Securities and Futures Commission

Independent auditor's report
To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Opinion

What we have audited

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 103 to 130, which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated 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 (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated 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 Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is valuation of investments classified as fair value through profit or loss.

Valuation of investments classified as fair value through profit or loss

As at 31 March 2019 the Group's investment portfolio comprised debt securities and pooled funds (mainly equity instruments) with a total value of HK$1,721 million which were classified as at fair value through profit of loss, under the Level 1 and 2 fair value hierarchy, which represented 24% of consolidated total assets.

The Group's debt and equity instruments classified as at fair value through profit or loss are valued based on publicly available market data, or valuation models.

We identified valuation of investments classified as fair value through profit or loss as a key audit matter because of the size of these items in the financial statements and the impact of changes in valuation on the profit and loss.

Independent auditor's report (continued)
To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Key Audit Matters (continued)

How our audit addressed the Key Audit Matter

The audit procedures we performed to address valuation of investments classified as fair value through profit or loss as a key audit matter included:

- Assessing all the internal control reports prepared by independent service auditors of the Group's external investment managers which assessed the design and operating effectiveness of relevant internal controls operated by the investment managers;
- Assessing the independent service auditor's professional competence and independence; and
- Performing independent valuations: For level 1 financial instruments, on a sample basis, we compared the fair values applied by the Group with publicly available market data. Particularly for the pooled funds, we have performed a look-through analysis to understand the underlying investments, in order to assess the appropriateness of the valuation for a sample of these investments. For Level 2 financial instruments, with the involvement of our internal valuation specialists, we carried out independent valuations, on a sample basis, by developing models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group.

Based on the procedures we performed, we found that the valuation of investments classified as fair value through profit or loss is supported by available evidence.

Refer to notes 3(h), 10 and 21(e)(i) to the consolidated financial statements respectively for the Group's accounting policies of this matter, a detailed breakdown of these investments and the relevant fair value hierarchy disclosures.

Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 the directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated 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 determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report (continued)
To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Responsibilities of the directors and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, in accordance with Section 16(3) of the Securities and Futures Ordinance 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 HKSAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

Independent auditor's report (continued)
To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 May 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Income			
Levies	2(a)	**1,483,846**	1,549,460
Fees and charges		**127,343**	153,985
Investment income net of third party expenses			
Investment income	5	**138,565**	278,884
Less: custody and advisory expenses		**(7,717)**	(7,735)
Recoveries from the Investor Compensation Fund		**5,859**	5,729
Exchange (loss)/gain		**(190)**	33,410
Other income	6	**11,600**	1,183
		1,759,306	2,014,916
Expenses			
Staff costs and directors' emoluments	7	**1,354,504**	1,282,393
Premises			
Rent		**200,710**	204,381
Rates, management fees and others		**46,700**	47,413
Other expenses	8	**216,136**	207,687
Depreciation	11(a)	**35,798**	30,178
		1,853,848	1,772,052
(Loss)/surplus and total comprehensive income for the year		**(94,542)**	242,864

The notes on pages 108 to 130 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Non-current assets			
Fixed assets	11(a)	94,835	71,923
Financial assets at amortised costs – debt securities	9	981,502	–
Held-to-maturity debt securities	9	–	1,546,613
		1,076,337	1,618,536
Current assets			
Financial assets at amortised costs – debt securities	9	563,877	–
Held-to-maturity debt securities	9	–	35,503
Financial assets at fair value through profit or loss			
Debt securities	10	795,946	772,300
Pooled funds	10	925,476	934,768
Debtors, deposits and prepayments	16	227,018	219,778
Fixed deposits with banks	12	3,653,456	3,713,477
Cash at bank and in hand	12	71,908	33,353
		6,237,681	5,709,179
Current liabilities			
Fees received in advance		8,850	8,810
Creditors and accrued charges	14	189,855	113,317
		198,705	122,127
Net current assets		6,038,976	5,587,052
Total assets less current liabilities		7,115,313	7,205,588
Non-current liabilities	15	45,091	40,824
Net assets		7,070,222	7,164,764
Funding and reserves			
Initial funding by Government	17	42,840	42,840
Reserve for property acquisition	23	3,000,000	3,000,000
Accumulated surplus		4,027,382	4,121,924
		7,070,222	7,164,764

Approved and authorised for issue by the SFC on 28 May 2019 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 108 to 130 form part of these financial statements.

Statement of Financial Position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Non-current assets			
Fixed assets	11(b)	94,738	71,859
Financial assets at amortised costs – debt securities	9	981,502	–
Held-to-maturity debt securities	9	–	1,546,613
		1,076,240	1,618,472
Current assets			
Financial assets at amortised costs – debt securities	9	563,877	–
Held-to-maturity debt securities	9	–	35,503
Financial assets at fair value through profit or loss			
Debt securities	10	795,946	772,300
Pooled funds	10	925,476	934,768
Debtors, deposits and prepayments	16	233,187	221,338
Fixed deposits with banks		3,653,456	3,713,477
Cash at bank and in hand		49,747	21,171
		6,221,689	5,698,557
Current liabilities			
Fees received in advance		8,850	8,810
Creditors and accrued charges	14	173,766	102,631
		182,616	111,441
Net current assets		6,039,073	5,587,116
Total assets less current liabilities		7,115,313	7,205,588
Non-current liabilities	15	45,091	40,824
Net assets		7,070,222	7,164,764
Funding and reserves			
Initial funding by Government	17	42,840	42,840
Reserve for property acquisition	23	3,000,000	3,000,000
Accumulated surplus		4,027,382	4,121,924
		7,070,222	7,164,764

