

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 2020.

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 31 December 2020 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 nine months ended 31 December 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

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 nine months.

On behalf of the Committee

Rico Leung

Chairman

10 February 2021

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Income					
Interest income		18,893	46,705	3,414	14,771
Exchange gain/(loss)		513	(9,940)	670	(8,176)
		19,406	36,765	4,084	6,595
Expenses					
Investor Compensation Company Limited expenses	2	4,593	4,544	1,587	1,503
Auditor's remuneration		148	142	38	36
		4,741	4,686	1,625	1,539
Surplus and total comprehensive income for the period		14,665	32,079	2,459	5,056

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets		
Interest receivable	2,834	7,185
Due from Investor Compensation Company Limited	176	138
Fixed deposits with banks	2,439,793	2,420,558
Cash at bank	362	651
	2,443,165	2,428,532
Current liabilities		
Creditors and accrued charges	236	268
	236	268
Net current assets	2,442,929	2,428,264
Net assets	2,442,929	2,428,264
Representing:		
Compensation fund	2,442,929	2,428,264

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2020 (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 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	32,079	32,079
Balance at 31 December 2019	994,718	108,923	1,319,943	2,423,584
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the period	–	–	14,665	14,665
Balance at 31 December 2020	994,718	108,923	1,339,288	2,442,929

The notes on pages 38 and 39 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Surplus for the period		14,665	32,079
Adjustments for:			
Interest income		(18,893)	(46,705)
Exchange (gain)/loss		(513)	9,940
		(4,741)	(4,686)
Increase in amount due from Investor Compensation Company Limited		(38)	(246)
Decrease in creditors and accrued charges		(32)	(38)
Net cash used in operating activities		(4,811)	(4,970)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(60,655)	644,868
Interest received		23,244	54,897
Net cash (used in) generated from investing activities		(37,411)	699,765
Net (decrease)/increase in cash and cash equivalents		(42,222)	694,795
Cash and cash equivalents at the beginning of the nine-month period		1,086,662	32,944
Cash and cash equivalents at the end of the nine-month period	3	1,044,440	727,739

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	1,044,078	727,253
Cash at bank	362	486
	1,044,440	727,739

The notes on pages 38 and 39 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with 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 2020. The interim financial information does not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2020.

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 nine months ended 31 December 2020, the ICC incurred costs of \$4,593,000 for its operation (for the nine months ended 31 December 2019: \$4,544,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	362	651
Fixed deposits with banks	2,439,793	2,420,558
Amounts shown in the condensed statement of financial position	2,440,155	2,421,209
Less: Amounts with an original maturity of beyond three months	(1,395,715)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,044,440	1,086,662

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2020 (Expressed in Hong Kong dollars)

4. 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 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

There are 9 outstanding claims as at the date of this report. The maximum liability in respect of these claims in aggregate is \$1,567,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit per claimant or the amount claimed.