

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their report together with the unaudited condensed financial statements for the quarter ended 30 June 2024.

## 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 period ended 30 June 2024 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 47 to 52.

## Members of the Committee

The members of the Committee during the period and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

(retired on 31 July 2024)

Mr Yih, Dieter, JP

(appointed on 1 August 2024)

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

## 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 reporting period.

On behalf of the Committee

**Rico Leung**

Chairman

15 August 2024

## Investor Compensation Fund

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

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Income</b>			
Interest income		33,495	26,535
Exchange loss		(3,644)	(2,409)
		29,851	24,126
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	1,568	1,520
Auditor's remuneration		58	57
		1,626	1,577
<b>Surplus and total comprehensive income for the quarter</b>		<b>28,225</b>	<b>22,549</b>

The notes on pages 51 to 52 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2024 \$'000	Audited At 31 Mar 2024 \$'000
<b>Current assets</b>			
Interest receivable		44,106	55,366
Amount due from the Investor Compensation Company Limited		188	148
Fixed deposits with banks	3	2,623,753	2,584,342
Cash at bank	3	584	648
		2,668,631	2,640,504
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		180	278
		3,574	3,672
<b>Net current assets</b>		2,665,057	2,636,832
<b>Net assets</b>		2,665,057	2,636,832
Representing:			
<b>Compensation fund</b>		2,665,057	2,636,832

The notes on pages 51 to 52 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Unaudited					
	Contributions from the Unified Exchange Compensation Fund \$'000	Contributions from the Commodity Exchange Compensation Fund \$'000	Contributions from the Securities Dealers' Deposits Fund (note 5) \$'000	Contributions from the Commodities Dealers' Deposits Fund (note 5) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2023	994,718	108,923	–	–	1,413,407	2,517,048
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	–	–	5,470	617	–	6,087
Surplus and total comprehensive income for the quarter	–	–	–	–	22,549	22,549
Balance at 30 June 2023	994,718	108,923	5,470	617	1,435,956	2,545,684
Balance at 1 April 2024	<b>994,718</b>	<b>108,923</b>	<b>5,470</b>	<b>617</b>	<b>1,527,104</b>	<b>2,636,832</b>
Surplus and total comprehensive income for the quarter	–	–	–	–	<b>28,225</b>	<b>28,225</b>
Balance at 30 June 2024	<b>994,718</b>	<b>108,923</b>	<b>5,470</b>	<b>617</b>	<b>1,555,329</b>	<b>2,665,057</b>

The notes on pages 51 to 52 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2024 \$'000	30 Jun 2023 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		28,225	22,549
Adjustments for:			
Interest income		(33,495)	(26,535)
Exchange loss		3,644	2,409
		(1,626)	(1,577)
Change in amount due from/to the Investor Compensation Company Limited		(40)	(333)
Decrease in creditors and accrued charges		(98)	(95)
Net cash used in operating activities		(1,764)	(2,005)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		26,711	(79,869)
Interest received		44,681	26,392
Net cash generated from/(used in) investing activities		71,392	(53,477)
<b>Cash flows from financing activity</b>			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		–	6,087
Net cash generated from financing activity		–	6,087
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>69,628</b>	(49,395)
Cash and cash equivalents at the beginning of the quarter		702,082	164,980
<b>Cash and cash equivalents at the end of the quarter</b>	3	<b>771,710</b>	115,585

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

	Unaudited	
	At 30 Jun 2024 \$'000	At 30 Jun 2023 \$'000
Fixed deposits with banks	771,126	114,939
Cash at bank	584	646
	<b>771,710</b>	115,585

The notes on pages 51 to 52 form part of these condensed financial statements.

## Investor Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 1. Basis of preparation

We have prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* issued 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 events and transactions that are significant to an understanding of the changes in the financial position and performance of the Investor Compensation Fund (the Fund) since the annual financial statements for the year ended 31 March 2024. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2024 included in this report as comparative information 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 2024 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2024.

#### 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 of investors and other functions under Part III and Part XII of the Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2024, the ICC incurred costs of \$1,568,000 for its operations (for the quarter ended 30 June 2023: \$1,520,000).

#### 3. Cash and cash equivalents

	<b>Unaudited At 30 Jun 2024 \$'000</b>	<b>Audited At 31 Mar 2024 \$'000</b>
Cash at bank	584	648
Fixed deposits with banks	2,623,753	2,584,342
Amounts shown in the condensed statement of financial position	2,624,337	2,584,990
Less: Amounts with an original maturity beyond three months	(1,852,627)	(1,882,908)
Cash and cash equivalents in the condensed statement of cash flows	771,710	702,082

## Investor Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2024 (Expressed in Hong Kong dollars)

#### 4. Provision for compensation

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

The provision of compensation as at 30 June 2024 was \$3,394,000, which was related to a number of claims received in respect of a default case which occurred on or before 31 December 2019 (as at 31 March 2024: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision is expected to be paid within one year.

#### 5. Contributions from dealers' deposits funds

Under Section 76 (11) of Schedule 10 of the SFO, the SFC shall pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund (SDD) and the Commodities Dealers' Deposits Fund (CDD) after repaying the dealers' deposits and any money due to the registered dealers. During the quarter ended 30 June 2023, the SFC had \$5,470,000 and \$617,000 paid into the Fund from the SDD and the CDD respectively.

#### 6. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the Unified Exchange Compensation Fund, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2024 and 2023.

#### 7. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 12 outstanding claims as at 30 June 2024 (12 outstanding claims as at 31 March 2024). The maximum liability in respect of these claims in aggregate was \$2,199,000 (as at 31 March 2024: \$2,199,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

#### 8. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the quarters ended 30 June 2024 and 2023, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.