Approved and authorised for issue by the SFC on 28 May 2019 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 108 to 130 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Initial funding by Government $'000	Reserve for property acquisition $'000	Accumulated surplus $'000	Total $'000
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the year	–	–	242,864	242,864
Balance at 31 March 2018 and 1 April 2018	**42,840**	**3,000,000**	**4,121,924**	**7,164,764**
Loss and total comprehensive income for the year	**–**	**–**	**(94,542)**	**(94,542)**
Balance at 31 March 2019	**42,840**	**3,000,000**	**4,027,382**	**7,070,222**

The notes on pages 108 to 130 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
(Loss)/surplus for the year		**(94,542)**	242,864
Adjustments for:			
Depreciation		**35,798**	30,178
Investment income		**(138,565)**	(278,884)
Exchange difference		**218**	(23,336)
Loss on disposal of fixed assets		**–**	719
		(197,091)	(28,459)
Decrease/(increase) in debtors, deposits and prepayments		**8,003**	(54,406)
Increase/(decrease) in fees received in advance		**40**	(400)
Increase/(decrease) in creditors and accrued charges		**76,538**	(14,901)
Increase in non-current liabilities		**4,267**	6,660
Net cash used in operating activities		**(108,243)**	(91,506)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		**19,061**	1,051,818
Interest received		**121,268**	84,235
Debt securities at fair value through profit or loss purchased		**(381,883)**	(636,065)
Debt securities at fair value through profit or loss sold or redeemed		**366,534**	578,027
Pooled funds sold		**4,201**	216,100
Debt securities at amortised cost purchased		**–**	(1,577,866)
Debt securities at amortised cost redeemed at maturity		**35,324**	30,000
Fixed assets purchased		**(58,710)**	(39,365)
Net cash generated from/(used in) investing activities		**105,795**	(293,116)
Net decrease in cash and cash equivalents		**(2,448)**	(384,622)
Cash and cash equivalents at the beginning of the year		**292,105**	676,727
Cash and cash equivalents at the end of the year	12	**289,657**	292,105

Analysis of the balance of cash and cash equivalents

	2019 $'000	2018 $'000
Fixed deposits with banks	**217,749**	258,752
Cash at bank and in hand	**71,908**	33,353
	289,657	292,105

The notes on pages 108 to 130 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 35/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

(a) levies collected by The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.

(b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits, debt securities and pooled funds.

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. Significant accounting policies adopted by the Group are 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 Group. Note 3(q) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 24).

(b) Basis of preparation

We have prepared these financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the Group entities.

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.

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires significant judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

(d) 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 Group and we can measure reliably the revenue and costs. We record our income as follows:

(i) Levies

We record levies from SEHK and HKFE as income on an accrual basis.

(ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

(iii) Interest income

We record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

(iv) Revaluation gain/loss

Gains and losses from changes in fair value of financial assets are recognised in profit or loss as they arise.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as a lessee are classified as operating leases. We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

(g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	–	5 years or, if shorter, the life of the respective leases
Furniture and fixtures	–	5 years
Office equipment	–	5 years
Personal computers and software	–	3 years
Computer application systems	–	4 years
Motor vehicles	–	4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of profit or loss and other comprehensive income as an expense as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(g) Fixed assets and depreciation (cont'd)

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(h) Financial assets

(i) Classification

From 1 April 2018, the Group 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 term of the cash flows.

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

The Group 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 Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, we measure 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.

Investments in debt securities and equity funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

<u>Amortised cost:</u>

Investments in debt securities 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 investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

<u>FVPL:</u>

Changes on fair value of investments in debt securities and equity funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/(losses) in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets (cont'd)

(iii) Measurement (cont'd)

FVPL (cont'd):

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Unlisted equity investments are comprised of shares in equity funds. The fair value is determined based on the Group's share of the net assets of the equity funds as determined by the custodian.

(iv) Impairment

From 1 April 2018, we assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(v) Accounting policies applied until 31 March 2018

We have applied HKFRS 9 retrospectively, but have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the previous accounting policy.

Classification

Until 31 March 2018, we classify our financial assets into the following categories:

– financial assets at fair value through profit or loss,

– loans and receivables, and

– held-to-maturity investments.

The classification determined on the purpose for which the investments were acquired. We determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Subsequent measurement

The measurement at initial recognition did not change on the adoption of HKFRS 9. Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method. Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in the statement of profit or loss and other comprehensive income.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

For loans and receivables and held-to-maturity investments carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Group:

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group 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 Group or an entity related to the Group.

(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 Group.

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. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

(j) 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 recognise exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

(k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the receivables with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See Note 3(h)(iv) for further information about the Group's accounting for impairment.

(l) Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(m) Creditor 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 material, in which case they are stated at cost.

(n) Investment in subsidiaries

We state investment in a subsidiary at cost less any impairment losses in the statement of financial position.

(o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

(p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Group has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Group 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.

(q) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except as described below, these developments have had no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(q) Changes in accounting policies (cont'd)

HKFRS 9, *Financial Instruments* (cont'd)

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All debt securities are considered to have a low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39 continue to be classified as fair value through profit or loss. Other financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Group has assessed the impact of this new standard and there was no significant effect on the consolidated financial statements.

