

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 2020.

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 2020 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 quarter ended 30 June 2020 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung

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

Rico Leung

Chairman

13 August 2020

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Income			
Interest income		10,173	15,971
Exchange loss		(78)	(6,342)
		10,095	9,629
Expenses			
Investor Compensation Company Limited expenses	2	1,559	1,517
Auditor's remuneration		55	52
		1,614	1,569
Surplus and total comprehensive income for the quarter		8,481	8,060

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

Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Current assets		
Interest receivable	5,423	7,185
Due from Investor Compensation Company Limited	538	138
Fixed deposits with banks	2,430,610	2,420,558
Cash at bank	351	651
	2,436,922	2,428,532
Current liabilities		
Creditors and accrued charges	177	268
	177	268
Net current assets	2,436,745	2,428,264
Net assets	2,436,745	2,428,264
Representing:		
Compensation fund	2,436,745	2,428,264

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 quarter ended 30 June 2020 (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 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the quarter	–	–	8,060	8,060
Balance at 30 June 2019	994,718	108,923	1,295,924	2,399,565
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the quarter	–	–	8,481	8,481
Balance at 30 June 2020	994,718	108,923	1,333,104	2,436,745

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

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Surplus for the quarter		8,481	8,060
Adjustments for:			
Interest income		(10,173)	(15,971)
Exchange loss		78	6,342
		(1,614)	(1,569)
Increase in amount due from Investor Compensation Company Limited		(400)	(374)
(Decrease)/increase in creditors and accrued charges		(91)	45
Net cash used in operating activities		(2,105)	(1,898)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		367,425	161,615
Interest received		11,935	16,186
Net cash generated from investing activities		379,360	177,801
Net increase in cash and cash equivalents		377,255	175,903
Cash and cash equivalents at the beginning of the quarter		1,086,662	32,944
Cash and cash equivalents at the end of the quarter	3	1,463,917	208,847

Analysis of the balance of cash and cash equivalents

	Unaudited	
	at 30 Jun 2020 \$'000	at 30 Jun 2019 \$'000
Fixed deposits with banks	1,463,566	208,231
Cash at bank	351	616
	1,463,917	208,847

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

Notes to the condensed financial statements

For the quarter ended 30 June 2020 (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 2020. 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 2020 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 2020 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2020.

2. 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 quarter ended 30 June 2020, the ICC incurred costs of \$1,559,000 for its operation (for the quarter ended 30 June 2019: \$1,517,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited at 30 Jun 2020 \$'000	Audited at 31 Mar 2020 \$'000
Cash at bank	351	651
Fixed deposits with banks	2,430,610	2,420,558
Amounts shown in the condensed statement of financial position	2,430,961	2,421,209
Less: Amounts with an original maturity of beyond three months	(967,044)	(1,334,547)
Cash and cash equivalents in the condensed statement of cash flows	1,463,917	1,086,662

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Notes to the condensed financial statements

For the quarter ended 30 June 2020 (Expressed in Hong Kong dollars)

4. 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 quarters ended 30 June 2020 and 2019.

5. Contingent liabilities

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit per claimant is \$150,000 for each default case occurring on or before 31 December 2019 and \$500,000 for each default case occurring on or after 1 January 2020.

As at the date of this report, there are 13 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 \$2,053,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit per claimant or the amount claimed.