



# **Investor Compensation Company Limited**

**Annual Report**

**Year ended 31<sup>st</sup> July 2016**

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# Mission Statement

The Investor Compensation Company Limited aims to operate a financially sound scheme so that it is in a position to pay, in a prompt manner, statutory levels of compensation to eligible clients of failed investment firms.

## In doing this, we will:

- Ensure that claims for compensation are dealt with promptly.
- Operate a cost effective method for the collection of levies which is fair to all investment firms.
- Maintain an open and positive relationship with the participant firms and claimants with whom we deal.

## In fulfilling our mission we are guided by the following values:

- We take seriously our responsibility to the Investor Compensation Scheme's claimants and participant firms.
  - We work in a consultative and co-operative manner with our participant firms, with the Central Bank of Ireland and with the Department of Finance.
  - We operate with integrity and transparency.
  - We work efficiently and effectively.
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**Investor  
Compensation  
Company  
Limited**

**Annual Report  
Year Ended  
31<sup>st</sup> July 2016**

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## DIRECTORS AND OTHER INFORMATION

<b>Directors</b>	Jim Bardon	(Chairperson)
	George Treacy	(Deputy Chairperson – appointed on 7 <sup>th</sup> September 2015)
	Valerie Bowens	(Appointed on 19 <sup>th</sup> October 2015)
	Brendan Bruen	(Appointed on 11 <sup>th</sup> July 2016)
	Liam Carberry	
	Brian Healy	(Re-appointed on 1 <sup>st</sup> August 2015)
	Dermott Jewell	
	Siobhán Madden	(Appointed on 19 <sup>th</sup> October 2015)
	Enda Newton	(Appointed on 19 <sup>th</sup> October 2015)
	Paul O'Donovan	(Senior Independent Director)
	Frank O'Dwyer	(Resigned on 23 <sup>rd</sup> May 2016)
	Louise O'Mahony	(Re-appointed on 1 <sup>st</sup> August 2015. Retired 31 <sup>st</sup> July 2016)
	Ciaran Phelan	
	Amy Walsh	(Appointed on 12 <sup>th</sup> September 2016)

**Secretary** Michael Fagan

**Registered Office** Central Bank of Ireland,  
PO Box 11517,  
Spencer Dock,  
North Wall Quay,  
Dublin 1.

**Auditor** KPMG,  
1 Harbourmaster Place,  
IFSC,  
Dublin 1.

**Bankers** Bank of Ireland,  
2 College Green,  
Dublin 2.

**Solicitors** William Fry Solicitors,  
Fitzwilton House,  
Wilton Place,  
Dublin 2.

**Registered No 293240**

# THE BOARD OF DIRECTORS

All members serve as non-executive directors



**Jim Bardon**

(Chairperson)

Director General of the Irish Bankers' Federation from 1988 to 2004. Former Chairman of the Executive Committee of the European Banking Federation, and the Consumer Affairs Committee of the European Banking Federation. Secretary of the Council of the Financial Services Ombudsman and former Secretary of the Credit Institutions Ombudsman of Ireland Limited. Former member of the Member Services Committee of the IDA, Company Law Review Group, Small Business and Services Forum, Consultative Industry Panel of the Financial Regulator and Executive Committee of the European Banking Federation.



**George Treacy**

(Deputy Chairperson)

Company Secretary and Chief Operations Officer of the Investor Compensation Company Limited from 2011 to 2014. A former member of the Company Law Review Group. He began his career with the Central Bank of Ireland where he held various senior positions including Head of Division in the Legal, Consumer Protection and Intermediaries Supervision Divisions and latterly as Acting Director of Enforcement.



**Valerie Bowens**

A Director of ICCL since October 2015, Valerie is Director of Regulatory Compliance at Dillon Eustace Solicitors, Director of NSAI and member of its Governance Committee, and Council Member of the Financial Services Ombudsman. Prior to these roles, at executive level, extensive compliance and regulatory experience over more than 20 years, to include Managing Director and Country Head of Compliance - BNY Mellon, Senior Regulator - Central Bank, Senior Manager - AIB Capital Markets, and also former Director of Association of Compliance Officers in Ireland. Holds honours degrees - Bachelor of Commerce, and Master of Business Studies, as well as a Diploma in Financial Services Law, all from UCD.



**Brendan Bruen**

Brendan Bruen is the CEO of the Irish Association of Investment Managers, whose members manage assets of over €280bn on behalf of Irish and international clients. He was previously Director of Financial Services Ireland, the Ibec association representing the financial services industry. A graduate of Trinity College Dublin and the King's Inns, he is a qualified barrister (non-practicing).



**Liam Carberry**

A practicing Insurance Broker with 25 years' experience in the Financial Services Industry and immediate past Chairman of the Professional Insurance Brokers Association (PIBA). A former member of the Financial Services Industry Consultative Panel and past President of the Christian Brothers Parents Council of Ireland.



**Brian Healy**

Director of Traded Markets, Development, Operations, Irish Stock Exchange. Chairman of the Euroclear Group plc cross-market Irish Market Advisory Committee dealing with development and harmonisation issues for equity and fixed income. Previously worked with Arthur Andersen. A fellow of the Institute of Chartered Accountants in Ireland and of the Chartered Institute of Securities and Investment. He is also an Accredited Mediator.





**Dermott Jewell**

Policy and Council Advisor of the Consumers' Association of Ireland. Current representations include Chairperson Financial Services Ombudsman Council, Chairperson European Consumer Centre, Chairperson Governing Board Irish Food Quality Certification, Member Consumer Advisory Group of the Central Bank of Ireland, Member of the Bórd Bia Quality Assurance Board and Irish Representative alternate of the European Consumer Consultative Group (ECCG) of DG Sanco.



**Siobhán Madden**

Appointed to the board of the ICCL in October 2015 and a member of the board of Bus Atha Cliath. Siobhan is an international corporate legal consultant. Her practice specialties are the law relating to banking & financial services, aviation and corporate governance. Siobhan is an Irish solicitor, tax consultant, and a member of the New York Bar. She is a graduate of Trinity College, was a partner in A&L Goodbody Solicitors for 15 years, and for 8 years was General Counsel Ireland for Zurich Insurance Group. She has also worked in New York and France for major international companies.



**Enda Newton**

A Corporate Partner in AMOSS Solicitors with extensive experience in advising on mergers and acquisitions, equity capital markets, corporate re-organisations, shareholder arrangements, corporate fundraising, joint ventures, venture capital and private equity. Formerly a senior legal advisor in the Banking Division of the Department of Finance where he was involved in advising on a diverse range of issues relating to the banking crisis.



**Paul O'Donovan**

Independent consultant operating across all sectors of the Financial Services Industry working with regulatory bodies, representative bodies and service providers. Formerly a Senior Consultant with Accenture (Andersen Consulting, Arthur Andersen & Co.) and a founder Director of Prospectus Strategy Consultants. Established O'Donovan Associates in 1994.



**Ciaran Phelan**

Ciaran is currently Chief Executive of the Irish Brokers Association. He has over 25 years' experience in the Life Assurance Industry having worked in various senior management roles. He also spent a number of years in the telecommunications industry. He holds a BA in Management.



**Amy Walsh**

Head of Risk & Regulation, Banking and Payments Federation Ireland. Also a member of the European Banking Federation's and Banking Supervision Committee, Crisis Resolution Committee and Deposit Guarantee Scheme WG. Member of the Finuas Steering Group.

## Board Committees

The Board has set up two standing committees, a Funding Committee and an Audit Committee. The current membership of these committees is as follows:

### Funding Committee

George Treacy<sup>1</sup> (Committee chairperson)  
Liam Carberry  
Brian Healy  
Dermott Jewell  
Frank O'Dwyer  
Louise O'Mahony  
Ciaran Phelan

### Audit Committee

Brian Healy (Committee chairperson)  
Valerie Bowens<sup>2</sup>  
Frank O'Dwyer  
Enda Newton<sup>3</sup>  
Siobhán Madden<sup>4</sup> (*Alternate Member*)

## Attendance at Board and Committee Meetings

	Board	Funding Committee	Audit Committee
<i>Number of meetings held</i>	8	4	4
Jim Bardon	8 (of 8)	N/a	N/a
George Treacy	8 (of 8)	3 (of 3)	N/a
Daniel Coveney <sup>5</sup>	N/a	1 (of 1)	N/a
Valerie Bowens <sup>6</sup>	6 (of 7)	N/a	N/a
Liam Carberry	7 (of 8)	4 (of 4)	N/a
Brian Healy	7 (of 8)	2 (of 4)	4 (of 4)
Dermott Jewell	8 (of 8)	4 (of 4)	N/a
Siobhán Madden	7 (of 7)	N/a	2 (of 2)
Enda Newton	5 (of 7)	N/a	1 (of 3)
Paul O'Donovan	7 (of 8)	N/a	N/a
Frank O'Dwyer <sup>7</sup>	6 (of 6)	4 (of 4)	3 (of 3)
Louise O'Mahony <sup>8</sup>	7 (of 8)	3 (of 4)	N/a
Ciaran Phelan	5 (of 8)	3 (of 4)	N/a
Brendan Bruen <sup>9</sup>	1 (of 1)	N/a	N/a

<sup>1</sup> Appointed to the Board and the Funding Committee on 7th September 2015

<sup>2</sup> Appointed to the Audit Committee on 12th September 2016

<sup>3</sup> Appointed to the Board and Audit Committee on 19th October 2015

<sup>4</sup> Appointed to the Board and Audit Committee on 19th October 2015

<sup>5</sup> Retired from the Board and the Funding Committee on 4th September 2015

<sup>6</sup> Appointed to the Board on 19th October 2015

<sup>7</sup> Alternate member of the Audit Committee during the year ended 31st July 2015, appointed as a full member on 19th October 2015, Resigned from the Board on 23rd May 2016.

<sup>8</sup> Retired from the Board on 31st July 2016.

<sup>9</sup> Appointed to the Board on 11th July 2016

# CHAIRPERSON'S STATEMENT

## Jim Bardon

I have the pleasure of presenting the Annual Report of the Investor Compensation Company Limited for its eighteenth year of operation.

### Overview

In the last twelve months, the Company has continued to steadily grow its own reserves which had been depleted in the aftermath of past and current large cases - **W&R Morrogh (In Receivership) and Custom House Capital Limited (In Liquidation) [CHC]**. By 31<sup>st</sup> July 2016, total reserves stood at €48.0 million, which equates to an increase of €4.7 million (10.9 per cent) on the previous year, and incorporates full provision for anticipated liabilities in respect of all known compensation cases. The two designated Funds: Fund A (for large investment firms) and Fund B (for all other member firms of the Compensation Scheme) amounted to €24.8 million and €23.1 million respectively at the end of the period, well on the way to meeting their separate target levels of €35 million and €25 million as agreed in the Company's Funding Arrangements for the three years to 2019, which was concluded earlier this year.