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

5. Investment income

	2019 $'000	2018 $'000
Interest income from bank deposits	**80,445**	62,439
Interest income from financial assets at fair value through profit or loss	**18,438**	14,930
Interest income from debt securities at amortised cost/held-to-maturity	**37,628**	13,788
Realised gain/(loss) on disposal of pooled funds	**38**	(6,966)
Loss on redemption/disposal of debt securities	**(166)**	(512)
(Loss)/gain on revaluation of pooled funds	**(4,844)**	206,167
Gain/(loss) on revaluation of debt securities	**8,770**	(9,894)
Amortisation of premium on debt securities at amortised cost/held-to-maturity	**(3,046)**	(1,366)
Amortisation of discount on debt securities at amortised cost/held-to-maturity	**1,302**	298
	138,565	278,884

6. Other income

	2019 $'000	2018 $'000
Investigation costs awarded	**11,272**	379
Sale of SFC publications	**277**	129
Others	**51**	675
	11,600	1,183

7. Staff costs and directors' emoluments

	2019 $'000	2018 $'000
Salaries and allowances	**1,223,668**	1,166,333
Retirement benefits	**84,736**	76,620
Medical and life insurance	**38,487**	32,757
Staff functions	**2,216**	1,724
Recruitment	**3,912**	3,318
Registration and membership fees	**1,485**	1,641
	1,354,504	1,282,393

The total number of staff as at 31 March 2019 was 935 (910 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2018: the total number of staff was 912 comprising 887 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee $'000	Salaries, allowances and benefits in kind $'000	Discretionary pay $'000	Retirement scheme contributions[1] $'000	2019 Total $'000	2018 Total $'000
Chief Executive Officer						
Ashley Alder, JP	–	7,146	2,382	715	**10,243**	9,975
Executive Directors						
Thomas Atkinson	–	4,500	945	450	**5,895**	6,120
Christina Choi	–	4,200	1,134	420	**5,754**	5,712
Brian Ho	–	4,866	1,216	486	**6,568**	6,378
Julia Leung, SBS[2]	–	5,150	1,670	515	**7,335**	6,289
Keith Lui	–	4,866	1,216	486	**6,568**	6,378
	–	30,728	8,563	3,072	**42,363**	40,852
Non-executive Chairman						
Carlson Tong, SBS, JP (retired 19 October 2018[3])	558	–	–	–	**558**	1,012
Tim Lui Tim-leung, SBS, JP (appointed 20 October 2018)	564	–	–	–	**564**	–
Non-executive Directors						
Albert Au Siu-cheung, BBS (retired 25 May 2019[4])	280	–	–	–	**280**	253
Edward Cheng Wai Sun, GBS, JP	280	–	–	–	**280**	253
Lester Garson Huang, SBS, JP	280	–	–	–	**280**	253
Teresa Ko, JP (retired 31 July 2018[3])	84	–	–	–	**84**	253
Mary Ma Xuezheng (retired 23 April 2019[5])	280	–	–	–	**280**	253
Dr Kelvin Wong Tin-yau, JP (retired 19 October 2018[3])	140	–	–	–	**140**	253
Dr William Wong Ming-fung, SC	280	–	–	–	**280**	253
Dr James Lin C. (appointed 1 August 2018)	196	–	–	–	**196**	–
Agnes Chan Sui-kuen (appointed 20 October 2018)	141	–	–	–	**141**	–
	3,083	–	–	–	**3,083**	2,783
Total directors' emoluments	3,083	30,728	8,563	3,072	**45,446**	43,635

1 This represents net contribution expenses accrued during the year ended 31 March 2019 in accordance with the accounting policy set out in note 3(f) on page 109. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2019 was $2,099,000 (as at 31 March 2018: $1,920,000).

2 Ms Julia Leung's 2018/19 discretionary pay covered the period from 2 March 2018, when her re-appointment took effect, to 31 March 2019.

3 Retired having completed appointment period of six years.

4 Retired having completed appointment period of four years.

5 Retired having completed appointment period of five and a half years.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals in 2018/19, representing the emoluments of the Chief Executive Officer and four Executive Directors, was $36,609,000 (2017/18: $35,140,000) with the breakdown as follows:

	2019 $'000	2018 $'000
Salaries and allowances	**26,527**	25,478
Discretionary pay	**7,429**	7,116
Retirement scheme contributions	**2,653**	2,546
	36,609	35,140

Their emoluments are within the following bands:

	2019 No. of individuals	2018 No. of individuals
$5,500,001 to $6,000,000	**1**	0
$6,000,001 to $6,500,000	**0**	4
$6,500,001 to $7,000,000	**2**	0
$7,000,001 to $7,500,000	**1**	0
$7,500,001 to $8,000,000	**0**	0
$8,000,001 to $8,500,000	**0**	0
$8,500,001 to $9,000,000	**0**	0
$9,000,001 to $9,500,000	**0**	0
$9,500,001 to $10,000,000	**0**	1
$10,000,001 to $10,500,000	**1**	0

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Employee benefits (cont'd)

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2018: nil).

(ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was $3,372,000 (2018: $5,020,000) and the amount so forfeited available at the end of the reporting period was $684,000 (2018: $2,793,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

8. Other expenses

	2019 $'000	2018 $'000
Learning and development	7,700	7,877
Legal and professional services	72,047	80,760
Information and systems services	64,854	56,578
Auditor's remuneration	894	790
Funding for the Financial Reporting Council	8,496	8,092
Funding for the International Financial Reporting Standards Foundation	393	392
General office and insurance	10,302	8,837
Investor and other education programme costs to the Investor and Financial Education Council	38,721	32,294
Overseas travelling, regulatory meeting expenses and others	12,729	11,348
Loss on disposal of fixed assets	–	719
	216,136	207,687

