

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 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 31 December 2019 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 33 to 38.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

Rico Leung
Chairman

21 February 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Income					
Net investment income	2	46,705	22,712	14,771	14,441
Exchange difference		(9,940)	(3,941)	(8,176)	737
Compensation payment given up		–	150	–	150
		36,765	18,921	6,595	15,328
Expenses					
Investor Compensation Company Limited expenses	3	4,544	4,423	1,503	1,461
Auditor's remuneration		142	137	36	35
Bank charges		–	406	–	11
Professional fees		–	1,465	–	16
		4,686	6,431	1,539	1,523
Surplus and total comprehensive income for the period		32,079	12,490	5,056	13,805

The notes on pages 37 and 38 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

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

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Current assets		
Interest receivable	17,149	25,425
Due from Investor Compensation Company Limited	300	54
Fixed deposits with banks	2,405,913	2,365,483
Cash at bank	486	845
	2,423,848	2,391,807
Current liabilities		
Creditors and accrued charges	264	302
	264	302
Net current assets	2,423,584	2,391,505
Net assets	2,423,584	2,391,505
Representing:		
Compensation fund	2,423,584	2,391,505

The notes on pages 37 and 38 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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
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
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the period	–	–	32,079	32,079
Balance at 31 December 2019	994,718	108,923	1,319,943	2,423,584

The notes on pages 37 and 38 form part of the condensed financial statements.

Condensed statement of cash flows

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Surplus for the period		32,079	12,490
Adjustments for:			
Net investment income		(46,705)	(22,712)
Exchange difference		9,940	3,941
		(4,686)	(6,281)
Increase in amount due from Investor Compensation Company Limited		(246)	(23)
Decrease in creditors and accrued charges		(38)	(1,040)
Net cash used in operating activities		(4,970)	(7,344)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		644,868	(2,295,470)
Debt securities purchased		–	(165,306)
Debt securities sold or redeemed		–	2,055,094
Pooled fund sold		–	338,934
Interest received		54,897	46,565
Net cash generated from/(used in) investing activities		699,765	(20,183)
Net increase/(decrease) in cash and cash equivalents		694,795	(27,527)
Cash and cash equivalents at the beginning of the nine-month period		32,944	55,933
Cash and cash equivalents at the end of the nine-month period	4	727,739	28,406

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	727,253	26,987
Cash at bank	486	1,419
	727,739	28,406

The notes on pages 37 and 38 form part of the condensed financial statements.

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 2019.

2. Net investment income

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Interest income from bank deposits	46,705	19,268
Interest income on financial assets at fair value through profit or loss	–	22,500
Realised loss on disposal of pooled fund	–	(10,350)
Realised loss on redemption/disposal of debt securities	–	(9,274)
Gain on revaluation of debt securities	–	568
Net investment income	46,705	22,712

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 nine months ended 31 December 2019, the ICC incurred costs of \$4,544,000 for its operation (for the nine months ended 31 December 2018: \$4,423,000) which were reimbursed by the Fund.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 2019 (Expressed in Hong Kong dollars)

4. Cash and cash equivalents

	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Cash at bank	486	845
Fixed deposits with banks	2,405,913	2,365,483
Amounts shown in the condensed statement of financial position	2,406,399	2,366,328
Less: Amounts with an original maturity of beyond three months	(1,678,660)	(2,333,384)
Cash and cash equivalents in the condensed statement of cash flows	727,739	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 nine months ended 31 December 2019 and 2018.

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 31 December 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.