The ICCL's overall funding capacity is strong with the ongoing implementation of our cascade funding model. In addition to reserves, the model incorporates excess of loss insurance cover of €100 million – which is a unique arrangement among national investor compensation schemes in Europe - and standby external borrowing facilities. The Company now has the capability of funding aggregate compensation payments of up to €145 million for the failure of a major Fund A firm and €35 million for Fund B firms without recourse to the imposition of additional levies on Scheme participants.

Claims activity during the past year focussed on the ongoing CHC case as well as a new failure, **Asset Management Trust Limited (AMT)**. In previous reports, I had alluded to the protracted delays in the payment of compensation to CHC investors due to complexities, legal and otherwise, involved in the liquidation of that firm. While there was a minimal level of progress in the number of claims certified by the Administrator, Mr Kieran Wallace, who is also the Liquidator, the fact that a significant majority of claimants have had to endure a wait of at least four years before receiving their statutory compensation entitlement is wholly unsatisfactory and cannot be seen as according with the spirit of domestic or European investor compensation legislation. The current scenario whereby the ICCL is ready to pay the compensation involved in such cases but must await the required certifications from the Administrator only serves to aggravate matters.

Against this backdrop, we have engaged with the CHC Administrator with a view to seeking the acceleration of the certifications process, including proposals to adopt certifications on an interim basis. The proposed approach had been noted in reports made by the Liquidator/Administrator to the High Court. The complicated nature of the task involved in reconciling the client accounts together with associated legal and other issues arising in the determination of losses for the investors concerned is likely to result in further delays, possibly extending to a number of years, in the conclusion of the compensation process in this case.

The introduction in late 2015 of the *Investor Compensation Act, 1998 (Return of Investor Funds or Other Client Property) Regulations*, while potentially alleviating some of the difficulties that could be encountered in similar cases, is unlikely in its own right to address some of the more intractable issues that can arise in such instances. In consequence, the Board has initiated an assessment of all aspects of the current claims process, as well as the lessons learned from the CHC and other cases with a view to recommending changes to the compensation regime, including possible legislative amendments which would improve the outcome for eligible clients in future investment firm failures. This reflects the key objective of the ICCL Strategic Plan 2016-20. A Working Group established for this purpose is due to report with recommendations later this year.

## Compensation Claims

Under the terms of the Investor Compensation Act, 1998, the Company is obliged to pay compensation within three months of the certification of the relevant claim by the appointed Administrator of the investment firm concerned and notification to the ICCL. In practice, we arrange for payment on a much speedier basis, usually within two weeks of certification and we remain committed to this objective. However, as noted above in respect of CHC and previous large cases, the certification process can prove to be complicated and consequently protracted, resulting in lengthy delays before this exercise is completed by the Administrator and ultimately, compensation is actually issued to affected investors.

As alluded to above, the timeframe for payment of compensation claims in CHC continues to be lengthy. In the past year, there was a resumption of certifications by the Administrator, resulting in aggregate compensation of over €185,000 being paid. This brought the total amount paid to date to €7.1 million (out of an estimated total claims liability of €19.7 million). However, almost 1,500 claims from clients of that firm in respect of losses suffered have yet to be certified.

The **AMT** case, which was initiated at the start of 2016 following a determination by the Central Bank, has given rise to receipt of a relatively small number of claims from clients of that firm seeking aggregate compensation of the order of €182,000. The claims have been passed to the appointed Administrator, Mr Des Ritchie for his adjudication. The ICCL is providing assistance to the Administrator in the interest of early certification of the claims.

During the year, the Company was advised by the Joint Special Liquidators (Mr Kieran Wallace and Mr Eamonn Richardson) to the **Irish Bank Resolution Corporation (IBRC)** that no further liability for compensation to clients of that bank was likely to arise. The total compensation paid in respect of IBRC will thus remain at €12,368.

All claims received in the aftermath of the failure of **Money Markets International Stockbrokers Limited (In Liquidation)** in 2001 were certified and paid some years ago. The outcome of the Company's subrogated claim in the ongoing liquidation is awaited.

## Operations and Staffing

The collection of annual levies from investment firms that are members of the Investor Compensation Scheme is a critical component of the Company's operations and building of our compensation funds. All authorised investment firms have a statutory obligation to pay

these fees (under the terms of the Investor Compensation Act, 1998). The levies are set on a three-year cycle following detailed assessment of the Scheme's future funding needs and consultation with the financial services industry. As noted above, Funding Arrangements, including annual levy contribution rates for the next three year cycle (2017-2019) were finalised earlier this year.

In the year ended 31<sup>st</sup> July 2016, the total of levies collected was €6.4 million or 99.8 per cent of the amount due, which was a very strong performance. A discount-based plan incentivising firms that signed up to e-invoicing and/or opted to pay the levy by direct debit proved popular and enhanced the Company's operational efficiency. It is the policy of the ICCL to pursue all outstanding amounts due, including recourse to legal recovery where appropriate, as well as notification of non-compliant firms to the regulatory authority (Central Bank).

Towards the end of the reporting period, the Company's Investment Policy was the subject of a comprehensive review by a Working Group led by the Deputy Chairman George Treacy. A revised policy, designed to address the ongoing challenging market environment, was approved by the Board and subsequently sanctioned by the Central Bank as supervisory authority.

Although the past year saw the staff complement below approved level as well as some turnover, all operations were performed in a satisfactory manner. This was due to the commitment and dedication of the Executive, led by Michael Fagan, Chief Operations Officer, for which the Board is very grateful.

The Company maintains a close relationship with the Central Bank in respect of investor compensation-related policy and other regulatory matters. The Bank also provides a range of support services to the ICCL, including the provision of accommodation. On behalf of the Board, I would like to thank the Bank and its staff for all their assistance throughout the past year. I also wish to acknowledge the support of our other stakeholders, and specifically the Department of Finance for their continued support.

## Corporate Governance

The Board seeks at all times to operate to the highest standards of corporate governance. In pursuit of this objective, it has implemented appropriate structures and procedures including the formation of two standing sub-Committees (Audit and Funding).

In line with this commitment, the Board has initiated a review of the Company's risk management arrangements. A Working Group chaired by Paul O'Donovan, Senior Independent Director, has been tasked with completing this exercise and will report to the Board later this year.

Arising from the requirements of the Companies Act, 2014, the ICCL is in the process of transitioning to a "Designated Activity Company" (DAC). This process gives rise to a change of name to "Investor Compensation Company DAC". This process is expected to be completed by 31<sup>st</sup> October 2016.

## **Board Retirements and Appointments**

During the past year, Frank O'Dwyer resigned as a Director while Louise O'Mahony retired on the expiry of her term of office. I would like to express my appreciation to both for their contributions to the work of the Board.

I welcome Brendan Bruen and Amy Walsh who recently joined the Board and look forward to working with them in the years ahead.

Finally, I am very grateful to all Board Members for the time, expertise and commitment which they bring to the business of the Board.

**24<sup>th</sup> October 2016**

# OPERATING REPORT



The Company's primary role is to ensure that, in accordance with the Investor Compensation Act, 1998 (Act), investors have access to compensation in a timely fashion. The Company also strives to provide a value for money service to all its stakeholders.

*Michael Fagan*  
Chief Operations Officer

I am pleased to present my second Operating Report as Chief Operations Officer for the Investor Compensation Company Limited [the Company/ICCL], covering the financial year to 31<sup>st</sup> July 2016.

## Overview

The ICCL's operations in the past year were focussed on the fulfilment of the Company's principal responsibilities as outlined above. Our work was guided by the pursuit of the high level goals as set out in the Strategic Plan 2016-2020, approved by the Board in 2015. These are:

- To ensure that the Scheme is adequately funded, by collecting levies and managing invested reserves prudently, so that we have the resources to pay claims when they arise.
- To handle claims for compensation promptly and to expedite the certification of claims
- To manage the ICCL efficiently and effectively, implementing quality corporate governance and risk management procedures.
- To communicate effectively, manage relationships and be an advocate of change with all key stakeholders

The Board is provided with regular reports on progress towards achieving these goals while also conducting a review of the Plan on an annual basis.

The Board also reviews the Annual Work Programme devised by the Executive. This is derived from the Strategic Plan and details the operational targets for both the Company and individual staff members.

## Funding

There was further consolidation of the Company's financial position with the ongoing replenishment of reserves towards target levels. The requirement to build balance sheet strength stems from the substantial provisions previously made for the estimated aggregate compensation payments to investors of almost €20 million following the failure of Custom House Capital (CHC).

Following a very strong levy collection outturn, with a total of €6.4 million accumulated, (equivalent to 99.8 per cent of amounts due), there was an increase of €4.7 million in underlying reserves.

While reserves are the cornerstone of our capacity to meet claims liabilities, the availability of alternative funding sources continues to play a very significant role in the funding model and enables the Company to fund compensation payments that might arise in relation to the failure of a large investment firm. Last year saw the successful renewal of the expanded Excess of Loss Insurance policy. This important source of non-recourse funding provides that where the aggregate claims arising from investment firm failures exceed €15 million in the case of Fund A and/or Fund B, the insurers will cover subsequent claims to a maximum of €100 million and €10 million respectively. In addition, the Company has standby credit arrangements in place to augment resources.

During the year, a new three-year Funding Arrangement programme was successfully concluded. This will provide some certainty regarding annual levies payable for all firms participating in the Compensation Scheme for the period 2017-19.

Further information on the Company's funding performance is outlined below.

## **Investments**

In the investment of its reserves, the ICCL has an overarching priority of the protection of capital through minimising risk while seeking the best returns obtainable. The retention of adequate liquidity levels to meet ongoing operational needs also informs the investment management process. Difficult market conditions, epitomised by historically low interest rates and a relatively small pool of deposit counterparties with acceptable credit ratings, persisted throughout the period. While investment income declined by €103,000 to €53,000, the average return of 0.13 per cent exceeded the average return on the benchmark (1-month EURIBID) level of -0.25 per cent.

Against the backdrop of the challenging market conditions, a comprehensive review of the Investment policy was conducted earlier this year. This culminated in a number of recommended changes being implemented following approval by the Board and by the Central Bank, the supervisory authority for investor compensation.

A section dedicated to investment performance is included below.