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

9. Financial assets at amortised cost – debt securities/Held-to-maturity debt securities

The Group and the SFC

		2019 $'000	2018 $'000
Maturing after one year in the second to sixth years	– unlisted	**78,696**	78,844
	– listed in Hong Kong	**157,269**	344,171
	– listed outside Hong Kong	**745,537**	1,123,598
		981,502	1,546,613
Maturing within one year	– unlisted	**–**	35,503
	– listed in Hong Kong	**261,173**	–
	– listed outside Hong Kong	**302,704**	–
		563,877	35,503
		1,545,379	1,582,116
Amortised cost at 31 March	– unlisted	**78,696**	114,347
	– listed in Hong Kong	**418,442**	344,171
	– listed outside Hong Kong	**1,048,241**	1,123,598
		1,545,379	1,582,116
Market value at 31 March	– unlisted	**77,975**	112,219
	– listed in Hong Kong	**416,182**	340,161
	– listed outside Hong Kong	**1,042,376**	1,107,059
		1,536,533	1,559,439

The average yield to maturity of the debt securities was 2.8% p.a. as at 31 March 2019 (2018: 3.0% p.a.).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

10. Financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
(a) Debt securities (i) Listing status Listed – outside Hong Kong	**597,932**	354,464
Listed – in Hong Kong	**49,053**	30,285
Unlisted	**148,961**	387,551
	795,946	772,300
(ii) Maturity profile Within one year	**259,207**	99,335
After one year but within two years	**184,416**	310,433
After two years but within five years	**352,323**	344,569
After five years	**–**	17,963
	795,946	772,300
(iii) The weighted average effective interest rate of debt securities on 31 March 2019 was 2.4% p.a. (2018: 2.3% p.a.).		
(b) Pooled funds – unlisted The pooled funds comprise mainly listed equity securities.	**925,476**	934,768

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

11. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements $'000	Office equipment $'000	Computer application systems $'000	Personal computer and software $'000	Motor vehicles $'000	Total $'000
Cost						
At 1 April 2018	**126,190**	**10,760**	**235,112**	**125,974**	**2,735**	**500,771**
Additions	**1,941**	**350**	**35,160**	**21,259**	**–**	**58,710**
Disposal	**(161)**	**(112)**	**–**	**(2,517)**	**–**	**(2,790)**
At 31 March 2019	**127,970**	**10,998**	**270,272**	**144,716**	**2,735**	**556,691**
Accumulated depreciation						
At 1 April 2018	**113,198**	**9,291**	**192,427**	**111,453**	**2,479**	**428,848**
Charge for the year	**5,683**	**552**	**16,767**	**12,715**	**81**	**35,798**
Written back on disposals	**(161)**	**(112)**	**–**	**(2,517)**	**–**	**(2,790)**
At 31 March 2019	**118,720**	**9,731**	**209,194**	**121,651**	**2,560**	**461,856**
Net book value						
At 31 March 2019	**9,250**	**1,267**	**61,078**	**23,065**	**175**	**94,835**
Cost						
At 1 April 2017	122,301	10,482	211,563	122,347	2,411	469,104
Additions	6,576	490	24,439	7,536	324	39,365
Disposal	(2,687)	(212)	(890)	(3,909)	–	(7,698)
At 31 March 2018	126,190	10,760	235,112	125,974	2,735	500,771
Accumulated depreciation						
At 1 April 2017	110,280	8,884	179,757	104,317	2,411	405,649
Charge for the year	4,907	598	13,560	11,045	68	30,178
Written back on disposals	(1,989)	(191)	(890)	(3,909)	–	(6,979)
At 31 March 2018	113,198	9,291	192,427	111,453	2,479	428,848
Net book value						
At 31 March 2018	12,992	1,469	42,685	14,521	256	71,923

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

11. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements $'000	Office equipment $'000	Computer application systems $'000	Personal computer and software $'000	Motor vehicles $'000	Total $'000
Cost						
At 1 April 2018	**126,174**	**10,691**	**235,112**	**124,729**	**2,735**	**499,441**
Additions	**1,940**	**349**	**35,160**	**21,175**	**–**	**58,624**
Disposal	**(161)**	**(109)**	**–**	**(2,517)**	**–**	**(2,787)**
At 31 March 2019	**127,953**	**10,931**	**270,272**	**143,387**	**2,735**	**555,278**
Accumulated depreciation						
At 1 April 2018	**113,182**	**9,222**	**192,427**	**110,272**	**2,479**	**427,582**
Charge for the year	**5,683**	**551**	**16,767**	**12,663**	**81**	**35,745**
Written back on disposals	**(161)**	**(109)**	**–**	**(2,517)**	**–**	**(2,787)**
At 31 March 2019	**118,704**	**9,664**	**209,194**	**120,418**	**2,560**	**460,540**
Net book value						
At 31 March 2019	**9,249**	**1,267**	**61,078**	**22,969**	**175**	**94,738**
Cost						
At 1 April 2017	122,286	10,413	211,563	120,974	2,411	467,647
Additions	6,575	490	24,439	7,505	324	39,333
Disposal	(2,687)	(212)	(890)	(3,750)	–	(7,539)
At 31 March 2018	126,174	10,691	235,112	124,729	2,735	499,441
Accumulated depreciation						
At 1 April 2017	110,264	8,821	179,757	103,227	2,411	404,480
Charge for the year	4,907	592	13,560	10,795	68	29,922
Written back on disposals	(1,989)	(191)	(890)	(3,750)	–	(6,820)
At 31 March 2018	113,182	9,222	192,427	110,272	2,479	427,582
Net book value						
At 31 March 2018	12,992	1,469	42,685	14,457	256	71,859

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

12. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2019 ranged from 1.2% p.a. to 3.2% p.a. (2018: 0.5% p.a. to 2.25% p.a.). These balances matured within one year as at both 31 March 2019 and 31 March 2018.

