

SECURITIES AND FUTURES ORDINANCE (Chapter 571)

Pursuant to Section 240(9b) of the Securities and Futures Ordinance, the audited financial statements of the Investor Compensation Fund for the financial year ended 31 March 2020 are set out on pages 11085 to 11097.

Rico LEUNG *Chairman of
Investor Compensation Fund Committee*

INVESTOR COMPENSATION FUND
REPORT OF THE INVESTOR COMPENSATION FUND COMMITTEE

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 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 financial year ended 31 March 2020 and the financial position of the Fund as at that date are set out in the financial statements on pages 11088 to 11097.

Members of the Committee

The members of the Committee during the year ended 31 March 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC, JP	
Mr Kok Ka Keung	(appointed on 1 April 2020)
Mr Tai Chi Kin Calvin	(retired on 31 March 2020)

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 financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

22 May 2020

By order of the Committee
Rico LEUNG
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SECURITIES AND FUTURES COMMISSION

Opinion

What we have audited

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 11088 to 11097, which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

22 May 2020

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

INVESTOR COMPENSATION FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Income			
Net investment income	5	59,928	38,557
Exchange loss		(17,001)	(490)
Recoveries		-	50
Compensation payment given up		-	150
		42,927	38,267
Expenses			
Investor Compensation Company Limited expenses	7	5,989	5,859
Auditor's remuneration		179	172
Bank charges		-	409
Professional fees		-	1,472
		6,168	7,912
Surplus and total comprehensive income for the year		36,759	30,355

The notes on pages 11092 to 11097 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Current assets			
Interest receivable		7,185	25,425
Due from Investor Compensation Company Limited		138	54
Fixed deposits with banks	8	2,420,558	2,365,483
Cash at bank	8	651	845
		<u>2,428,532</u>	<u>2,391,807</u>
Current liabilities			
Creditors and accrued charges		268	302
		<u>268</u>	<u>302</u>
Net current assets		<u>2,428,264</u>	<u>2,391,505</u>
Net assets		<u>2,428,264</u>	<u>2,391,505</u>
Representing :			
Compensation fund		<u>2,428,264</u>	<u>2,391,505</u>

Approved and authorised for issue by the Securities and Futures Commission on 22 May 2020 and signed on its behalf by

Tim Lui
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 11092 to 11097 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 9)	Contributions from Commodity Exchange Compensation Fund (note 9)	Accumulated surplus	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Surplus and total comprehensive income for the year	-	-	30,355	30,355
Balance at 31 March 2019 and 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the year	-	-	36,759	36,759
Balance at 31 March 2020	<u>994,718</u>	<u>108,923</u>	<u>1,324,623</u>	<u>2,428,264</u>

The notes on pages 11092 to 11097 form part of these financial statements.

INVESTOR COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Surplus for the year		36,759	30,355
Adjustments for:			
Net investment income		(59,928)	(38,557)
Exchange loss		17,001	490
		(6,168)	(7,712)
(Increase)/decrease in amount due from Investor Compensation Company Limited		(84)	149
Decrease in creditors and accrued charges		(34)	(1,062)
Net cash used in operating activities		(6,286)	(8,625)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		981,929	(2,333,384)
Debt securities purchased		-	(165,306)
Debt securities sold or redeemed		-	2,092,869
Pooled fund sold		-	338,934
Interest received		78,075	52,523
Net cash generated from/(used in) from investing activities		1,060,004	(14,364)
Net increase/(decrease) in cash and cash equivalents		1,053,718	(22,989)
Cash and cash equivalents at beginning of the year		32,944	55,933
Cash and cash equivalents at end of the year	8	1,086,662	32,944
Analysis of the balance of cash and cash equivalents			
		2020 \$'000	2019 \$'000
Fixed deposits with banks		1,086,011	32,099
Cash at bank		651	845
		1,086,662	32,944

The notes on pages 11092 to 11097 form part of these financial statements.