## **Claims**

Claims activity during the year was mainly related to CHC, the largest compensation case in the history of the ICCL. Although there were some claims certified and paid (unlike in the previous year), progress in advancing the majority of outstanding claims was disappointingly slow. This lack of headway is due to the complexities arising in the liquidation of that firm. Unfortunately, the factors involved are beyond the control of the ICCL. We have continued to pursue possible measures which would result in the acceleration in the certification process.

A new case – Asset Management Trust (AMT) - arose in early 2016 following the issuing of a determination by the Central Bank under the Investor Compensation Act, 1998 and the subsequent appointment an Administrator. Ten claims were received from clients of this former investment firm and these are currently under review by the Administrator.

All other cases are effectively completed with no additional claims foreseen at this time. Further information on all claims are provided later in this Report.

## **Financial Results**

A surplus of €4.7 million was recorded for the year, which represents an increase of 4.7 per cent on the previous year. Total Income, which primarily reflects annual levies receivable, was €6.4 million.



Total expenditure amounted to €1.7 million. As at 31<sup>st</sup> July 2016, aggregate reserves amounted to €48.0 million, compared with €43.3 million at the corresponding previous year-end.

More details on the financial outturn are available later in the report.

## Funding of the Scheme

Under the provisions of the Investor Compensation Act, 1998, as amended, the ICCL is charged with maintaining a compensation fund or funds out of which compensation payments can be made to eligible clients of failed investment firms. The Funds are financed from levies made by investment firms, all of which are authorised by the Central Bank. In the aftermath of the substantial provisions previously made in relation to the compensation payments that are expected to arise in the CHC case, the Company made further progress in the building of its reserves in the past year.

The ICCL sets levy rates for investment firms that are members of the Investor Compensation Scheme at three-yearly cycles. The levies are determined following a comprehensive review of future funding requirements including the ability of firms to meet the proposed levies and a consultation process with the financial services industry. The twelve months ended 31<sup>st</sup> July 2016 was the final of the three year series 2014-16. As alluded to earlier, arrangements for a new three-year funding round were developed in recent months to take effect as and from the contribution year commencing 1 August 2016.

As outlined earlier, the main focus of the recently concluded funding cycle was on the restoration of Fund A (which relates to investment firms of a significant size) to appropriate levels, following the earlier substantial provision made for the anticipated significant compensation payments that will arise in the CHC case. A funding target of €25 million, to be reached by the end of the cycle (31<sup>st</sup> July 2016) had been set for Fund A with contribution rates set accordingly. By that date, the level of the Fund had reached €24.8 million, marginally below target. This incorporated receipts of €4.9 million or 99.9 per cent of levies due in the past financial year, which was a very satisfactory collection performance.

For Fund B, it had been planned to achieve reserves of €24 million. At financial year-end, the Fund had extended to €23.1 million (or 96 per cent of target). Progress towards attaining this objective was impacted by a continuing decline in the number of firms contributing to this Fund, reflecting industry consolidation and other factors. In the period under review, over €1.4 million (or 99.4 per cent of amounts due) was collected from member firms.

In summary, an aggregate collection rate for last year of 99.8 per cent was realised which represents another very successful campaign. As indicated in the table below, the rate of collection continues to improve, which is to be welcomed.

Year ended	Collections: Fund A			Collections: Fund B			Total
	Firms	€m	Rate %	Firms	€m	Rate %	€m
31 <sup>st</sup> July 2016	160	4.9	99.9	3,250	1.4	99.4	6.3
31 <sup>st</sup> July 2015	165	4.2	99.9	3,429	1.4	99.2	5.6
31 <sup>st</sup> July 2014	175	3.9	99.9	3,769	1.4	98.9	5.3
31 <sup>st</sup> July 2013	195	3.6	99.7	4,096	1.6	97.5	5.2
31 <sup>st</sup> July 2012	205	3.4	98.5	4,487	1.6	95.7	5.0

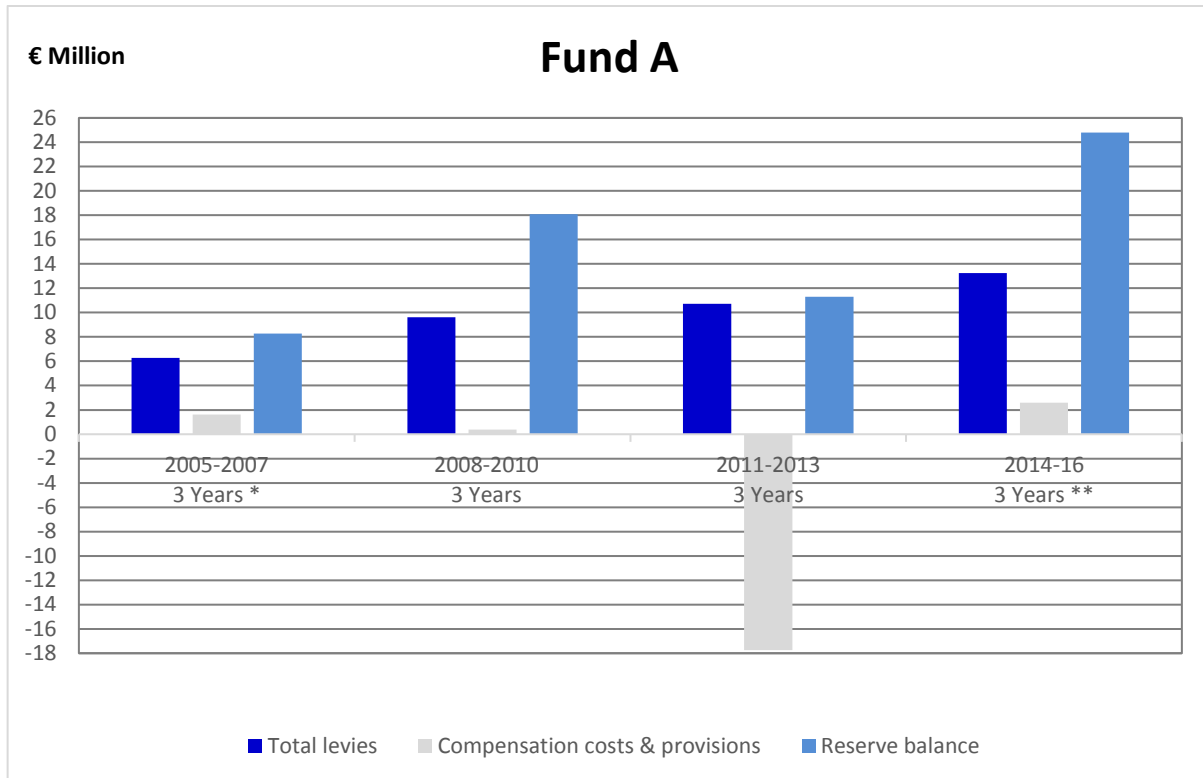
These excellent results are attributable to:

- The commitment of the vast majority of investment firms to comply with their statutory obligation to pay the annual levy.

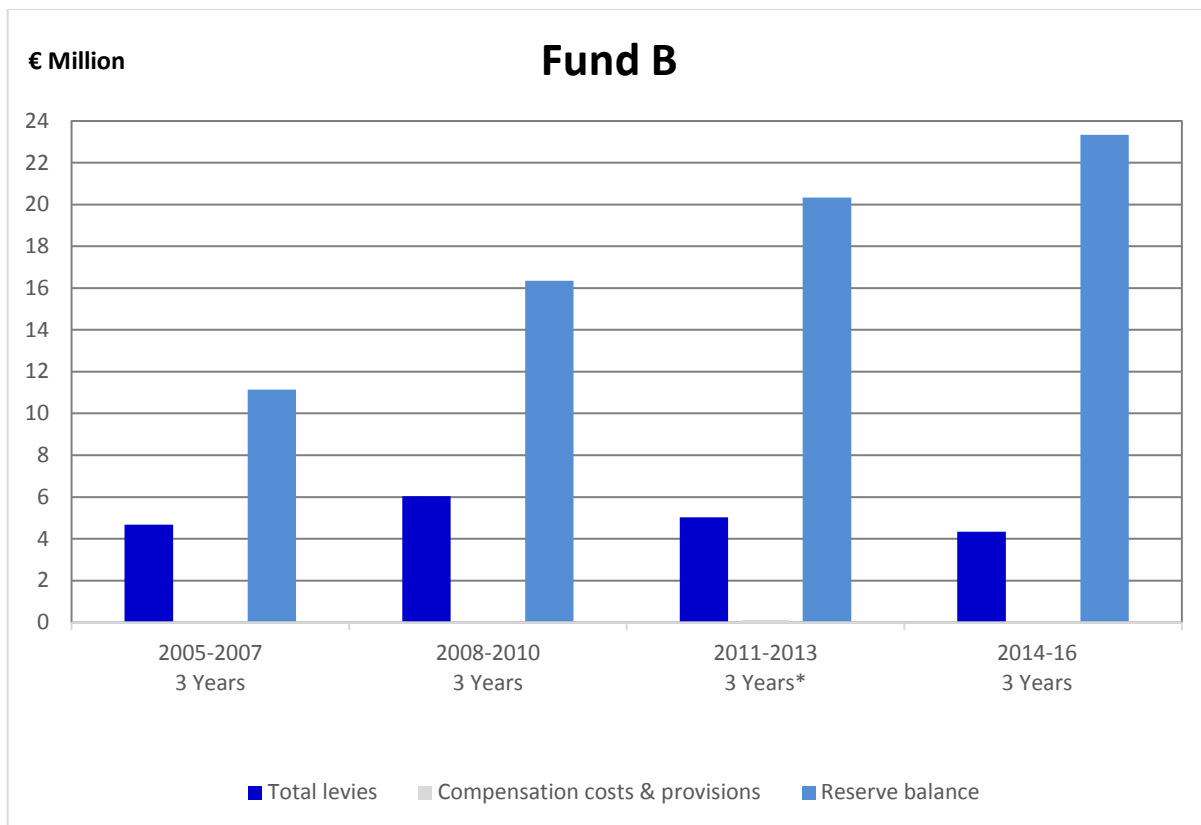
- Rigorous follow-up procedures including legal pursuit of firms that have failed to pay amounts due
- Continued close co-operation with the Central Bank in respect of inactive and non-compliant contributors to the Compensation Scheme.

While I can assure participants that the ICCL will prioritise the pursuit of any outstanding fees, it is encouraging that the vast majority of firms continue to pay the annual levy on a timely basis.

The following tables indicate for both Fund A and B the quantum of levies received over the past number of years together with the impact of compensation provisions and costs. Most of the funds collected have either been absorbed by compensation paid or accumulated in reserves.