Reconciliation with the consolidated statement of financial position:

	2019 $'000	2018 $'000
Cash at bank and in hand	**71,908**	33,353
Fixed deposits with banks	**3,653,456**	3,713,477
Amounts shown in the consolidated statement of financial position	**3,725,364**	3,746,830
Less: Amounts with an original maturity beyond three months	**(3,435,707)**	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	**289,657**	292,105

13. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of $0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) (formerly known as the Investor Education Centre) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to $0.2 (2018: $0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

14. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2019 and 2018.

15. Non-current liabilities

Non-current liabilities represent a provision for premises reinstatement cost to restore the premises to its original condition when the lease expires.

16. Debtors, deposits and prepayments

Debtors, deposits and prepayments include $194,404,000 in receivables (2018: $201,619,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

17. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

18. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to $30,044,000 (2018: $37,286,000).

19. Operating lease commitment

At 31 March 2019, the minimum amount of rent committed to pay for our offices up to 16 December 2021 are as follows:

	The Group and the SFC	
	2019 $'000	**2018 $'000**
Payable in next year	**201,162**	200,457
Payable in one to five years	**84,647**	284,069
	285,809	484,526

During the year ended 31 March 2019, $200,710,000 net of lease incentives was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2018: $204,381,000).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

20. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the related parties relationship disclosed in note 22 in these statements, we have the following significant related party transactions and balances.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, $5,859,000 was recovered from the ICF for the ICC's expenses (2018: $5,729,000). As at 31 March 2019, the amount due to the ICF from the ICC was $54,000 (as at 31 March 2018: $203,000).

(b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

21. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in equity funds. The underlying investments of the equity funds mainly comprised equity securities.

The main financial risks of the Group arise from its investments in debt securities and units in equity funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(b) Interest rate risk

The Group's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements. As at 31 March 2019, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately $39,921,000 (2018: $37,610,000). As at 31 March 2019, the average duration of the Group's investment portfolio was 1.32 years (31 March 2018: 1.84 years). At 31 March 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately $14,430,000 (2018: $14,543,000).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2018.

(c) Exchange rate risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated either in US dollars or Hong Kong dollars which are closely pegged, the Group was not exposed to significant foreign exchange risk at the end of the reporting period.

(d) Market risk

The investment activities of the Group expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and equity funds. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(d) Market risk (cont'd)

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk, and as a result, was not exposed to significant market risk. The Group invests in units of equity funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia Free ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (15.2%) in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 15.2% (2018: 12.4%) would increase/decrease the Group's investment income and the accumulated surplus by approximately $145,149,000 (2018: $122,813,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's investment in equity funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

(e) Fair value measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(e) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

	2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Debt securities				
– Listed	**3,933**	**643,051**	**–**	**646,984**
– Unlisted	**–**	**148,962**	**–**	**148,962**
Pooled funds				
– Unlisted	**925,476**	**–**	**–**	**925,476**
	929,409	**792,013**	**–**	**1,721,422**

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Debt securities				
– Listed	–	384,749	–	384,749
– Unlisted	–	387,551	–	387,551
Pooled funds				
– Unlisted	934,768	–	–	934,768
	934,768	772,300	–	1,707,068

The fair value of the investment in the unlisted pooled funds is determined based on the Group's share in the net assets of the pooled funds as determined by the custodian which is publicly available in the market. The majority of the underlying assets of the pooled funds are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

During the year, there were no significant transfers between financial instruments in Level 1 and 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

21. Financial risk management and fair values (cont'd)

(e) Fair value measurement (cont'd)

(ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2019 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount at 31 March 2019 $'000	Fair value at 31 March 2019 $'000	2019 Level 1 $'000	2019 Level 2 $'000	2019 Level 3 $'000
Financial assets at amortised costs – debt securities	**1,545,379**	**1,536,533**	**1,536,533**	**–**	**–**

	Carrying amount at 31 March 2018 $'000	Fair value at 31 March 2018 $'000	2018 Level 1 $'000	2018 Level 2 $'000	2018 Level 3 $'000
Held-to-maturity debt securities	1,582,116	1,559,439	1,559,439	–	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.

22. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2019, the ICF's maximum liability in respect of claims received was $2,121,000 (2018: $2,375,000) and the net asset value was $2.4 billion (2018: $2.4 billion).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

22. Sponsored unconsolidated structured entities (cont'd)

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2019, the UECF's maximum liability in respect of claims received was $10,245,000 (2018: $10,245,000) and the net asset value was $79,332,000 (2018: $75,804,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2019. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2018: nil). The related party relationships with these entities are disclosed in note 20 of these financial statements.

23. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 17, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked $3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

24. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 April 2019

Nature of change
HKFRS 16 primarily affects the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

Impact
As at the reporting date, the Group has non-cancellable operating lease commitments of $285,809,000 (see note 19). Of these commitments, approximately $6,141,000 relate to low value leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately $279,899,000 and lease liabilities of $274,162,000 on 1 April 2019. Overall net assets will be approximately $5,737,000 higher.

The Group expects that surplus will decrease by approximately $4,414,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately $197,412,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by the Group
The Group will apply the standard from its mandatory adoption date of 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

25. Non-adjusting events occurring after the reporting period

Subsequent to the reporting period, SFC has entered into a new operating lease for the office premise for eight years commencing on 1 February 2020. Minimum payment throughout the lease term is $1,036,692,000.

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 2019.