INVESTOR COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

1. *Purpose, limitation and principal activity*

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation-Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. *Money constituting the Fund*

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on The Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of a Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 6), and returns earned on the investment of the Fund (see also note 5).

3. *Significant accounting policies*

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for

the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) *Basis of preparation*

We have prepared these financial statements using the historical cost basis as the measurement basis.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) *Recognition of income*

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) *Translation of foreign currencies*

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

(e) *Financial assets*

(i) Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Fund. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies its debt instruments as financial assets measured at amortised cost.

Amortised cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL: A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Fund assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(f) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(g) *Other receivables*

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(e)(iv)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(h) *Provisions for compensation*

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

(i) *Creditors and accrued charges*

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(j) *Provisions and contingent liabilities*

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible

obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) *Related parties*

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. *Taxation*

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

5. *Net investment income*

	2020	2019
	\$'000	\$'000
Interest income from bank deposits	59,928	34,947
Interest income on financial assets at fair value through profit or loss	—	22,629
Realised loss on disposal of pooled fund	—	(10,350)
Realised loss on redemption/disposal of debt securities	—	(8,669)
Net investment income	<u>59,928</u>	<u>38,557</u>

6. *Levy from SEHK and HKFE*

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation - Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion.

Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2019 which came into effect on 1 January 2020, the Fund is entitled for levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of a Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities and the trigger levels for levy suspension and re-instatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.

7. *ICC expenses*

The SFC formed the 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 SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2020, the ICC incurred costs of \$5,989,000 for its operations (2019: \$5,859,000) which were reimbursed by the Fund.

8. *Fixed deposits with banks and cash at bank*

The effective interest rates on bank deposits at 31 March 2020 ranged from 0.93% p.a. to 2.86% p.a. (2019: 1.40% p.a. to 3.44% p.a.). The balances of deposits at both 31 March 2020 and 31 March 2019 mature within one year.

Reconciliation to cash and cash equivalents

	2020 \$'000	2019 \$'000
Cash at bank	651	845
Fixed deposits with banks	2,420,558	2,365,483
Amounts shown in the statement of financial position	2,421,209	2,366,328
Less: Amounts with an original maturity of beyond three months	<u>(1,334,547)</u>	<u>(2,333,384)</u>
Cash and cash equivalents in the statement of cash flows	<u>1,086,662</u>	<u>32,944</u>

9. *Contributions from UECF and CECF*

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2020, the SFC had \$994,718,000 (2019: \$994,718,000) and \$108,923,000 (2019: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines 'capital' as including contributions from the UECF and the CECF and the accumulated surplus.

10. *Related party transactions*

The Fund has related party relationships with the SFC, the ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2019 and 2020 (refer to notes 7 and 9).

11. *Financial risk management*

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2020, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$24,206,000 (2019: \$23,655,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities are due within one year or payable on demand.

The Fund's policy allows the Fund to have US dollars (USD) and renminbi foreign exchange exposures. As at 31 March 2020, the Fund had exposure to USD only. As Hong Kong dollars (HKD) are pegged with USD, the Fund was exposed to limited foreign exchange risk at the end of the reporting period. For the years ended 31 March 2020 and 2019, the Fund's exchange loss was mainly driven by the USD revaluation on financial assets.

As at 31 March 2020, the Fund had financial assets denominated in USD of \$1,339,501,000 (2019: \$1,320,894,000). The USD/HKD exchange rate was 7.75 (2019: 7.85), it was estimated that a change of 100 basis points in the USD/HKD exchange rate, with all other variables held constant, would increase the Fund's surplus and accumulated surplus by approximately \$13,395,000 (2019: decrease by \$13,209,000).

12. *Provision for compensation and contingent liabilities*

The Fund assessed and concluded that there was no provision for compensation as at 31 March 2020 and 2019.

As at the date of this report, there are 15 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,204,000 (2019: \$2,121,000). This is determined based on the lower of the maximum compensation limit per claimant (detailed in note 3(h)) or the amount claimed.