\*€1.8 million release of W&R Morrogh Claims Compensation Provision  
 \*\*€2.5 million release of IBRC Claims Compensation Provision (2014)



\*€9,996 release of Andrew Casey Claims Compensation Provision

## Investments

The ICCL's funding is derived almost entirely from levies paid by investment firms that participate in the Scheme, with such funding essential to provide for claims for compensation from eligible investors. Accordingly, the investment of funds is conducted in a prudent manner with a high value placed on the preservation of capital and the availability of liquidity.

As in preceding periods, the main focus in the past year was on the placement of funds on deposit for fixed periods of up to one year, subject to operational liquidity requirements. The prevailing money markets environment has proved to be particularly challenging with interest rates at historically low levels and conditions being influenced considerably by the substantial quantitative easing programme being conducted by the European Central Bank.

The average rate of return achieved over the year was 0.13 per cent, which although lower than the preceding year (0.38 per cent), nevertheless compares favourably with the average return for the period on the benchmark one-month deposit return of -0.25 per cent.

As referred to previously, the further decline in interest rates and the relative lack of acceptable counterparties offering positive returns has served to intensify an already difficult market environment, with little prospect of improvement in conditions on the horizon. Accordingly, in early 2016, following consultations with the Central Bank, the Board sanctioned a review of policy to ensure that all available options were considered within the confines of the ICCL's mandate. Investments made by the ICCL must comply with specific parameters contained in the Investor Compensation Act, which in essence provide that funds can be placed on deposit or invested in securities in which trustees are authorised by law to invest trust funds.

The review incorporated assessments of the ICCL's risk appetite from an investment perspective as well as liquidity requirements under a number of claims-related scenarios. The revised policy, which was approved by both the Board and the Central Bank in July 2016, provides that the ICCL will seek to maintain a diversified portfolio of investments across approved asset classes, including Irish Government bonds but facilitates alternative arrangements where such an approach is deemed disadvantageous.

## Compensation Cases

Our website, [www.investorcompensation.ie](http://www.investorcompensation.ie), is updated regularly with the latest news on all outstanding cases.

### Custom House Capital Limited (in liquidation) [CHC]:

The CHC case remains the single largest compensation case being dealt with by the ICCL. The case dates from failure of this investment firm and subsequent High Court appointment on 21 October 2011 of Mr Kieran Wallace as Liquidator and Administrator for the purposes of the Act.

To date, the Company has received 1,977 claims for compensation from clients of CHC. All claims received are passed to the Administrator who is required to certify the compensatable loss involved for each claimant, following which notification, the Company will arrange payment of compensation to the investors concerned. As at 31<sup>st</sup> July 2016, the ICCL had paid out over €7.0 million to some 500 claimants. During the year, 70 claims were certified by the Administrator resulting in compensation payments of €186,617. It is estimated that further compensation amounting to €12.9 million will arise (based on estimates from the Administrator) in respect of the 1428 claims still outstanding, resulting in a final compensation bill of €19.7 million. This amount has been fully provided for in the Company's accounts.

The liquidation and administration of CHC has proved to be a complex and protracted exercise partly due to a number of legal issues arising in the course of the liquidation of the firm. Unfortunately, this has resulted in further lengthy delays in the certification of claims by the Administrator. The fact that so many investors have yet to have their claims certified is most unsatisfactory particularly as the ICCL stands ready to issue payments to eligible investors without delay, on receipt of certification. We have been seeking to address these matters and made proposals to the Administrator regarding the acceleration of the certification process and are awaiting further developments.

Separately, a Board Working Group was established earlier in the year to consider what steps could be taken to address delays in the certification of claims and related payment of compensation of the nature encountered in the CHC and in previous cases such as W & R Morrogh. The Working Group, which is scheduled to report later this year will consider the current arrangements relating to claims and what changes, both legislative and operational, that could facilitate the speedier payment of compensation.

### Asset Management Trust Limited (AMT)

In February 2016, the Central Bank issued a determination in respect of AMT, a former authorised investment firm and appointed Mr Des Ritchie as Administrator. The ICCL has contacted all known clients of the firm inviting the submission of claims for compensation in circumstances where the firm failed to return assets or monies to the client. To date, 10 claims for compensation have been received. The ICCL is providing assistance to the Administrator in his assessment of the claims.

A provision of €182,623 in respect of estimated compensation payable in relation to the AMT case has been created. This provision is based upon an analysis of claims received. The deadline for the receipt of claims in relation to AMT expired on 27 July 2016.

### Irish Bank Resolution Corporation ['IBRC']:

On 17 May 2013, Mr Kieran Wallace and Mr Eamonn Richardson, the joint Special Liquidators to IBRC, were appointed as joint Administrators to that credit institution. A total of 54 claims for compensation were submitted by clients to the ICCL and were furnished to the Administrators. Aggregate compensation of €12,368 was paid in respect of these claims. In many instances, no compensatable losses arose as the claims fell within the scope of either the Deposit Guarantee Scheme or the Government Eligible Liabilities Guarantee Scheme rather than the Investor Compensation Scheme. The Administrators have confirmed that no further compensatable claims are likely to arise.

### Money Markets International Stockbrokers Limited ['MMI']:

All compensation claims in relation to this case were processed and paid some years ago. However, in accordance with the requirements of the Act, the Company has maintained a subrogated claim in the amount of €774,422 (representing the aggregate compensation paid to eligible clients of MMI) pending the final outcome of the liquidation which remains ongoing. No dividend is expected in the case. During the year, the outstanding provision in respect of estimated compensation costs in this case was released.

## Financial Results Summary for y/e 31<sup>st</sup> July 2016

<b>INCOME and EXPENDITURE</b>	<b>2016 €'000</b>	<b>2015 €'000</b>
Levy Income	6,353	5,669
Interest Income	60	172
Compensation costs	(160)	15
Director & Staff Costs	(594)	(627)
Funding Costs	(773)	(550)
Other Administration Costs	(166)	(171)
<b>Surplus for Year</b>	<b>4,720</b>	<b>4,508</b>

<b>BALANCE SHEET</b>	<b>2016 €'000</b>	<b>2015 €'000</b>
Cash at bank and short term investments	56,414	51,794
Fixed assets	30	28
Debtors	4,862 <sup>10</sup>	4,865
Creditors	(199)	(255)
Provision for liabilities and charges	(13,131)	(13,176)
<b>Fund Reserves</b>	<b>47,976</b>	<b>43,256</b>

<sup>10</sup> Includes an amount of €4.7 million (2015: €4.7 million) recoverable under an insurance policy (re CHC).

The Company's operations generated a surplus of €4.7 million in the financial year-ended 31<sup>st</sup> July 2016. This represents an increase of €212,094 on the previous period, which is mainly due to a rise in levies collected from investment firms. Accumulated reserves stood at €47.9 million at the end of the year, (comprising of €24.8 million in Fund A and €23.1 million in Fund B).

### Income

Total Income for the year amounted to €6.4 million, which represented an increase of almost €600,000 on the previous year. This reflects net income from Scheme participants, which was marginally below expectations. As noted earlier, interest income, including €6,600 of late payment penalty interest collected, amounted to €60,000, equivalent to a reduction of €97,000 attributable to the continuing low interest rate environment.

### Compensation Costs

Compensation costs for the year amounted to €160,613. These costs are comprised of the creation of a provision for claims legal costs, the claims provision for the AMT case and were somewhat offset by the release of the residual MMI provision. This outturn contrasts with the previous year when a credit of €15,334 was recorded due to the release of provisions.

### Funding and Administration Expenses

Total administration expenses increased by €185,000 to €1.5 million, driven by higher funding-related charges. This outcome incorporated a full year charge for the extended Excess of Loss Insurance policy. Director and Staff costs were €589,000, a reduction of €32,000, which was due to lower than planned average staff numbers.

### Bad Debts

The consistently strong levy collection performance enabled a further decrease in the level of bad debts written-off of €15,889 (from €21,302 in the previous year) and a reduction of €7,350 in the provision for bad debts. It is evident that the policy of intensive follow-up of outstanding levies, including recourse to legal pursuit, and continued cooperation with the Central Bank continues to be effective.

Further details are included in the Table below.

#### Bad Debts – Write-offs and Provisions:

Particulars (€)	Year ended 31 <sup>st</sup> July 2016			Year ended 31 <sup>st</sup> July 2015		
	Fund A	Fund B	Total	Fund A	Fund B	Total
Bad debts written-off	-	15,889	15,889	-	21,302	21,302
Increase/(Decrease) in Provision	2,276	(7,769)	(5,493)	(2,870)	(15,119)	(17,989)
<b>Total Bad Debts Costs</b>	<b>2,276</b>	<b>8,120</b>	<b>10,396</b>	<b>(2,870)</b>	<b>6,183</b>	<b>3,313</b>

## Strategic Plan

A new Strategic Plan covering the five years 2016-20 was developed and approved by the Board in the latter part of 2015. This sets out high level goals that encompass the strategic priorities and objectives of the ICCL and which in turn assist in the framing of the Annual Work Programme (Operations). The following is a summary of key outputs against each of the strategic goals:

### **1) To ensure that the Scheme is adequately funded by collecting levies and managing invested reserves prudently**

- Completion of a very successful campaign for the collection of annual levies for y/e 31<sup>st</sup> July 2016 (over 99 per cent of amount due collected)
- Conclusion of assessment and analysis of funding requirements for 2017-19 and implementation of new 3 Year Funding Arrangements
- Renewal of Excess of Loss Insurance Policy on acceptable terms, providing cover of up to €100 million in respect of compensation payable to investors in the event of the failure of a large investment firm
- Revision of Investment Policy to ensure that it meets requirements in current challenging market environment

### **2) To handle claims for compensation promptly and to expedite the certification of claims**

- Payment of all compensation claims certified by CHC Administrator well within statutory deadline
- Continued to engage actively with CHC Administrator with a view to acceleration of claims certification process, including proposals for certifications on an interim basis
- Establishment of Review Group to consider changes required to improve outcomes for investor in relation to the claims process
- Contact with all known clients of AMT well within prescribed deadline following Determination by Central Bank

### **3) To manage the ICCL efficiently and effectively, implementing quality corporate governance and risk management procedures.**

- Achieved a significant increase in the number of contributors availing of efficiency-enhancing options for the payment of annual levies, (e.g. e-invoicing, direct debit payments)
- Execution of a comprehensive test under the Business Recovery Management Plan
- Continued focus on adherence to best practice corporate governance (e.g. Board appointments made in compliance with Guidelines on Appointments to State Boards where appropriate, changes required under Companies Act, 2014 initiated)
- Completion of agreement with Central Bank regarding the provision of various support services for the Company over the coming years

### **4) To communicate effectively, manage relationships and be an advocate of change with all key stakeholders**

- Liaison with Department of Finance regarding recommended legislative changes
- Ongoing engagement with Central Bank, the supervisory authority for investor compensation, on policy and related matters
- Further enhancement of website

The long delays that have been endured in the CHC case continue to be a source of frustration. While a number of claims were certified by the Administrator and compensation paid by the ICCL during the year, the fact that a majority of the investors involved are still awaiting validation of their claims is unacceptable and cannot be said to be with the spirit of the aims of the relevant legislation. We will continue to engage with the Administrator with a view to achieving early progress. It is clear, however, that some changes, probably of a legislative nature, will be required to the overall framework in order to address the likelihood of similar delays occurring in future comparable cases. I would hope that the outcome of the current Review of the claims process will ultimately result in an improvement in the position of investors in such cases.

