

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their half-yearly report and the unaudited condensed financial statements for the six months ended 30 September 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 reporting period ended 30 September 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 35 to 41.

### Members of the Committee

The members of the Committee during the six months ended 30 September 2019 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	(appointed on 30 August 2019)
Mr Lui Kei Kwong, Keith (ex-Chairman)	(retired on 27 August 2019)
Mr Thomas Allan Atkinson	
Dr William Wong Ming Fung, SC	
Mr Tai Chi Kin, Calvin	

### 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 six months.

On behalf of the Committee

**Rico Leung**  
Chairman

28 November 2019

# Investor Compensation Fund

## Report on review of interim financial information To the Securities and Futures Commission

### Introduction

We have reviewed the interim financial information set out on pages 36 to 41, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2019 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 November 2019

## Investor Compensation Fund

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

For the three months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>		
Net investment income	15,963	14,299
Exchange difference	4,578	(3,411)
	20,541	10,888
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,524	1,478
Auditor's remuneration	54	51
Bank charges	-	165
Professional fees	-	385
	1,578	2,079
<b>Surplus and total comprehensive income for the quarter</b>	<b>18,963</b>	<b>8,809</b>

## Investor Compensation Fund

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

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Income</b>			
Net investment income	2	31,934	8,271
Exchange difference		(1,764)	(4,678)
		30,170	3,593
<b>Expenses</b>			
Investor Compensation Company Limited expenses	3	3,041	2,962
Auditor's remuneration		106	102
Bank charges		-	395
Professional fees		-	1,449
		3,147	4,908
<b>Surplus/(loss) and total comprehensive income for the period</b>		<b>27,023</b>	<b>(1,315)</b>

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 September 2019 (Expressed in Hong Kong dollars)

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
<b>Current assets</b>		
Interest receivable	20,516	25,425
Due from Investor Compensation Company Limited	576	54
Fixed deposits with banks	2,397,242	2,365,483
Cash at bank	422	845
	<b>2,418,756</b>	2,391,807
<b>Current liabilities</b>		
Creditors and accrued charges	228	302
	<b>228</b>	302
<b>Net current assets</b>	<b>2,418,528</b>	2,391,505
<b>Net assets</b>	<b>2,418,528</b>	2,391,505
Representing:		
<b>Compensation fund</b>	<b>2,418,528</b>	2,391,505

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2019 (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 2018	994,718	108,923	1,257,509	2,361,150
Loss and total comprehensive income for the period	–	–	(1,315)	(1,315)
Balance at 30 September 2018	994,718	108,923	1,256,194	2,359,835
Balance at 1 April 2019	<b>994,718</b>	<b>108,923</b>	<b>1,287,864</b>	<b>2,391,505</b>
Surplus and total comprehensive income for the period	–	–	27,023	27,023
Balance at 30 September 2019	<b>994,718</b>	<b>108,923</b>	<b>1,314,887</b>	<b>2,418,528</b>

The notes on pages 40 and 41 form part of the condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2019 \$'000	30 Sep 2018 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(loss) for the period		27,023	(1,315)
Adjustments for:			
Net investment income		(31,934)	(8,271)
Exchange difference		1,764	4,678
		(3,147)	(4,908)
Increase in amount due from Investor Compensation Company Limited		(522)	(218)
Decrease in creditors and accrued charges		(74)	(658)
Net cash used in operating activities		(3,743)	(5,784)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		68,608	(1,052,152)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	1,818,518
Pooled fund sold		–	338,934
Interest received		36,832	37,196
Net cash generated from investing activities		105,440	977,190
<b>Net increase in cash and cash equivalents</b>		101,697	971,406
<b>Cash and cash equivalents at the beginning of the six-month period</b>		32,944	55,933
<b>Cash and cash equivalents at the end of the six-month period</b>	4	134,641	1,027,339

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

	Unaudited	
	At 30 Sep 2019 \$'000	At 30 Sep 2018 \$'000
Fixed deposits with banks	134,219	1,026,649
Cash at bank	422	690
	134,641	1,027,339

The notes on pages 40 and 41 form part of the condensed financial statements.

## Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial information in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting adopted by the Hong Kong Institute of Certified Public Accountants.

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 2019. 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 2019 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2019 to the interim financial information.

There were no significant changes in the operations of the Fund for the six months ended 30 September 2019.

### 2. Net investment income

	Unaudited Six months ended	
	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Interest income from bank deposits	31,934	5,189
Interest income on financial assets at fair value through profit or loss	-	22,217
Realised loss on disposal of pooled fund	-	(10,350)
Realised loss on redemption/disposal of debt securities	-	(6,969)
Loss on revaluation of debt securities	-	(1,816)
Net investment income	31,934	8,271



## Investor Compensation Fund

### Notes to the condensed financial statements

For the six months ended 30 September 2019 (Expressed in Hong Kong dollars)

#### 3. Investor Compensation Company Limited expenses

The Securities and Futures Commission (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 six months ended 30 September 2019, the ICC incurred costs of \$3,041,000 for its operation (for the six months ended 30 September 2018: \$2,962,000) which were reimbursed by the Fund.

#### 4. Cash and cash equivalents

	Unaudited At 30 Sep 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank	422	845
Fixed deposits with banks	2,397,242	2,365,483
Amounts shown in the condensed statement of financial position	2,397,664	2,366,328
Less: Amounts with an original maturity of beyond three months	(2,263,023)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	134,641	32,944

#### 5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the six months ended 30 September 2018 and 2019.

#### 6. Contingent liabilities

As at the date of this report, there are 16 claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims in aggregate is \$2,210,000 at 30 September 2019 (at 31 March 2019: \$2,121,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.