

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 together with the unaudited condensed financial statements for the six months ended 30 September 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 period ended 30 September 2023 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 46 to 52.

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

24 November 2023

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 47 to 52, 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 2023 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 selected 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 2023



Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the three months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income		
Interest income	30,997	11,655
Exchange (loss)/gain	(846)	518
	30,151	12,173
Expenses		
Investor Compensation Company Limited expenses	1,532	1,473
Auditor's remuneration	57	55
	1,589	1,528
Surplus and total comprehensive income for the quarter	28,562	10,645

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2023 is for information only.

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Income			
Interest income		57,532	17,938
Exchange (loss)/gain		(3,255)	3,236
		54,277	21,174
Expenses			
Investor Compensation Company Limited expenses	2	3,052	2,957
Auditor's remuneration		114	110
		3,166	3,067
Surplus and total comprehensive income for the period		51,111	18,107

The notes on pages 51 and 52 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Current assets			
Interest receivable		41,135	47,392
Amount due from the Investor Compensation Company Limited		101	–
Fixed deposits with banks	3	2,536,051	2,472,685
Cash at bank	3	588	847
		2,577,875	2,520,924
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		235	274
Amount due to the Investor Compensation Company Limited		–	208
		3,629	3,876
Net current assets		2,574,246	2,517,048
Net assets		2,574,246	2,517,048
Representing:			
Compensation fund		2,574,246	2,517,048

The notes on pages 51 and 52 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the six months ended 30 September 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 period	–	–	–	–	18,107	18,107
Balance at 30 September 2022	994,718	108,923	–	–	1,369,370	2,473,011
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 period	–	–	–	–	51,111	51,111
Balance at 30 September 2023	994,718	108,923	5,470	617	1,464,518	2,574,246

The notes on pages 51 and 52 form part of these condensed financial statements.



Investor Compensation Fund

Condensed statement of cash flows

For the six months ended 30 September 2023 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2023 \$'000	30 Sep 2022 \$'000
Cash flows from operating activities			
Surplus for the period		51,111	18,107
Adjustments for:			
Interest income		(57,532)	(17,938)
Exchange loss/(gain)		3,255	(3,236)
		(3,166)	(3,067)
Change in amount due from/to the Investor Compensation Company Limited		(309)	(526)
Decrease in creditors and accrued charges		(39)	(42)
Net cash used in operating activities		(3,514)	(3,635)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(78,230)	(453,896)
Interest received		63,728	6,003
Net cash used in investing activities		(14,502)	(447,893)
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		(11,929)	(451,528)
Cash and cash equivalents at the beginning of the six-month period		164,980	451,903
Cash and cash equivalents at the end of the six-month period	3	153,051	375

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2023 \$'000	At 30 Sep 2022 \$'000
Fixed deposits with banks	152,463	–
Cash at bank	588	375
	153,051	375

The notes on pages 51 and 52 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 six months ended 30 September 2023.

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 (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the six months ended 30 September 2023, the ICC incurred costs of \$3,052,000 for its operation (for the six months ended 30 September 2022: \$2,957,000).

3. Cash and cash equivalents

	Unaudited At 30 Sep 2023 \$'000	Audited At 31 Mar 2023 \$'000
Cash at bank	588	847
Fixed deposits with banks	2,536,051	2,472,685
Amounts shown in the condensed statement of financial position	2,536,639	2,473,532
Less: Amounts with an original maturity beyond three months	(2,383,588)	(2,308,552)
Cash and cash equivalents in the condensed statement of cash flows	153,051	164,980



Investor Compensation Fund

Notes to the condensed financial statements

For the six months ended 30 September 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 September 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 Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund

Under Section 76 (11) of Schedule 10 of the SFO, 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 six months ended 30 September 2023, the SFC had \$5,470,000 and \$617,000 paid into the Fund from the SDD and the CDD respectively.

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 six months ended 30 September 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 September 2023 (14 outstanding claims as at 31 March 2023). The maximum liability in respect of these claims in aggregate was \$2,312,000 (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 six months ended 30 September 2023 and 2022, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.