## Organisation

All executive staff of the ICCL are seconded from the Central Bank. Section 20 of the Act provides that the Central Bank may furnish administrative support services to the Company. The cost of such services, including staff remuneration, is discharged from the resources of the Company. As at 31<sup>st</sup> July 2016, the team consisted of 7 permanent executive staff. A significant programme of work was undertaken by the team during the year.

Although average staff numbers were below complement across a demanding year, all core operations were conducted effectively. I wish to acknowledge my fellow team members for their ongoing application and dedication.

I am also grateful for the continued support and guidance from the Board of Directors during the past year, particularly from the Chairman, Jim Bardon and Deputy Chairman, George Treacy.

**24<sup>th</sup> October 2016**



# DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31<sup>st</sup> July 2016.

## Principal Activity and Review of the Business

The principal activities are:

- ❑ The establishment and maintenance of arrangements for the payment of compensation to clients of investment firms in accordance with the Act.
- ❑ The management of funds out of which payments or expenses are made in accordance with the Act.

Details of the operation of the Company and the likely future developments are contained within the Chairperson's Statement and the Operating Report on pages 11 to 24.

In the course of the year, the Company continued the rebuilding of its reserves of Fund A which had been significantly impacted in previous years due to provisions made for the anticipated large payments arising in the Custom House Capital Limited (in Liquidation) ['CHC'] case. In addition, every assistance and influence which could be provided to facilitate the advancement of certification of CHC claims process by the Administrators was also prioritised.

The Board is pleased to report that further headway was made in the replenishment of Fund A reserves following another strong year of levy collections. As at 31<sup>st</sup> July 2016, that Fund amounted to €24.8 million, which was broadly in line with the target contained in the agreed Funding Arrangements for 2013-16. As disclosed in the Financial Statements, the final cost of compensation claims for eligible investors of CHC has not changed since the previous reporting period and is not expected to exceed €19.7 million. This would give rise to net compensation payable by the Company of €15 million, with any amount in excess of that being recouped from the Insurance Policy in place.

The timing of certification of claims in the CHC case, which involves a complex liquidation, is beyond the control of the ICCL and is primarily a matter for the Administrator appointed by the High Court. While some progress was achieved in the certification of claims during the past year, the fact that a significant majority of claims remain outstanding is a source of considerable frustration, particularly as the ICCL stands ready to make payment of compensation to the investors concerned but must await the certification of claims by the Administrator. The delays encountered are well beyond what was envisaged in the underlying investor compensation legislation. The ICCL has made renewed efforts to seek an acceleration in the claims certification process and more generally, to improve the outcome for investors involved in similar cases in the future.

During the year, Fund B reserves continued to grow in line with projections and had reached €23.1 million by 31<sup>st</sup> July 2016.

## Results

The Company recorded a surplus of €4.7m (2015: €4.5m). The increase was primarily attributable to a rise in aggregate levies received from Scheme participants. Fund A levy income rose by €700,000, half of which was attributable to prior year contributions. There was a fall of €21,000 in Fund B levy income reflecting a reduction in participating firms. Investment Income continued to decline in the persisting low interest rate environment.

Net compensation costs amounted to €160,000, largely due to the establishment of a provision in respect of the AMT case. The strong levy collection performance resulted in a decrease in Bad debts written-off to €15,889 (2015: €21,302) while there was also a reduction of €5,493 in the bad debts provision which stood at €18,526 at year-end. Administration expenses increased by €184,000 to €1.5 million due to the full year impact of costs related to the extended Insurance policy, offset somewhat by lower staff costs and professional fees.

In accordance with the Articles of Association, no dividend is payable by the Company.

## Principal Risks and Uncertainties

The principal risk to which the Company is exposed is the risk that there would be insufficient funds available to the Scheme to pay compensation arising from future failure(s).

## Financial Risk

The Company is exposed to financial risk and uncertainty through its financial assets and financial liabilities. The most important components of this risk and uncertainty are credit, interest rate, liquidity and currency risks and compensation uncertainty.

## Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. The main area where the Company is exposed to credit risk is through institutional deposits.

On an ongoing basis, the Company manages this risk inter alia through its Investment Policy and procedures by restricting acceptable counterparties to those with adequate credit ratings and placing limits on its exposure to any single counterparty. Counterparties are selected based on set minimum credit ratings which are continuously monitored.

This is an area of heightened risk for the Company and the Board and Executive have taken a series of measures to mitigate this risk to the greatest extent possible.

## Interest Rate Risk

Interest rate risk is the risk that the Company might not obtain the best available deposit interest rates. The main area where the Company is exposed to interest rate risk is through institutional deposits.

The Company manages this risk through its Investment Policy and procedures by firstly selecting the counterparties with the appropriate credit rating criteria, and, thereafter, those institutions that offer the highest interest rates.

## Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The risk of cash not being available could arise due to unexpected levels of demand being placed on a particular Fund at a given time. In the event of a failure, the Company is obliged to pay compensation within three months of the date of certification by the Administrator. For that reason, a significant proportion of funds are normally placed on deposit for periods not exceeding three months. In addition, a standby credit facility of €50m is in place. The Excess of Loss Insurance policy further mitigates this risk. The EU Directive, under which the Scheme is established, states that the cost of financing investor compensation must, in principle, be borne by investment firms. The Directive also states that the financing capacities of such schemes must be in proportion to their liabilities. This requirement must not, however, jeopardise the stability of the financial system of the Member State concerned.

The Board carries out regular reviews (at least every three years) of the arrangements which are in place to fund the Scheme. The review includes setting targets for reserve fund balances and seeking support for funding arrangements from all stakeholders, including investment firms, the Central Bank and the Department of Finance, to ensure that the Scheme can meet its future funding requirements. The Company monitors the achievement of these targets using various reporting procedures. The current three year funding cycle drew to a close at the financial year end. New Funding Arrangements, incorporating agreed annual contribution rates for the period 1 August 2016 to 31<sup>st</sup> July 2019 were successfully concluded following consultation with industry and other stakeholders during the period under review. A dedicated sub-committee of the Board has responsibility for reviewing and advising upon the Company's funding arrangements.

## Currency Risk

Currency risk is the risk of incurring financial losses due to adverse movements in foreign exchange rates.

The Company has no exposure to currency risk in the technical sense as all financial transactions are denominated in Euro.

## Compensation Uncertainty

Compensation uncertainty is the uncertainty associated with estimating the final value of compensation payable in advance of the Administrator certifying all outstanding claims.

The Company addresses this uncertainty through detailed review of calculations underlying estimates, where available, and through the receipt of regular updates from an Administrator regarding progress on the certification of claims and any issues affecting the certification of outstanding claims.

# Statement of Directors' Responsibilities

## *Financial Statements*

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Following the introduction, for financial reporting periods commencing after 1 January 2015, of new Financial Reporting Standards (FRS), the financial statements have been prepared in accordance with FRS 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the surplus or deficit of the Company for the year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Act, 2014. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Act requires the Directors to keep all adequate and usual accounts of all monies paid into the Fund or Funds maintained by the Company and all disbursements from such Fund or Funds including an income and expenditure account and a balance sheet.

The Directors have appointed appropriate accounting personnel in order to ensure that those requirements are met. The Directors consider that, in preparing the financial statements on pages 36 to 51, appropriate accounting policies have been used and consistently applied, and that reasonable and prudent judgements and estimates have been made.

The Directors have ensured that adequate accounting records are kept in accordance with Section 281 to 285 of the Companies Act, 2014, by employing appropriately qualified personnel and by maintaining appropriate computerised accounting systems. The books of account are located at the Company's registered office at Spencer Dock, North Wall Quay, Dublin 1.

The Directors consider the report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

## ***Going Concern***

The financial statements are prepared on the going concern basis as the Board, after making appropriate enquiries, is satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

## **Corporate Governance**

The Chairperson and Deputy Chairperson are appointed on a non-executive basis by the Governor of the Central Bank. The remaining ten Directors are also non-executive Board members. Five of these Directors are prescribed by the Minister for Finance on the basis that they represent the interest of clients of investment firms while the remaining five Directors are nominated by bodies which are prescribed by the Minister for Finance on the basis that they represent the financial services industry. The Board, having obtained the approval of the Governor of the Central Bank and the Minister for Finance, has introduced a standard three year term of appointment for Directors (with a system of rotation) with Directors being eligible for re-appointment at the end of each term.

### ***Compliance with Corporate Governance Codes***

The Board is committed to maintaining the highest standards and supports the principles of corporate governance outlined in both the Code of Practice for the Governance of State Bodies, as issued by the Department of Public Expenditure and Reform, and the UK Corporate Governance Code, issued by the UK Financial Reporting Council (FRC), the latter adopted by the Irish and London Stock Exchanges. While not formally obliged to comply with either Code, the Directors confirm that the Company has complied throughout the accounting period with the main aspects of both that are appropriate to the ICCL.

The Board is responsible for the leadership and control of the Company. There is a formal schedule of matters specifically reserved to the Board for consideration and decision. This includes approval of strategic plans for the Company, matters relating to the maintenance of the Scheme's Funds, approval of the annual financial statements, the annual budget and acquisitions and disposals of assets. The roles of Chairperson and Chief Operations Officer are not combined. The Chief Operations Officer is accountable to the Board for all authority delegated to executive management.

The Board has also delegated some of its responsibilities to Committees of the Board. The Directors, in the furtherance of their duties, may seek independent professional advice, as required, at the expense of the Company. New Directors are provided with extensive briefing on the Company and its operations and the Chairman and Chief Operations Officer are available to brief members as required. Details of remuneration paid to the Directors are set out in Note 1 to the Financial Statements. There were 8 meetings of the Board during the year. Details of Directors' attendance at those meetings are set out in the table on page 10. The Chairperson sets the agenda for each meeting in consultation with the Chief Operations Officer. Directors are provided with detailed briefing material in advance of meetings.