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 2019 and the financial position of the Fund as at that date are set out in the financial statements on pages 134 to 149.

Members of the Committee

The members of the Committee during the year ended 31 March 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)	
Mr Thomas Allan Atkinson	
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Lee Kwok Keung	(retired on 31 December 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)

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.

By order of the Committee

Keith Lui
Chairman

27 May 2019

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 134 to 149, which comprise:

- the statement of financial position as at 31 March 2019;
- 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 2019, 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 (HKSAs) 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.

Independent Auditor's Report (continued)
To the Securities and Futures Commission

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 HKSAs 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 HKSAs, 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 May 2019

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Income			
Net investment income	5	**38,557**	73,603
Exchange difference		**(490)**	16,504
Recoveries		**50**	1,620
Compensation payment given up		**150**	–
		38,267	91,727
Expenses			
Investor Compensation Company Limited expenses	7	**5,859**	5,729
Auditor's remuneration		**172**	166
Bank charges		**409**	968
Professional fees		**1,472**	4,120
		7,912	10,983
Surplus and total comprehensive income for the year		**30,355**	80,744

The notes on pages 138 to 149 form part of these financial statements.

Statement of financial position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Current assets			
Financial assets at fair value through profit or loss			
– Debt securities	8	–	1,939,279
– Pooled fund	8	–	350,084
Interest receivable		25,425	17,015
Due from Investor Compensation Company Limited		54	203
Fixed deposits with banks	9	2,365,483	52,586
Cash at bank	9	845	3,347
		2,391,807	2,362,514
Current liabilities			
Creditors and accrued charges		302	1,364
		302	1,364
Net current assets		2,391,505	2,361,150
Net assets		2,391,505	2,361,150
Representing:			
Compensation fund		2,391,505	2,361,150

Approved and authorised for issue by the Securities and Futures Commission on 27 May 2019 and signed on its behalf by

Tim Lui
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 138 to 149 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 10) $'000	Contributions from Commodity Exchange Compensation Fund (note 10) $'000	Accumulated surplus $'000	Total $'000
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the year	–	–	80,744	80,744
Balance at 31 March 2018 and 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	**994,718**	**108,923**	**1,287,864**	**2,391,505**

The notes on pages 138 to 149 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Surplus and total comprehensive income for the year		30,355	80,744
Adjustments for:			
Net investment income		(38,557)	(73,603)
Exchange difference		490	(16,504)
		(7,712)	(9,363)
Decrease/(increase) in amount due from Investor Compensation Company Limited		149	(128)
Decrease in provision for compensation		–	(476)
Decrease in creditors and accrued charges		(1,062)	(85)
Net cash used in operating activities		(8,625)	(10,052)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(2,333,384)	–
Debt securities purchased		(165,306)	(1,100,731)
Debt securities sold or redeemed		2,092,869	1,037,862
Pooled fund sold		338,934	36,789
Interest received		52,523	47,094
Net cash (used in)/generated from investing activities		(14,364)	21,014
Net (decrease)/increase in cash and cash equivalents		(22,989)	10,962
Cash and cash equivalents at beginning of the year		55,933	44,971
Cash and cash equivalents at end of the year	9	32,944	55,933

Analysis of the balance of cash and cash equivalents

	2019 $'000	2018 $'000
Fixed deposits with banks	32,099	52,586
Cash at bank	845	3,347
	32,944	55,933

The notes on pages 138 to 149 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2019 (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.

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 has by order set the maximum amount of compensation at $150,000 per claimant for a single default in relation to securities traded at The Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at Hong Kong Futures Exchange Limited (HKFE).

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 SEHK and futures contracts traded on HKFE (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. Note 3(l) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as fair value through profit or loss at their fair value (see note 3(e)).

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 that are stated at fair value 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

From 1 April 2018, 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.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial assets (cont'd)

(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

From 1 April 2018, 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.

(v) Accounting policies applied until 31 March 2018

We have applied HKFRS 9 retrospectively, but have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the previous accounting policy.

Classification

Until 31 March 2018, we classify our financial assets into the following categories:

– financial assets at fair value through profit or loss, and

– loans and receivables

The classification determined on the purpose for which the investments were acquired. We determined the classification of its investments at initial recognition.

Subsequent measurement

The measurement at initial recognition did not change on the adoption of HKFRS 9. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method. Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in the statement of profit or loss and other comprehensive income.

Impairment

The Fund assessed at the end of each reporting period whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial assets (cont'd)

(v) Accounting policies applied until 31 March 2018 (cont'd)

For loans and receivables carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of profit or loss and other comprehensive income. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Fund could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the statement of profit or loss and other comprehensive income.

(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 for each default case is set at $150,000 per claimant.

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.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(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.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(l) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Except as described below, these developments have had no 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.

HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement.

There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

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.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

5. Net investment income

	2019 $'000	2018 $'000
Interest income from bank deposits	**34,947**	828
Interest income on financial assets at fair value through profit or loss	**22,629**	44,455
Realised (loss)/gain on disposal of pooled fund	**(10,350)**	989
Realised (loss)/gain on redemption/disposal of debt securities	**(8,669)**	2,422
Gain on revaluation of pooled fund	**–**	52,138
Loss on revaluation of debt securities	**–**	(27,229)
Net investment income	**38,557**	73,603

6. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts 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 2005 and 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.

