 Dec 2021 \$'000
Fixed deposits with banks	80,894	68,241
Cash at bank	262	330
	81,156	68,571

The notes on pages 50 and 51 form part of these condensed financial statements.

Unified Exchange 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. As the Unified Exchange Compensation Fund (the Fund) will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, we have prepared the interim financial information 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.

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 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. Equity securities received under subrogation

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 recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

As at 31 December 2022, the equity securities received under subrogation amounted to \$47 (as at 31 March 2022: \$68). The balances as at 31 December 2022 and 31 March 2022 are too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

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

3. Cash and cash equivalents

	Unaudited At 31 Dec 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	262	180
Fixed deposits with banks	97,203	97,670
Amounts shown in the condensed statement of financial position	97,465	97,850
Less: Amounts with an original maturity beyond three months	(16,309)	(26,364)
Cash and cash equivalents in the condensed statement of cash flows	81,156	71,486

4. Trading rights deposits from the SEHK/Relinquished trading rights payable to the SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (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 the SEHK the deposit within six months after the trading right was relinquished. During the nine-month period, deposits of \$250,000 in respect of 5 new trading rights were received from the SEHK and deposits of \$1,400,000 in respect of 28 relinquished trading rights were refunded to the SEHK. As at 31 December 2022, 32 trading rights totalling \$1,600,000 were relinquished but not yet refunded (as at 31 March 2022: 37 trading rights totalling \$1,850,000 were relinquished but not yet refunded).

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

	Unaudited Nine months ended	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Balance at the beginning of the nine-month period	54,300	54,750
Add: new trading rights issued	250	850
Less: relinquished trading rights refunded	(1,400)	(800)
Adjustment for: net decrease/(increase) in relinquished trading rights payable to the SEHK	250	(250)
Balance at the end of the nine-month period	53,400	54,550

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the nine months ended 31 December 2022 and 2021.