

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2021.

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Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund).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 March 2021, 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Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.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 financial year ended 31 March 2021 and the financial position of the Fund as at that date are set out in the financial statements on pages 148 to 158.

Members of the Committee

The members of the Committee during the year ended 31 March 2021 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 Yiu Ka Yan Wilfred | |
| Ms Kwok Hom Siu Sally | |

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 financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

14 May 2021

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 148 to 158, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor’s report (continued) To the Securities and Futures Commission

Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA’s will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA’s, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 May 2021

Unified Exchange Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|----------------|----------------|
| Income | | | |
| Interest income | | 744 | 1,846 |
| Recoveries | 4 | 4,069 | (1) |
| | | 4,813 | 1,845 |
| Expenses | | | |
| Auditor's remuneration | | 86 | 82 |
| | | 86 | 82 |
| Surplus and total comprehensive income for the year | | 4,727 | 1,763 |

The notes on pages 152 to 158 form part of these financial statements.

Statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

| | Note | 2021 \$'000 | 2020 \$'000 |
|---|------|----------------|----------------|
| Current assets | | | |
| Interest receivable | | 27 | 243 |
| Accounts receivable | | – | 9 |
| Fixed deposits with banks | 6 | 97,518 | 92,879 |
| Cash at bank | 6 | 336 | 470 |
| | | 97,881 | 93,601 |
| Current liabilities | | | |
| Creditors and accrued charges | 7 | 10,309 | 10,306 |
| Relinquished trading rights payable to SEHK | 8 | 1,500 | 1,250 |
| | | 11,809 | 11,556 |
| Net current assets | | 86,072 | 82,045 |
| Net assets | | 86,072 | 82,045 |
| Representing: | | | |
| Compensation fund | | 86,072 | 82,045 |

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2021 and signed on its behalf by

Rico Leung

Chairman

Wilfred Yiu

Committee Member

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

| | Trading rights deposits from SEHK (note 8) \$'000 | Excess transaction levy from SEHK (note 9) \$'000 | Additional contributions from SEHK and the SFC (note 10) \$'000 | Other contributions (note 11) \$'000 | Accumulated surplus \$'000 | Contributions to the ICF (note 12) \$'000 | Total \$'000 |
|---|--|--|--|---|-------------------------------|--|-----------------|
| Balance at 1 April 2019 | 54,500 | 353,787 | 630,000 | 6,502 | 29,261 | (994,718) | 79,332 |
| Net contributions from SEHK | 950 | – | – | – | – | – | 950 |
| Surplus and total comprehensive income for the year | – | – | – | – | 1,763 | – | 1,763 |
| Balance at 31 March 2020 and 1 April 2020 | 55,450 | 353,787 | 630,000 | 6,502 | 31,024 | (994,718) | 82,045 |
| Net contributions to SEHK | (700) | – | – | – | – | – | (700) |
| Surplus and total comprehensive income for the year | – | – | – | – | 4,727 | – | 4,727 |
| Balance at 31 March 2021 | 54,750 | 353,787 | 630,000 | 6,502 | 35,751 | (994,718) | 86,072 |

The notes on pages 152 to 158 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|----------------|----------------|
| Cash flows from operating activities | | | |
| Surplus for the year | | 4,727 | 1,763 |
| Adjustments for: | | | |
| Interest income | | (744) | (1,846) |
| Recoveries | | – | 1 |
| | | 3,983 | (82) |
| Decrease in accounts receivable | | 9 | – |
| Increase/(decrease) in creditors and accrued charges | | 3 | (19) |
| Increase in relinquished trading rights payable to SEHK | | 250 | 450 |
| Net cash generated from operating activities | | 4,245 | 349 |
| Cash flows from investing activities | | | |
| Decrease/(increase) in fixed deposits other than cash and cash equivalents | | 16,401 | (61,350) |
| Interest received | | 960 | 1,790 |
| Net cash generated from/(used in) investing activities | | 17,361 | (59,560) |
| Cash flows from financing activities | | | |
| Net trading rights deposits (refunded to)/received from SEHK | | (700) | 950 |
| Net cash (used in)/generated from financing activities | | (700) | 950 |
| Net increase/(decrease) in cash and cash equivalents | | | |
| | | 20,906 | (58,261) |
| Cash and cash equivalents at the beginning of the year | | 31,999 | 90,260 |
| Cash and cash equivalents at the end of the year | 6 | 52,905 | 31,999 |

Analysis of the balance of cash and cash equivalents

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------|----------------|----------------|
| Fixed deposits with banks | 52,569 | 31,529 |
| Cash at bank | 336 | 470 |
| | 52,905 | 31,999 |

The notes on pages 152 to 158 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After 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. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31

March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2020: nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries detailed in note 4; replenishments from SEHK detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity, less contributions to the ICF (note 12) and less contributions from SEHK (trading rights deposits from SEHK detailed in note 8).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements 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. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

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 included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Recognition of income (cont'd)

(iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

(d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of an outflow of economic benefits is remote. We also disclose possible obligations,

whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of an outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

- (b) An entity is related to the Fund if any of the following conditions applies: (cont'd)
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2021 ranged from 0.08% p.a. to 0.40% p.a. (2020: 1.06% p.a. to 2.33% p.a.). The balances of deposits at both 31 March 2021 and 31 March 2020 mature within one year.

Reconciliation to cash and cash equivalents

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Cash at bank | 336 | 470 |
| Fixed deposits with banks | 97,518 | 92,879 |
| Amounts shown in the statement of financial position | 97,854 | 93,349 |
| Less: Amounts with an original maturity of beyond three months | (44,949) | (61,350) |
| Cash and cash equivalents in the statement of cash flows | 52,905 | 31,999 |

4. Recoveries/Equity securities received under subrogation

The Fund received \$4,069,000 from certain liquidators which was recognised as recoveries for the year ended 31 March 2021 (2020: nil).

As at 31 March 2021, the equity securities received under subrogation amounted to \$150 (as at 31 March 2020: \$142). The balances as at 31 March 2021 and 31 March 2020 are too small to appear on the statement of financial position which is expressed in thousands of dollars.

5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are due on demand or within one year and are unsecured.

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

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right is relinquished. During the year, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 March 2021, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Balance brought forward | 55,450 | 54,500 |
| Add: new trading rights issued | 350 | 2,000 |
| Less: relinquished trading rights refunded | (800) | (600) |
| Adjustment for: increase in relinquished trading rights payable to SEHK | (250) | (450) |
| Balance carried forward | 54,750 | 55,450 |

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

12. Contributions to Investor Compensation Fund

When the 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. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2021 amounted to \$994,718,000 (2020: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2021 and 2020.

14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2021, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$975,000 (2020: \$929,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2021, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,776,000 to the Fund as follows:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance | 100,738 | 100,738 |
| Less: recoveries received for compensation paid up to \$8 million | (29,986) | (29,946) |
| Add: recoveries re-distributed to claimants | 16,385 | 16,385 |
| Less: replenishments from SEHK | (16,361) | (16,361) |
| Net amount the SFC may request SEHK for replenishment | 70,776 | 70,816 |

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.