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 2019, the ICC incurred costs of $5,859,000 for its operations (2018: $5,729,000) which were reimbursed by the Fund.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

8. Financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	–	1,103,850
Listed – in Hong Kong	–	443,133
Unlisted	–	392,296
	–	1,939,279
(ii) Maturity profile		
Within one year	–	404,749
After one year but within two years	–	454,873
After two years but within five years	–	1,001,791
After five years	–	77,866
	–	1,939,279
(iii) The weighted average effective interest rate of debt securities on 31 March 2018 was 2.9%.		
The debt securities were fully matured or disposed of during the year ended 31 March 2019.		
(b) Pooled fund – Unlisted	–	350,084
The pooled fund, comprising mainly listed equity securities, was fully disposed of during the year ended 31 March 2019.		

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

9. Fixed deposits with banks and cash at bank

The effective interest rate on bank deposits at 31 March 2019 ranged from 1.40% to 3.44% (2018: 0.80% to 1.53%). The balances of deposits at both 31 March 2019 and 31 March 2018 mature within one year.

Reconciliation with the statement of financial position

	2019 $'000	2018 $'000
Cash at bank	**845**	3,347
Fixed deposits with banks	**2,365,483**	52,586
Amounts shown in the statement of financial position	**2,366,328**	55,933
Less: Amounts with an original maturity of beyond three months	**(2,333,384)**	–
Cash and cash equivalents in the statement of cash flows	**32,944**	55,933

10. 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 2019, the SFC had $994,718,000 (2018: $994,718,000) and $108,923,000 (2018: $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.

11. Material related party transactions

We have related party relationships with the SFC, 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 2018 and 2019 (refer to notes 7 and 10).

12. Financial risk management and fair values

The financial assets of the Fund mainly comprised fixed deposits with banks (2018: fixed deposits with banks, debt securities and units in a pooled fund). The underlying investments of the pooled fund mainly comprised equity securities.

The main financial risks of the Fund arise from its investments in debt securities and units in the pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign currency risk. The external investment managers report thereon to the SFC on a regular basis.

The Fund's exposure to these risks and the financial risk management policies and practices used by the Fund to manage these risks are described below.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

12. Financial risk management and fair values (cont'd)

(a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The Policy also limits the Fund's exposure to 10% for each organisation and 20% for each country, except for holdings of US Treasuries, any issuances by the Hong Kong Government and the Government of the People's Republic of China. During the year, the Fund complied with the above Policy. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

(b) Liquidity risk

The Fund's policy is to regularly monitor its liquidity requirement to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

All financial liabilities are due within one year or payable on demand.

(c) Interest rate risk

The Fund's interest bearing assets comprised fixed deposits with banks (2018: debt securities and fixed deposits with banks). The Fund's bank deposits are exposed to short-term bank deposit interest re-pricing risk.

As at 31 March 2019, the Fund did not have any investment in debt securities.

At 31 March 2018, the Fund was subject to the risk that future cash flows of a debt security would fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopted a policy of maintaining duration at no more than five years within its debt securities portfolio. As at 31 March 2018, the duration was 2.26 years and it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately $44,803,000.

At 31 March 2019, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's interest income and the accumulated surplus by approximately $23,655,000 (2018: $2,990,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise, assuming that the change in interest rates had occurred at the end of the reporting periods and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis was performed on the same basis for the year ended 31 March 2018.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

12. Financial risk management and fair values (cont'd)

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollars and renminbi foreign exchange exposures. As at 31 March 2019, the Fund had exposure to US dollars only. As Hong Kong dollars are pegged with US dollars, the Fund was not exposed to significant foreign exchange risk at the end of the reporting period.

(e) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

As at 31 March 2019, the Fund did not have any investment in debt and equity securities.

As at 31 March 2018, the Fund invested in units of a pooled fund, which mainly comprised listed equity securities, the performance of which was measured against the benchmark index MSCI AC Pacific ex Japan. It was estimated that a general increase/decrease of 14.5% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately $50,062,000.

The sensitivity analysis above indicated the instantaneous change in the Fund's accumulated surplus that would arise, assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It was also assumed that the fair values of the Fund's investment in the pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

(f) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2019 and 2018.

The fair value of the debt securities as at 31 March 2018 was the quoted market price or based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund as at 31 March 2018 was determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund were listed securities.

Changes in market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

12. Financial risk management and fair values (cont'd)

(f) Fair values of financial instruments (cont'd)

	2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Debt securities and pooled fund	–	–	–	–

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Debt securities				
– Listed	1,271,926	275,057	–	1,546,983
– Unlisted	11,169	381,127	–	392,296
Pooled fund				
– Unlisted	350,084	–	–	350,084
	1,633,179	656,184	–	2,289,363

13. Provision for compensation and contingent liabilities

The Fund assessed and concluded that there was no provision for compensation as at 31 March 2019 and 2018.

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 is $2,121,000 (2018: $2,375,000). This is determined based on the lower of the maximum compensation limit of $150,000 per claimant or the amount claimed.

14. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2019.

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 March 2019, 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 financial year ended 31 March 2019 and the financial position of the Fund as at that date are set out in the financial statements on pages 153 to 163.

Members of the Committee

The members of the Committee during the year ended 31 March 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)	
Mr Thomas Allan Atkinson	
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)
Mr Lee Kwok Keung	(retired on 31 December 2018)
Mr Tai Chi Kin Calvin	(appointed on 1 January 2019)
Ms Mak Po Shuen	

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.

By order of the Committee

Keith Lui
Chairman

14 May 2019

Independent Auditor's Report
To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 153 to 163, which comprise:

- the statement of financial position as at 31 March 2019;
- 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 2019, 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 (HKSAs) 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.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

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.

