

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities 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 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 2020, 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 (SFC) 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 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 41 to 46.

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 Yiu Ka Yan Wilfred	
Ms Kwok Hom Siu	

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

1 February 2021

Unified Exchange 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		680	1,359	109	496
Recoveries	2	3,845	(1)	219	–
		4,525	1,358	328	496
Expenses					
Auditor's remuneration		70	67	16	15
Surplus and total comprehensive income for the period		4,455	1,291	312	481

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

	Note	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Current assets			
Interest receivable		55	243
Accounts receivable		9	9
Fixed deposits with banks		97,425	92,879
Cash at bank		104	470
		97,593	93,601
Current liabilities			
Creditors and accrued charges		10,293	10,306
Relinquished trading rights payable to SEHK	4	1,300	1,250
		11,593	11,556
Net current assets		86,000	82,045
Net assets		86,000	82,045
Representing:			
Compensation fund		86,000	82,045

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

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

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000		
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	1,000	-	-	-	-	-	1,000	
Surplus and total comprehensive income for the period	-	-	-	-	1,291	-	1,291	
Balance at 31 December 2019	55,500	353,787	630,000	6,502	30,552	(994,718)	81,623	
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045	
Net contributions to SEHK	(500)	-	-	-	-	-	(500)	
Surplus and total comprehensive income for the period	-	-	-	-	4,455	-	4,455	
Balance at 31 December 2020	54,950	353,787	630,000	6,502	35,479	(994,718)	86,000	

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange 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		4,455	1,291
Adjustments for:			
Interest income		(680)	(1,359)
Recoveries		–	1
		3,775	(67)
Decrease in creditors and accrued charges		(13)	(13)
Increase in relinquished trading rights payable to SEHK		50	100
Net cash generated from operating activities		3,812	20
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		8,134	–
Interest received		868	1,278
Net cash generated from investing activities		9,002	1,278
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(500)	1,000
Net cash (used in)/generated from financing activities		(500)	1,000
Net increase in cash and cash equivalents		12,314	2,298
Cash and cash equivalents at the beginning of the nine-month period		31,999	90,260
Cash and cash equivalents at the end of the nine-month period	3	44,313	92,558

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2020 \$'000	At 31 Dec 2019 \$'000
Fixed deposits with banks	44,209	91,967
Cash at bank	104	591
	44,313	92,558

The notes on pages 45 and 46 form part of the condensed financial statements.

Unified Exchange Compensation Fund

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. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has 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 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. Recoveries/Equity securities received under subrogation

The Fund received \$3,845,000 in total from certain liquidators which was recognised as recoveries for the nine months ended 31 December 2020 (for the nine months ended 31 December 2019: nil).

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 2020, the equity securities received under subrogation amounted to \$167 (as at 31 March 2020: \$142). The balance as at 31 December 2020 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

3. Cash and cash equivalents

	Unaudited At 31 Dec 2020 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	104	470
Fixed deposits with banks	97,425	92,879
Amounts shown in the condensed statement of financial position	97,529	93,349
Less: Amounts with an original maturity of beyond three months	(53,216)	(61,350)
Cash and cash equivalents in the condensed statement of cash flows	44,313	31,999

Unified Exchange Compensation Fund

Notes to the condensed financial statements

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

4. Trading rights deposits from SEHK/Relinquished trading rights payable to 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 SEHK the deposit within six months after the trading right was relinquished. During the nine-month period, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 December 2020, 26 trading rights totalling \$1,300,000 were relinquished but not yet refunded (as at 31 March 2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

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

	Unaudited Nine months ended	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	350	1,600
Less: relinquished trading rights refunded	(800)	(500)
Adjustment for: net increase in relinquished trading rights payable to SEHK	(50)	(100)
Balance carried forward	54,950	55,500

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 2020 and 2019.