

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2018.

### Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

### Members of the Committee

The members of the Committee during the quarter ended 30 June 2018 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	(retired on 31 July 2018)
Mr Lee Kwok Keung	
Mr Thomas Allen Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 2018)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

**Keith Lui**  
Chairman

14 August 2018

## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
<b>Income</b>			
Net investment (loss)/income		(6,028)	30,226
Exchange difference		(1,267)	7,503
		(7,295)	37,729
<b>Expenses</b>			
Investor Compensation Company Limited expenses	3	1,484	1,450
Auditor's remuneration		51	49
Bank charges		230	236
Professional fees		1,064	1,044
		2,829	2,779
<b>(Deficit)/surplus and total comprehensive income for the quarter</b>		<b>(10,124)</b>	<b>34,950</b>

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

## Investor Compensation Fund

### Condensed statement of financial position

At 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited at 30 June 2018 \$'000	Audited at 31 March 2018 \$'000
<b>Current assets</b>		
Financial assets at fair value through profit or loss		
Debt securities	1,941,410	1,939,279
Pooled fund	–	350,084
Interest receivable	17,073	17,015
Amount due from Investor Compensation Company Limited	612	203
Fixed deposits with banks	15,042	52,586
Cash at bank	378,332	3,347
	<b>2,352,469</b>	<b>2,362,514</b>
<b>Current liabilities</b>		
Creditors and accrued charges	1,443	1,364
	<b>1,443</b>	<b>1,364</b>
<b>Net current assets</b>	<b>2,351,026</b>	<b>2,361,150</b>
<b>Net assets</b>	<b>2,351,026</b>	<b>2,361,150</b>
Representing :		
<b>Compensation fund</b>		
Contributions from Unified Exchange Compensation Fund	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	108,923	108,923
Accumulated surplus	1,247,385	1,257,509
	<b>2,351,026</b>	<b>2,361,150</b>

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

## Investor Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'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 quarter	–	–	34,950	34,950
Balance at 30 June 2017	994,718	108,923	1,211,715	2,315,356
Balance at 1 April 2018	<b>994,718</b>	<b>108,923</b>	<b>1,257,509</b>	<b>2,361,150</b>
Deficit and total comprehensive income for the quarter	–	–	(10,124)	(10,124)
Balance at 30 June 2018	<b>994,718</b>	<b>108,923</b>	<b>1,247,385</b>	<b>2,351,026</b>

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

## Condensed statement of cash flows

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2018 \$'000	Unaudited quarter ended 30 June 2017 \$'000
<b>Cash flows from operating activities</b>		
(Deficit)/surplus for the quarter	(10,124)	34,950
Adjustments for:		
Net investment loss/(income)	6,028	(30,226)
Exchange difference	1,267	(7,503)
	(2,829)	(2,779)
Increase in amount due from Investor Compensation Company Limited	(409)	(441)
Decrease in provision for compensation	-	(150)
Increase in creditors and accrued charges	79	127
Net cash used in operating activities	(3,159)	(3,243)
<b>Cash flows from investing activities</b>		
Debt securities purchased	(145,306)	(255,998)
Debt securities sold or redeemed	132,602	273,651
Pooled fund sold	338,934	399
Interest received	14,370	11,923
Net cash generated from investing activities	340,600	29,975
<b>Net increase in cash and cash equivalents</b>	<b>337,441</b>	<b>26,732</b>
<b>Cash and cash equivalents at beginning of the quarter</b>	<b>55,933</b>	<b>44,971</b>
<b>Cash and cash equivalents at end of the quarter</b>	<b>393,374</b>	<b>71,703</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2018 \$'000	Unaudited at 30 June 2017 \$'000
Fixed deposits with banks	15,042	70,298
Cash at bank	378,332	1,405
	<b>393,374</b>	<b>71,703</b>

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

## Notes to the condensed financial statements

For the quarter ended 30 June 2018 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2018. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2018 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2018 to this condensed interim financial information except for the adoption of Hong Kong Financial Reporting Standard (HKFRS) 9, *Financial instruments* as issued by the HKICPA, with a date of transition of 1 January 2018. The impact of the adoption of HKFRS 9 is disclosed in note 2 below.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2018.

### 2. Changes in accounting policies

#### Impact on the condensed interim financial information

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, are now required to be classified as fair value through profit or loss. Other financial assets that were measured at amortised cost (e.g. fixed deposits with banks) previously 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.

### 3. Investor Compensation Company Limited expenses

The SFC formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2018, the ICC incurred \$1,484,000 for its operation (for the quarter ended 30 June 2017: \$1,450,000).

### 4. Material related party transactions

We have related party relationships with the Securities and Futures Commission, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2017 and 2018.

### 5. Contingent liabilities

As at the date of this report, there are 10 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims is \$1,611,000 (at 31 March 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.