Independent Auditor's Report (continued)
To the Securities and Futures Commission

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. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

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 HKSAs 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 HKSAs, 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 May 2019

30 Years
Message from Chairman and CEO
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Supplementary Information

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Income			
Interest income		1,534	691
Recoveries	4	1,074	–
		2,608	691
Expenses			
Auditor's remuneration		79	77
Bank charges		1	1
		80	78
Surplus and total comprehensive income for the year		2,528	613

The notes on pages 157 to 163 form part of these financial statements.

Statement of financial position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		187	98
Accounts receivable		9	9
Fixed deposits with banks	6	88,338	86,525
Cash at bank		1,922	224
		90,457	86,857
Current liabilities			
Creditors and accrued charges	7	10,325	10,303
Relinquished trading rights payable to SEHK	8	800	750
		11,125	11,053
Net current assets		79,332	75,804
Net assets		79,332	75,804
Representing:			
Compensation fund		79,332	75,804

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2019 and signed on its behalf by

Keith Lui
Chairman

Tai Chi Kin Calvin
Committee Member

The notes on pages 157 to 163 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) $'000	Excess transaction levy from SEHK (note 9) $'000	Additional contributions from SEHK and the SFC (note 10) $'000	Other contributions (note 11) $'000	Accumulated surplus $'000	Contributions to Investor Compensation Fund (note 12) $'000	Total $'000
Balance at 1 April 2017	51,200	353,787	630,000	6,502	26,120	(994,718)	72,891
Net contributions from SEHK	2,300	–	–	–	–	–	2,300
Surplus and total comprehensive income for the year	–	–	–	–	613	–	613
Balance at 31 March 2018 and 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	1,000	–	–	–	–	–	1,000
Surplus and total comprehensive income for the year	–	–	–	–	2,528	–	2,528
Balance at 31 March 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332

The notes on pages 157 to 163 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	2019 $'000	2018 $'000
Cash flows from operating activities		
Surplus and total comprehensive income for the year	2,528	613
Adjustment for:		
Interest income	(1,534)	(691)
	994	(78)
Increase in accounts receivable	–	(9)
Increase/(decrease) in creditors and accrued charges	22	(360)
Increase in relinquished trading rights payable to SEHK	50	150
Net cash generated from/(used in) operating activities	1,066	(297)
Cash flows from investing activities		
Interest received	1,445	670
Net cash generated from investing activities	1,445	670
Cash flows from financing activities		
Net trading rights deposits from SEHK	1,000	2,300
Net cash generated from financing activities	1,000	2,300
Net increase in cash and cash equivalents	3,511	2,673
Cash and cash equivalents at beginning of the year	86,749	84,076
Cash and cash equivalents at end of the year	90,260	86,749

Analysis of the balance of cash and cash equivalents

	2019 $'000	2018 $'000
Fixed deposits with banks	88,338	86,525
Cash at bank	1,922	224
	90,260	86,749

The notes on pages 157 to 163 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to $8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to $150,000 per claimant or, if higher, the claimant's proportional share of the $8 million limit.

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 repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After 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. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC $50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from SEHK (2018: Nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries detailed in note 4; SEHK replenishments detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (trading rights deposits from SEHK).

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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. Significant accounting policies adopted by the Fund are 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. Note 3(i) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements 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. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

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

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

(iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of $8 million for each default to be charged to the contribution from SEHK.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(d) Impairment of financial assets

(i) Accounting policies applying from 1 April 2018

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

(ii) Accounting policies applied until 31 March 2018

The carrying amounts of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

(e) 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.

(f) 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 they are stated at cost.

(g) 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 an 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 an outflow of economic benefits is remote.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) 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.

(i) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Except as described below, these developments have had no 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.

HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement with the adoption of HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

4. Recoveries

During the year ended 31 March 2019, the Fund recognised as recoveries the payment from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd.

5. 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.

6. Fixed deposits with banks

The effective interest rate on bank deposits at 31 March 2019 ranged from 1.31% to 2.00% (2018: 0.55% to 1.35%). The balances of deposits at both 31 March 2019 and 31 March 2018 mature within one year.

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in HKFRS 9, Financial instruments unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

8. Trading rights deposits from SEHK/ Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of $50,000 per trading right. 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 year, deposits of $1,350,000 in respect of 27 new trading rights were received from SEHK and deposits of $300,000 in respect of six relinquished trading rights were refunded to SEHK. As at 31 March 2019, 16 trading rights totalling $800,000 were relinquished but not yet refunded.

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

	2019 $'000	2018 $'000
Balance brought forward	**53,500**	51,200
Add: new trading rights issued	**1,350**	2,700
Less: relinquished trading rights refunded	**(300)**	(250)
Adjustment for: increase in relinquished trading rights payable to SEHK	**(50)**	(150)
Balance carried forward	**54,500**	53,500

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected $330 million and $300 million respectively to the Fund during the years 1998 to 2001. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of $3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred $3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

12. Contributions to Investor Compensation Fund

When the 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. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2019 amounted to $994,718,000 (2018: $994,718,000), no further contributions has been made to the ICF since 1 April 2005.

13. Material related party transactions

The Fund has related party relationships with the ICF and the SFC. 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 2018.

14. 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 2019, 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 $883,000 (2018: $865,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

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.

Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to $8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2019, SEHK replenished $16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish $70,816,000 to the Fund as follows:

	2019 $'000	2018 $'000
Compensation paid up to the $8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	**100,738**	100,738
Less: recoveries received for compensation paid up to $8 million	**(29,946)**	(29,946)
Add: recoveries re-distributed to claimants	**16,385**	16,385
Less: replenishments from SEHK	**(16,361)**	(16,361)
Net amount the SFC may request SEHK for replenishment	**70,816**	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.