

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 2018 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 31 to 36.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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	(retired on 31 December 2018)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	(appointed on 1 August 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, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

Keith Lui

Chairman

22 February 2019

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Income					
Net investment income		22,712	80,346	14,441	23,249
Exchange difference		(3,941)	9,836	737	1,413
Compensation payment given up		150	–	150	–
		18,921	90,182	15,328	24,662
Expenses					
Investor Compensation Company Limited expenses	3	4,423	4,314	1,461	1,431
Auditor's remuneration		137	132	35	33
Bank charges		406	727	11	248
Professional fees		1,465	3,097	16	1,041
		6,431	8,270	1,523	2,753
Surplus and total comprehensive income for the period		12,490	81,912	13,805	21,909

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Current assets		
Financial assets at fair value through profit or loss		
– Debt securities	37,732	1,939,279
– Pooled fund	–	350,084
Interest receivable	12,130	17,015
Due from Investor Compensation Company Limited	226	203
Fixed deposits with banks	2,322,457	52,586
Cash at bank	1,419	3,347
	2,373,964	2,362,514
Current liabilities		
Creditors and accrued charges	324	1,364
	324	1,364
Net current assets	2,373,640	2,361,150
Net assets	2,373,640	2,361,150
Representing:		
Compensation fund	2,373,640	2,361,150

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the period	–	–	81,912	81,912
Balance at 31 December 2017	994,718	108,923	1,258,677	2,362,318
Balance at 1 April 2018	994,718	108,923	1,257,509	2,361,150
Surplus and total comprehensive income for the period	–	–	12,490	12,490
Balance at 31 December 2018	994,718	108,923	1,269,999	2,373,640

The notes on pages 35 to 36 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Surplus and total comprehensive income for the period		12,490	81,912
Adjustments for:			
Net investment income		(22,712)	(80,346)
Exchange difference		3,941	(9,836)
		(6,281)	(8,270)
Increase in amount due from Investor Compensation Company Limited		(23)	(97)
Decrease in provision for compensation		–	(176)
Decrease in creditors and accrued charges		(1,040)	(60)
Net cash used in operating activities		(7,344)	(8,603)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(2,295,470)	–
Debt securities purchased		(165,306)	(919,710)
Debt securities sold or redeemed		2,055,094	825,678
Pooled fund sold		338,934	36,356
Interest received		46,565	35,682
Net cash used in investing activities		(20,183)	(21,994)
Net decrease in cash and cash equivalents		(27,527)	(30,597)
Cash and cash equivalents at beginning of the nine-month period		55,933	44,971
Cash and cash equivalents at end of the nine-month period	4	28,406	14,374

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2018 \$'000	At 31 Dec 2017 \$'000
Fixed deposits with banks	26,987	11,407
Cash at bank	1,419	2,967
	28,406	14,374

The notes on pages 35 to 36 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 2018 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 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 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 nine months ended 31 December 2018.

2. Changes in accounting policies

Impact on the 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 condensed 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 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 nine months ended 31 December 2018, the ICC incurred costs of \$4,423,000 for its operations (for the nine months ended 31 December 2017: \$4,314,000) which were reimbursed by the Fund.

4. Cash and cash equivalents

	Unaudited At 31 Dec 2018 \$'000	Audited At 31 Mar 2018 \$'000
Cash at bank	1,419	3,347
Fixed deposits with banks	2,322,457	52,586
Amounts shown in the condensed statement of financial position	2,323,876	55,933
Less: Amounts with an original maturity of beyond three months	(2,295,470)	–
Cash and cash equivalents in the condensed statement of cash flows	28,406	55,933

5. 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 interim financial information of the Fund for the nine months ended 31 December 2018 and 2017.

6. Contingent liabilities

As at the date of this report, 12 claims have been received for which currently there is insufficient information to determine the likely level of payment. The maximum liability of these claims in aggregate is \$1,791,000 (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.