Under the Investor Compensation Act, 1998:

- Director nominations to the Board of the Company are at the discretion of the Minister for Finance;
- The Governor of the Central Bank appoints the Chairperson and Deputy Chairperson;
- The Central Bank is the supervisory authority for the Company.

In addition to an annual review undertaken between the ICCL Chairperson, Deputy Chairperson, Governor of the Central Bank and Deputy Governor (Financial Regulation), the Board undertakes an annual evaluation of its own performance, in accordance with guidance provided in the

aforementioned Codes. Formal evaluation of the performance of individual Directors during the year is conducted jointly by the Chairperson and Deputy Chairperson. Led by the Senior Independent Director, evaluation of the performance of the Chairperson and Deputy Chairperson is conducted by all Board Members without the Chairperson and Deputy Chairperson being present. The objective of these evaluations is to identify any scope for improvement and, in the case of individual evaluations, to determine whether each Director continues to contribute effectively and demonstrates commitment to the role. The Director performance evaluation process is based on latest best practice and the findings are reported to the Board as part of the Board evaluation process for consideration and action as required.

### ***Internal Control***

The Board has overall responsibility for the Company's system of internal control and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In order to discharge that responsibility in a manner which ensures compliance with laws and regulations, the Board has established an organisational structure with:

- Clearly documented operating and reporting procedures;
- Clear lines of responsibility, segregation of duties and delegated authority;
- Identification of risks in the risk register and ongoing assessment and monitoring of those risks and the arrangements for managing them;
- Clear authorisation limits;
- Regular monitoring of performance against plans and targets.

The Audit Committee regularly reviews the effectiveness of the system of internal control and confirms that necessary actions are taken to remedy any significant failings or weaknesses identified. Management and Board of the ICCL place a high emphasis on the maintenance of appropriate systems of internal control, ensuring that substantially all key processes are documented in a structured manner and commissioning periodic external reviews as necessary.

### ***Compliance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting [“FRC Guidance”]***

The Directors confirm that the Company's ongoing process for identifying, evaluating and managing its significant risks is in accordance with the FRC guidance. The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and financial statements and is regularly reviewed by the Board.

### ***Committees***

The Board has established two permanent committees to assist in the execution of its responsibilities. These are the Funding Committee and the Audit Committee.

Each of the permanent committees has terms of reference, which are subject to annual review, and, under which authority is delegated to them by the Board. Minutes of all Committee meetings are circulated to Committee members and the Chairman of each Committee reports to the Board on all significant issues considered by the Committee. The current membership of each Committee is set out on page 10 as is the attendance at Committee meetings held during the year.

## **Audit Committee**

The Audit Committee met on four occasions during the year. The main role and responsibilities of the Audit Committee are set out in written terms of reference and include:

- Monitoring the integrity of the financial statements,
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditors including agreeing remuneration and terms of engagement,
- Overseeing the Internal Audit process,
- Evaluating the performance of the external auditors including their independence, objectivity and effectiveness,
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services,
- Facilitating a process for "whistleblowing",
- Reviewing the Investment Policy and Procedures,
- Reviewing the effectiveness of the Company's internal financial control and risk management process and its process for monitoring compliance with laws and regulations affecting financial reporting.

KPMG continue in office as external auditors, in accordance with Section 383(2) of the Companies Act, 2014, having been appointed in 2012. The Committee have considered the nature and extent of services provided by the firm to the Company and the fees paid to the external auditors for audit and non-audit services. The Company has considered whether the independence of the external auditor is prejudiced by the appointment of Mr Kieran Wallace and Mr Eamonn Richardson of KPMG as Joint Administrators of IBRC and Mr Kieran Wallace as Administrator of CHC and Bloxham. The Company is satisfied that the independence of the external auditor is not prejudiced as the Joint Administrators of IBRC were appointed by the Bank in accordance with section 33(1) of the Act, while the Administrator of CHC and Bloxham was appointed by the High Court in accordance with section 33A of the Act.

## **Funding Committee**

The Funding Committee is required to meet a minimum of three times per year. During the year, the Committee met four times. The Committee's responsibilities include:

- Assisting the Board with establishing and maintaining a fund or funds out of which payments shall be made in accordance with the Act,
- Reviewing the collection of levies and proposed bad debt write-offs,
- Reviewing the estimates of compensation payable as provided by Administrators,
- Assisting the Board with formulation of policies which affect the funding and operations of the Company.

From time to time, ad hoc Working Groups of the Board are formed to deal with specific matters. During the year ended 31<sup>st</sup> July 2016, three Working Groups were formed to separately review policies in the areas of Investments, Claims and Risk Management and Reporting.

## **Company Secretary**

The appointment and removal of the Company Secretary is a matter for the Board. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are complied with.

## Directors and Transactions Involving Directors

The Directors of the Company are listed on page 7. All Directors serve as non-executive Directors.

There were no contracts in relation to the business of the Company in which the Directors had any interest at any time during the year ended 31<sup>st</sup> July 2016.

## Subsequent Events

There were no material events since the year end.

## Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year.

## Relevant audit information

The Directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Company's statutory auditors are unaware.

## Auditors

The auditors, KPMG Chartered Accountants, will continue in office in accordance with Section 383(2) of the Companies Act, 2014.

Signed on behalf of the Board:

J. Bardon	)	
	)	DIRECTORS
B. Healy	)	



# Independent Auditors' Report to the members of the Investor Compensation Company Limited

We have audited the financial statements (“financial statements”) of The Investor Compensation Company Limited (the “Company”) for the year ended 31 July 2016 which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

## Opinions and conclusions arising from our audit

### ***1 Our opinion on the financial statements is unmodified***

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 July 2016 and of its profit for the year then ended;
- have been properly prepared in accordance FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

### ***2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below***

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

### ***3 We have nothing to report in respect of matters on which we are required to report by exception***

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

### **Basis of our report, responsibilities and restrictions on use**

As explained more fully in the Statement of Directors' Responsibilities set out on page 28-29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

## Independent Auditors' Report to the members of the Investor Compensation Company Limited (*continued*)

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

24 October 2016

*Killian Croke*  
**for and on behalf of**  
**KPMG**  
**Chartered Accountants, Statutory Audit Firm**  
*1 Harbourmaster Place*  
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*Ireland*

# F inancial Statements

## Income and expenditure account for the year ended 31<sup>st</sup> July 2016

		2016 €	2015 €
<b>INCOME</b>	<i>Notes</i>		
Levy Income		6,353,775	5,669,371
Interest Income		59,832	171,796
		<b>6,413,607</b>	<b>5,841,167</b>
<b>EXPENDITURE</b>			
Compensation costs and provisions			
Claims provision decrease/(increase)	8	(182,623)	51,841
3 <sup>rd</sup> party costs provision decrease/(increase)		35,055	19,871
ICCL claims legal costs		(13,045)	(56,378)
		(160,613)	15,334
Administration expenses	2	(1,533,016)	(1,348,617)
<b>TOTAL EXPENDITURE</b>		<b>1,693,629</b>	<b>1,333,283</b>
<b>SURPLUS ON ORDINARY ACTIVITIES</b>	1	4,719,978	4,507,884
Surplus at beginning of year		43,255,477	38,747,593
Surplus at 31 July		<b>47,975,455</b>	<b>43,255,477</b>
<b>ALLOCATED BETWEEN FUNDS AS FOLLOWS:</b>			
FUND A	3	24,833,140	20,865,959
FUND B	3	23,142,315	22,389,518
		<b>47,975,455</b>	<b>43,255,477</b>

The Company had no recognised gains and losses in the year to 31<sup>st</sup> July 2016 other than those dealt with in the income and expenditure account. There have been no movements in the reserves of the Company other than the surplus for the year. The accompanying notes form an integral part of the financial statements. All activities arise from continuing operations.

The financial statements were approved by the Board of Directors on 24<sup>th</sup> October 2016 and were signed on its behalf by:

Mr Jim Bardon	)	<b>DIRECTORS</b>
	)	
Mr Brian Healy	)	

## Balance sheet as at 31<sup>st</sup> July 2016

	Notes	2016 €	2015 €
<b>FIXED ASSETS</b>			
Equipment	6	30,125	28,308
		<u>30,125</u>	<u>28,308</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	4(a)	161,960	164,588
Other assets	5	4,700,000	4,700,000
Cash and Cash Equivalents	3	18,000,016	24,574,780
Short-term investments	3	38,414,013	27,218,779
		<u>61,275,989</u>	<u>56,658,147</u>
<b>CREDITORS: amounts falling due within one year</b>	7	930,655	1,030,974
<b>NET CURRENT ASSETS</b>		60,345,334	55,627,173
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>60,375,459</u>	<u>55,655,481</u>
<b>CREDITORS: Amounts falling due after more than one year</b>			
Provisions for Compensation Claims & Associated Costs	8	12,400,000	12,400,000
<b>NET ASSETS</b>		<u>47,975,459</u>	<u>43,255,481</u>
<b>FINANCED BY:</b>			
Called-up share capital	10	4	4
Funds	3	47,975,455	43,255,477
	12	<u>47,975,459</u>	<u>43,255,481</u>

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 24<sup>th</sup> October 2016 and were signed on its behalf by:

Mr Jim Bardon	)	<b>DIRECTORS</b>
	)	
Mr Brian Healy	)	

## Cash flow statement for the year ended 31<sup>st</sup> July 2016

	<i>Notes</i>	<b>2016</b> €	<b>2015</b> €
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus on ordinary activities		4,719,978	4,507,884
<b>Adjustments for:</b>			
Depreciation		17,288	20,819
Increase in debtors		2,628	50,988
(Decrease) in creditors and provisions for liabilities and charges		(100,319)	(1,548)
Loss on disposal		632	
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>4,640,207</b>	<b>4,578,143</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments to acquire tangible fixed assets	6	(19,737)	(1,473)
(Increase)/Decrease in short-term investments		(11,195,234)	5,823,985
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(11,214,971)</b>	<b>5,822,512</b>
Net (Decrease)/Increase In Cash and Cash Equivalents		(6,574,764)	10,400,655
Cash and Cash Equivalents at 1 <sup>st</sup> August		24,574,780	14,174,125
<b>Cash and Cash Equivalents at 31<sup>st</sup> July</b>		<b>18,000,016</b>	<b>24,574,780</b>

# STATEMENT OF ACCOUNTING POLICIES

The following accounting policies, together with applicable Accounting Standards in Ireland have been applied in the preparation of the financial statements.

