

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report together with the unaudited condensed financial statements for the quarter ended 30 June 2023.

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 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 43 to 48.

Members of the Committee

The members of the Committee during the reporting 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

9 August 2023

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
Income			
Interest income		26,535	6,283
Exchange (loss)/gain		(2,409)	2,718
		24,126	9,001
Expenses			
Investor Compensation Company Limited expenses	2	1,520	1,484
Auditor's remuneration		57	55
		1,577	1,539
Surplus and total comprehensive income for the quarter		22,549	7,462

The notes on pages 47 and 48 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		47,465	47,392
Amount due from the Investor Compensation Company Limited		125	–
Fixed deposits with banks	3	2,501,021	2,472,685
Cash at bank	3	646	847
		2,549,257	2,520,924
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		179	274
Amount due to the Investor Compensation Company Limited		–	208
		3,573	3,876
Net current assets		2,545,684	2,517,048
Net assets		2,545,684	2,517,048
Representing:			
Compensation fund		2,545,684	2,517,048

The notes on pages 47 and 48 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Unaudited					
	Contributions from the Unified Exchange Compensation Fund \$'000	Contributions from the Commodity Exchange Compensation Fund \$'000	Contributions from the Securities Dealers' Deposits Fund (note 5) \$'000	Contributions from the Commodities Dealers' Deposits Fund (note 5) \$'000	Accumulated surplus \$'000	Total \$'000
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
Balance at 1 April 2023	994,718	108,923	-	-	1,413,407	2,517,048
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	-	-	5,470	617	-	6,087
Surplus and total comprehensive income for the quarter	-	-	-	-	22,549	22,549
Balance at 30 June 2023	994,718	108,923	5,470	617	1,435,956	2,545,684

The notes on pages 47 and 48 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2023 \$'000	30 Jun 2022 \$'000
Cash flows from operating activities			
Surplus for the quarter		22,549	7,462
Adjustments for:			
Interest income		(26,535)	(6,283)
Exchange loss/(gain)		2,409	(2,718)
		(1,577)	(1,539)
Change in amount due from/to the Investor Compensation Company Limited		(333)	(281)
Decrease in creditors and accrued charges		(95)	(97)
Net cash used in operating activities		(2,005)	(1,917)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(79,869)	(152,804)
Interest received		26,392	2,515
Net cash used in investing activities		(53,477)	(150,289)
Cash flows from financing activities			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
Net cash generated from financing activities		6,087	–
Net decrease in cash and cash equivalents		(49,395)	(152,206)
Cash and cash equivalents at the beginning of the quarter		164,980	451,903
Cash and cash equivalents at the end of the quarter	3	115,585	299,697

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2023 \$'000	At 30 Jun 2022 \$'000
Fixed deposits with banks	114,939	299,401
Cash at bank	646	296
	115,585	299,697

The notes on pages 47 and 48 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2023 (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 2023. 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 2023 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 2023 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2023.

2. ICC 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 quarter ended 30 June 2023, the ICC incurred costs of \$1,520,000 for its operation (for the quarter ended 30 June 2022: \$1,484,000).

3. Cash and cash equivalents

	Unaudited At 30 Jun 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	646	847
Fixed deposits with banks	2,501,021	2,472,685
Amounts shown in the condensed statement of financial position	2,501,667	2,473,532
Less: Amounts with an original maturity beyond three months	(2,386,082)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	115,585	164,980



Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2023 (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 or \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 June 2023 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2023: \$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 is expected to be paid within one year.

5. Contributions from the SDD and the CDD

Under Section 76 (11) of Schedule 10 of the Securities and Futures Ordinance, the SFC shall pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund (SDD) and the Commodities Dealers' Deposits Fund (CDD) after repaying the dealers' deposits and any money due to the registered dealers.

During the quarter ended 30 June 2023, the SFC paid \$5,470,000 and \$617,000 into the Fund from the SDD and the CDD respectively (for the quarter ended 30 June 2022: nil).

6. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the Unified Exchange Compensation Fund, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2023 and 2022.

7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 14 outstanding claims as at 30 June 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,430,000 (as at 31 March 2023: \$2,430,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

8. 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 quarters ended 30 June 2023 and 2022, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.