

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities 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 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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 December 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 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 40 to 45.

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	
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 reporting period or at any time during the nine months.

On behalf of the Committee

Rico Leung
Chairman

18 February 2020

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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					
Interest income		1,359	1,120	496	441
Recoveries	2	(1)	1	–	–
		1,358	1,121	496	441
Expenses					
Auditor's remuneration		67	65	15	15
Surplus and total comprehensive income for the period		1,291	1,056	481	426

The notes on pages 44 and 45 form part of the condensed financial statements.

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Condensed statement of financial position

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

	Note	Unaudited At 31 Dec 2019 \$'000	Audited At 31 Mar 2019 \$'000
Current assets			
Equity securities received under subrogation	2	–	1
Interest receivable		268	187
Accounts receivable		9	9
Fixed deposits with banks		91,967	88,338
Cash at bank		591	1,922
		92,835	90,457
Current liabilities			
Creditors and accrued charges		10,312	10,325
Relinquished trading rights payable to SEHK	3	900	800
		11,212	11,125
Net current assets		81,623	79,332
Net assets		81,623	79,332
Representing:			
Compensation fund		81,623	79,332

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

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

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 3) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to the ICF \$'000		
Balance at 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804	
Net contributions from SEHK	700	-	-	-	-	-	700	
Surplus and total comprehensive income for the period	-	-	-	-	1,056	-	1,056	
Balance at 31 December 2018	54,200	353,787	630,000	6,502	27,789	(994,718)	77,560	
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332	
Net contributions from SEHK	1,000	-	-	-	-	-	1,000	
Surplus and total comprehensive income for the period	-	-	-	-	1,291	-	1,291	
Balance at 31 December 2019	55,500	353,787	630,000	6,502	30,552	(994,718)	81,623	

The notes on pages 44 and 45 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

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

	Unaudited Nine months ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities		
Surplus for the period	1,291	1,056
Adjustments for:		
Interest income	(1,359)	(1,120)
Recoveries	1	–
	(67)	(64)
(Decrease)/increase in creditors and accrued charges	(13)	7
Increase in relinquished trading rights payable to SEHK	100	150
Net cash generated from operating activities	20	93
Cash flows from investing activities		
Interest received	1,278	988
Net cash generated from investing activities	1,278	988
Cash flows from financing activities		
Net trading rights deposits from SEHK	1,000	700
Net cash generated from financing activities	1,000	700
Net increase in cash and cash equivalents	2,298	1,781
Cash and cash equivalents at the beginning of the nine-month period	90,260	86,749
Cash and cash equivalents at the end of the nine-month period	92,558	88,530

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 31 Dec 2019 \$'000	At 31 Dec 2018 \$'000
Fixed deposits with banks	91,967	87,882
Cash at bank	591	648
	92,558	88,530

The notes on pages 44 and 45 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. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the interim financial information 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.

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. Recoveries/Equity securities received under subrogation

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in Recoveries.

As at 31 December 2019, the equity securities received under subrogation amounted to \$205 (as at 31 March 2019: \$1,191). The balance as at 31 December 2019 is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

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

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (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 Securities and Futures Commission (SFC) must refund to SEHK the deposit within six months after the trading right was relinquished.

During the nine-month period, deposits of \$1,600,000 in respect of 32 new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK.

As at 31 December 2019, there were 18 trading rights in total of \$900,000 that have been relinquished but not yet refunded (as at 31 March 2019: 16). The net trading right deposits from SEHK as at 31 December 2019, excluding the relinquished trading rights payable, amounted to \$55,500,000 (as at 31 March 2019: \$54,500,000).

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Notes to the condensed financial statements

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

4. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the nine months ended 31 December 2019 and 2018.