## Basis of Preparation

The financial statements have been prepared in accordance with Irish statute comprising the Companies Acts, 2014 and in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015, however the amendments arising from the implementation of the EU Accounting Directive in the UK have been dis-applied.

In the transition to FRS 102 from old Irish GAAP, the Company has restated comparative figures to reflect the transition. Reconciliations and descriptions of the effect of the transition to FRS 102 on the reported balance sheet are given in Note 14.

## Accounting Convention

The financial statements have been prepared in accordance with the historical cost convention.

## Levy Income

Levy income from authorised investment firms is recognised on an accruals basis as income in the period to which the amount levied relates.

Levies outstanding at the Company's year-end are recognised as debtors and appropriate provision is made for bad and doubtful debts.

## Compensation Costs

Compensation costs, including associated third party costs which have not already been invoiced at year-end, are recognised at the time that the Company becomes aware of an event having occurred which will give rise to a default and when a reliable estimate can be made of the amount of the compensation costs to be paid.

The Company will normally become aware of a default on being informed by the Central Bank of Ireland (the Bank) that:

- a determination has been made by the Bank in accordance with section 31(3) of the Act, or,
- the High Court has made a ruling appointing a liquidator, receiver, the official assignee or a trustee in Bankruptcy in respect of an investment firm.

The Company is subrogated to the rights of each eligible investor in liquidation proceedings against the investment firm in respect of the amount the Company has paid to each eligible investor. This is in accordance with section 35(5) of the Act. Recoveries from subrogation are recognised when receipt is virtually certain. Where recoveries from subrogation are probable but not virtually certain, the Company will not recognise the subrogated income but will make the necessary disclosures in the Contingent Assets note.

## Administration Expenses

Administration expenses include all costs which are not compensation costs and include costs relating to the ongoing management of the Company, including movement in provision for bad or doubtful debts and bad debts written off in the period under review.

## Equipment

The capitalised cost of fixed assets is their purchase cost together with any incidental expenses of acquisition.

Depreciation is provided on bases and rates which are estimated to reduce the assets to their realisable values by the end of their expected useful lives. The bases and rates are stated below:

Computer software and equipment : 33 $\frac{1}{3}$  % straight line

## Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and deposits maturing within 3 months. The Company discloses cash and cash equivalents in accordance with FRS 102. As this is the first year of adoption of FRS 102, comparative figures have been restated to reflect the transition to FRS 102 (Note 14 provides further detail).

## Short term investments

Short term investments comprise fixed term deposits with a period to maturity of greater than 3 months. The Company discloses short-term investments in accordance with FRS 102. As this is the first year of adoption of FRS 102, comparative figures have been restated to reflect the transition to FRS 102 (Note 14 provides further detail).

## **Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## **Funds**

In accordance with the provisions of the Act, the Company has established two separate Funds in respect of the various categories of investment firms.



# Notes to the financial statements for the year ended 31<sup>st</sup> July 2016

## 1. SURPLUS ON ORDINARY ACTIVITIES

The surplus on ordinary activities is stated after charging:

	2016 €	2015 €
Directors' fees	126,350	132,768
Depreciation	17,288	20,819
Auditors' remuneration (ex-VAT)	7,500	7,500

The Company's staff is sourced under a secondment arrangement with the Central Bank of Ireland which also provides certain other administrative services to the Company.

The Chairperson and Deputy Chairperson were remunerated €31,500 (2015: €31,500) and €14,186 (2015: €15,750) respectively on a pro-rata basis during the year. The other Directors were remunerated at the rate of €8,550 per annum (2015: €8,550), also on a pro-rata basis.

## 2. ADMINISTRATION EXPENSES ANALYSIS

	2016 €	2015 €
Personnel costs*	458,858	486,878
Directors' fees and expenses	129,980	133,872
Other administration overheads	916,494	703,735
Bad debts written off	15,889	21,302
Decrease in provision for bad and doubtful debts	(5,493)	(17,989)
Depreciation	17,288	20,819
	1,533,016	1,348,617

\*Personnel costs are included in the charge for administrative services by the Central Bank of Ireland.

### 3. FUNDS

	<b>Fund A</b>	<b>Fund B</b>	<b>2016 Total</b>	<b>Fund A</b>	<b>Fund B</b>	<b>2015 Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Levy income	4,937,712	1,416,063	6,353,775	4,232,384	1,436,987	5,669,371
Interest income	35,815	24,017	59,832	94,758	77,038	171,796
Subrogated income				-	-	-
Compensation (costs)/recoveries:						
Claims provision	-	(182,623)	(182,623)	51,841	-	51,841
Certified claims written back				-	-	-
3 <sup>rd</sup> party costs provision	48,893	(13,838)	35,055	19,871	-	19,871
ICCL legal costs	(11,045)	(2,000)	(13,045)	(55,109)	(1,269)	(56,378)
Administration expenses:						
Bad Debts (written off)	-	(15,889)	(15,889)	-	(21,302)	(21,302)
(Increase)/decrease in provision for bad and doubtful debts	(2,276)	7,769	5,493	2,870	15,119	17,989
Other administration expenses	(1,041,918)	(480,702)	(1,522,620)	(855,502)	(489,802)	(1,345,304)
Surplus for the year	3,967,181	752,797	4,719,978	3,491,113	1,016,771	4,507,884
Surplus at 1 <sup>st</sup> August	20,865,959	22,389,518	43,255,477	17,374,846	21,372,747	38,747,593
Surplus at 31 <sup>st</sup> July	<b>24,833,140</b>	<b>23,142,315</b>	<b>47,975,455</b>	<b>20,865,959</b>	<b>22,389,518</b>	<b>43,255,477</b>
<b>Represented by:</b>						
Cash and Cash Equivalents	12,867,299	5,132,717	18,000,016	16,431,276	8,143,504	24,574,780
Short-term investments	20,189,647	18,224,366	38,414,013	12,931,363	14,287,416	27,218,779
Fixed assets	15,062	15,063	30,125	14,154	14,154	28,308
Debtors	4,830,935	31,025	4,861,960	4,831,112	33,476	4,864,588
Creditors	(135,184)	(64,393)	(199,577)	(166,172)	(89,030)	(255,202)
Provision for liabilities and charges	(12,934,617)	(196,461)	(13,131,078)	(13,175,772)	-	(13,175,772)
Share capital	(2)	(2)	(4)	(2)	(2)	(4)
<b>Total</b>	<b>24,833,140</b>	<b>23,142,315</b>	<b>47,975,455</b>	<b>20,865,959</b>	<b>22,389,518</b>	<b>43,255,477</b>

The income and expenditure is allocated between Funds as follows:

Costs, which are directly attributable to a particular Fund, are allocated to that Fund. Costs, which are directly related to the number of firms paying into each Fund, are allocated on that basis. Commitment fees associated with commercial borrowing arrangements are allocated 2/3rds to Fund A and 1/3rd to Fund B. Other costs are allocated equally between the Funds.

## 4. TRADE AND OTHER RECEIVABLES

	2016	2015
	€	€
<b>(a) Debtors and Accrued Income:</b>		
Debtors (after provision for bad and doubtful debts)	867	1,184
Accrued income & prepayments	161,093	163,404
	<u>161,960</u>	<u>164,588</u>
	€	€
<b>(b) Bad debts written-off during the year:</b>	15,889	21,302
	€	€
<b>(c) Movement in respect of the provision for bad and doubtful debts:</b>		
Opening provision for bad & doubtful debts	24,019	42,008
Closing provision for bad & doubtful debts	18,526	24,019
	<u>(5,493)</u>	<u>(17,989)</u>

## 5. OTHER ASSETS

	2016	2015
	€	€
Claims compensation amounts recoverable under Excess of Loss Insurance contract	4,700,000	4,700,000
	<u>4,700,000</u>	<u>4,700,000</u>

### Excess of Loss Insurance Policy

The Company has two contracts of insurance to provide cover where claims for compensation in a policy year exceed the policy excesses. The first policy provides cover for claims of up to €50 million for Fund A and €10 million for Fund B above an excess of €15 million. The second policy provides cover for claims of up to €50 million for Fund A above an excess of €65 million. As outlined in note 8, a provision of €19.7 million was made for the claims compensation costs associated with the failure of Custom House Capital Limited (In Liquidation), a Fund A firm.

The Company is required by the Insurance Underwriters to settle each claim up to and in excess of €15 million directly with the eligible investors. The Insurance Underwriters have confirmed to the Company that they will reimburse the Company for the amount of claims compensation paid to clients of Custom House Capital Limited (In Liquidation) ['CHC'] in excess of €15 million subject to the 2010/2011 policy limit of €50 million. At the balance sheet date, the Company had paid €7.0m in respect of claims compensation to clients of CHC.

## 6. EQUIPMENT

### *Computer Software and Equipment*

	<b>2016</b> €	<b>2015</b> €
Cost:		
At 1 August	191,573	190,100
Additions	19,737	1,473
Disposals	(1,897)	-
At 31 <sup>st</sup> July	<u>209,413</u>	<u>191,573</u>
Depreciation:		
At 1 August	163,265	142,446
On Disposals	(1,265)	-
Charge for year	17,288	20,819
At 31 <sup>st</sup> July	<u>179,288</u>	<u>163,265</u>
Net book value:		
At 31 <sup>st</sup> July	<u>30,125</u>	<u>28,308</u>

The historic cost of fully depreciated assets at 31<sup>st</sup> July 2016 was €142,520 (2015: €129,165)

## 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<b>2016</b> €	<b>2015</b> €
Compensation costs	54,591	54,313
Central Bank of Ireland (Administration charges)	58,779	145,494
Directors' fees and expenses	11,362	11,550
Prepaid levies	1,342	856
Other	73,503	42,989
Provision for compensation claims and associated costs	731,078	775,772
	<u>930,655</u>	<u>1,030,974</u>

## 8. PROVISIONS FOR COMPENSATION CLAIMS & ASSOCIATED COSTS

	Fund A Claims €	Fund B Claims €	Total Claims €	3 <sup>rd</sup> Party Costs (Fund A & B) €	Total €
Opening provision at 1 <sup>st</sup> August 2014	12,925,536	-	12,925,536	321,948	13,247,484
(Decrease) / increase in provision	(51,841)	-	(51,841)	(19,871)	(71,712)
Payments during the year	-	-	-	-	-
Provision at 31 <sup>st</sup> July 2015 and at 1 <sup>st</sup> August 2015	12,873,695	-	12,873,695	302,077	13,175,772
(Decrease)/Increase in provision	-	182,623	182,623	(35,055)	147,568
Payments during the year	(186,616)	-	(186,616)	(5,646)	(192,262)
Closing Provision at 31 <sup>st</sup> July 2016	12,687,079	182,623	12,869,702	261,376	13,131,078
<b>Represented by:</b>					
Amounts falling due within one year	287,079	182,623	469,702	261,376	731,078
Amounts falling due after one year	12,400,000	-	12,400,000	-	12,400,000

### *(a) Money Markets International Stockbrokers Limited (Fund A)*

Claims for compensation were made by clients of Money Markets International Stockbrokers Limited (MMI) and all submitted compensation claims were certified and paid by 31<sup>st</sup> July 2011. A Provision was made in respect of estimated third party costs, which represent the costs of the Administrator and directly attributable legal costs of the Company and the Administrator based upon an estimate of these costs to the completion of the Administration process. This provision was released at year end as the case has drawn to a conclusion. At 31<sup>st</sup> July 2016, the provision for claims compensation in respect of MMI is €NIL (2015: €NIL). At 31<sup>st</sup> July 2016, the provision for costs in respect of MMI is €NIL (2015: €49,200).

*(b) Custom House Capital Limited (Fund A)*

In the financial year ended 31<sup>st</sup> July 2016, the Company made a provision of €12,687,080 in respect of compensation payable to eligible clients of Custom House Capital Limited. The provision was made on the basis of the range of estimates received from the Administrator<sup>11</sup> and took account of claims compensation already paid as at 31<sup>st</sup> July 2016. The provision is subject to a number of variables, including:

- the number of clients that meet the definition of an “eligible investor” for the purposes of the Investor Compensation Act, 1998,
- the extent to which the losses suffered by “eligible investors” are deemed compensatable,
- the extent of losses suffered by eligible investors (which in many instances will depend on the performance of an underlying investment product),
- the nature, and extent of discretion, of the mandates which investors had given to CHC,
- whether the losses are derived from regulated or unregulated investment products,
- whether the liquidator<sup>12</sup> has access to records enabling him to reconcile records and establish clients’ positions,
- reliable information about the distribution of compensatable losses amongst eligible investors. (i.e. a small number of large losses may give rise to lower compensation than a large number of small losses), and
- the financial position of CHC itself.

During the year under review, the Administrator submitted 70 interim certifications of compensatable losses to the ICCL to the value of €186,616. The delays in the certification process arises as a consequence of no significant reconciliation progress having been made in the more complex areas e.g. pooled client bank accounts and syndicated property funds. The delays in progressing the reconciliation work by the Liquidator’s team arose primarily from the uncertainty that the Liquidator faced regarding the discharge of his fees for the reconciliation work necessary to determine the value of client claims in the liquidation process. The Liquidator is currently progressing the reconciliation of segregated client assets which should then enable him to determine the amount of compensatable loss applicable to claimants under the Investor Compensation Act. This matter is due back before the High Court in September 2016.

At 31<sup>st</sup> July 2016, the Company had received, recorded and forwarded 1,977 claim application forms to the Administrator. In relation to the claim application forms submitted, the number of claimants who meet the definition of “eligible investor” remains to be quantified by the Administrator. On the basis that the

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<sup>11</sup> Validation of claims and certification of the amount of compensation payable to claimants is carried out by an ‘Administrator’.

<sup>12</sup> A Liquidator is appointed by the High Court and is principally charged with inquiring into a Company’s affairs; realising the assets; paying the debts, and, distributing any surplus to the members.

Administrator has not changed his initial range of estimate and the level of compensation that was certified for payment during the year, the Company has decreased the provision for claims by €186,616. The provision for claims at 31<sup>st</sup> July 2016 is €12,687,079, of which €286,079 is classified as falling due within one year.

The Company has an Excess of Loss Insurance policy to provide cover where claims for compensation in a policy year exceed the policy excess of €15,000,000. Cumulative claims compensation of €7,012,921 has been paid to 31<sup>st</sup> July 2016 (2015: €6,826,304). The balance of the excess of the policy is €7,987,079, beyond which the remainder of the claims compensation costs, currently estimated at €4,700,000 will be recoverable. Accordingly, the Company has recognised a recoverable asset of €4,700,000 (Note 5 provides relevant details).

The Company made a provision at 31<sup>st</sup> July 2016 of €247,539 towards the costs of the Administrator and his legal advisors for the completion of the Administration process which are payable by the Company in accordance with the provisions of the Act. During the year ended 31<sup>st</sup> July 2016 the Company paid no Administrator fees and no Administrator legal costs. At 31<sup>st</sup> July 2016, the Company increased this provision by €308 to €247,539 to reflect the receipt and forwarding of two additional late claims during the year.

#### *(c) Asset Management Trust (AMT)*

AMT was a Fund B firm authorised under the Investment Intermediaries Act, 1995, in respect of which, the Central Bank of Ireland on 29<sup>th</sup> February 2016 made a determination in accordance with Section 31 of the Investor Compensation Act, 1998.

The Central Bank of Ireland has appointed Mr Des Ritchie, as Administrator to AMT, for the purposes of the Act, to assess and certify claims for compensation made by the clients of the firm.

The ICCL issued claim forms to all 202 known clients of AMT on 7 March 2016 inviting all AMT clients to submit applications for compensation. A notice inviting applications for compensation was also placed in the Irish Independent on 13 April 2016.

The statutory deadline for clients of AMT to apply for compensation passed on 27 July 2016. To date the company has received 10 claim forms. Based on the information contained within the claim forms and preliminary discussions with the Administrator the company has made a provision of €182,623. The company has also created a provision for Administrator costs and legal costs of €13,838.

## **9. CONTINGENT ASSETS AND LIABILITIES**

### **Contingent Assets**

There were no Contingent Assets at 31<sup>st</sup> July 2016.

## Contingent Liabilities

### Custom House Capital Limited (In Liquidation)

The Company does not have a definitive timeline on when the remainder of claimants will have their claims certified for compensatable loss. The Company will continue to meet and work with the Administrator at regular intervals to facilitate as much progress as possible. The Administrator has estimated that the total compensation payable by the Company will not exceed €19,700,000, of which €4,700,000 is recoverable from Insurers under an Excess of Loss Insurance Contract. Notwithstanding the significant progress to date, in estimating the total cost of claims, the final determination of costs is subject to significant uncertainty, as identified in note 8 above.

### Irish Bank Resolution Corporation Limited (In Special Liquidation)

The Joint Administrators have certified all submitted claims and all certified payable compensation has been paid by the Company as at 31<sup>st</sup> July 2015. The Board does not believe that the failure of IBRC will result in any further payment of claims for compensation under the Act. No provision has been made for claims or other costs associated with the failure of IBRC in this respect.

## 10. SHARE CAPITAL

	2016 €	2015 €
<b>Authorised:</b>		
10 Ordinary shares of €1.25 each	13	13
<b>Issued and fully paid:</b>		
3 Ordinary shares of €1.25 each	4	4

The Investor Compensation Company Limited is a company limited by guarantee and having a share capital. There are three shareholders, the Central Bank of Ireland, the Irish Stock Exchange plc and the Irish Association of Investment Managers, each holding one share. The limit of guarantee to be paid by each shareholder in the event of the Company being wound up is €6.00.

On 2<sup>nd</sup> December 2002, by a special resolution of the shareholders, the authorised share capital of the Company was changed to €12.50 and the ordinary shares were renominalised with a par value of €1.25 each. The amount equal to the reduction in nominal value of the allotted share capital was transferred to a capital conversion redemption fund. The capital conversion redemption fund has not been disclosed on the face of the balance sheet or in the notes to the financial statements as it is not deemed material.



## 11. TAXATION

The Company is exempt from Corporation Tax in accordance with section 219B of the Taxes Consolidation Act, 1997 (as amended). The Company is also exempt from Deposit Interest Retention Tax in accordance with section 256 of the Taxes Consolidation Act, 1997 (as amended).

## 12. MOVEMENTS IN TOTAL FUNDS

	<b>Share Capital attributable to Shareholders</b> €	<b>Attributable to Funds</b> €	<b>Total</b> €
At 1 <sup>st</sup> August 2015	4	43,255,477	43,255,481
Surplus for the year	-	4,719,978	4,719,978
At 31 <sup>st</sup> July 2016	<u>4</u>	<u>47,975,455</u>	<u>47,975,459</u>

## 13. RELATED PARTIES

The following transactions took place between the Company and its related party, the Central Bank of Ireland:

	<b>2016</b> €	<b>2015</b> €
Administration costs chargeable to the Company by the Central Bank of Ireland for services provided	498,740	543,046

Other than the payment of Directors' fees and expenses as disclosed in Note 2, there have been no transactions in the year to 31<sup>st</sup> July 2016 between the Company and its Directors.

## 14. FIRST TIME ADOPTION OF FRS 102

As stated in 'Basis of Preparation' these are the Company's first financial statements prepared in accordance with FRS 102. The accounting policies set out in these financial statements have been applied in preparing the financial statements for the financial year ended 31<sup>st</sup> July 2016 and the comparative information presented in these financial statements for the year ended 31<sup>st</sup> July 2015.

FRS 102 had been adopted by the Company at 31<sup>st</sup> July 2016. The date of transition is 1<sup>st</sup> August 2014. The result of this adoption can be seen below:

### Cash and cash equivalents

In preparing the FRS 102 opening balance sheet, cash and cash equivalents were reclassified to include cash on hand and deposits maturing within 3 months. Previously, cash was classified in accordance with old Irish GAAP and comprised amounts held in bank current accounts that are readily convertible into known amounts of cash within 24 hours.

### Short-term investments

In preparing the FRS 102 opening balance sheet, short-term investments were reclassified to comprise fixed term deposits with a period to maturity of greater than 3 months. Previously, short-term investments were classified in accordance with old Irish GAAP and comprised fixed term deposits maturing within 12 months.

#### Balance Sheet Extract – 1<sup>st</sup> August 2014

	2014 €	Effect of transition to FRS 102 €	Restated 2014 €
Cash and cash equivalents	1,256,989	12,917,136	14,174,125
Short-term investments	45,959,900	(12,917,136)	33,042,764
	<u>47,216,889</u>	<u>-</u>	<u>47,216,889</u>

#### Balance Sheet Extract – 31<sup>st</sup> July 2015

	2015 €	Effect of transition to FRS 102 €	Restated 2015 €
Cash and cash equivalents	12,147,663	12,427,117	24,574,780
Short-term investments	39,645,896	(12,427,117)	27,218,779
	<u>51,793,559</u>	<u>-</u>	<u>51,793,559</u>

## **15. EVENTS AFTER THE END OF THE REPORTING PERIOD.**

Subsequent to the balance sheet date there were no material events.

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