



**THE INVESTOR COMPENSATION COMPANY LIMITED**

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**Annual Report Year Ended 31 July 2006**

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# Mission Statement

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**The Investor Compensation Company Limited (ICCL) 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 and in a manner which is sympathetic to the claimant's situation.
- Operate a cost effective method for the collection of contributions which is fair to all investment firms.
- Maintain an open and positive relationship with the contributors and claimants with whom we deal.

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

- We take seriously our collective responsibility to fairly represent the interests of the Scheme's claimants and contributors.
- We work in a consultative and co operative manner with our contributors, with the Irish Financial Services Regulatory Authority (Financial Regulator) and with the Department of Finance.
- We operate with integrity and transparency.
- We work efficiently and effectively.

*Details on the Investor Compensation Scheme are contained in Appendix 1.*

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**The  
Investor  
Compensation  
Company  
Limited**



**Annual Report  
Year Ended  
31 July 2006**

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# DIRECTORS AND OTHER INFORMATION

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## Directors

Jim Bardon (Chairperson - Appointed 28 April 2006)  
Caitríona Murphy (Chairperson - Retired 28 April 2006)  
Dan Coveney (Deputy Chairperson)  
Inge Clissmann  
Ann Fitzgerald (Retired 19 May 2006)  
Terry Hardiman  
Brian Healy  
Dermott Jewell  
Paul Lynch  
Paul O'Donovan  
Frank O'Dwyer (Appointed 12 June 2006)  
Gina Quin  
Mark Redmond  
Enda Twomey

## Secretary

Patricia Fitzgerald

## Registered Office

The Central Bank and Financial Services Authority of Ireland,  
42-45 Dame Street,  
Dublin 2.

## Auditors

PricewaterhouseCoopers,  
Chartered Accountants,  
George's Quay,  
Dublin 2.

## 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. Former Secretary of the Council of the Financial Services Ombudsman and 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.



## **Daniel Coveney**

**(Deputy Chairperson)**

Former Company Secretary of AIB Capital Markets plc. and AIB Finance Ltd. A fellow of the Institute of Chartered Accountants in Ireland and a fellow of the Institute of Bankers. Holder of a BA in Economics.



## **Inge Clissmann**

Senior Counsel in private practice at the Irish Bar. Chairperson, Civil Service Disciplinary Appeals Board. Chairperson, Staff Panel of Trinity College Dublin. Former Chairperson of the Family Lawyers' Association and of the Consumer Association of Ireland. Former Director, Free Legal Advice Centre. Former Member, European Consumer Law Group, the Advertising Standards Authority and the Garda Complaints Appeals Board.



## **Terry Hardiman**

A fellow of the Life Insurance Association and a member of the Million Dollar Round Table, an Association of Financial Professionals. A practicing Insurance Broker and a past Chairman of the Professional Insurance Brokers Association (PIBA).



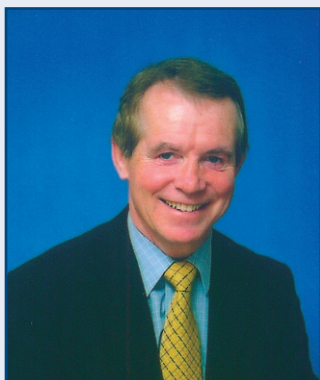
## **Brian Healy**

Director of Trading, Irish Stock Exchange. Chairman of Euroclear Irish Market Advisory Committee dealing with the harmonisation issues for the Irish, UK, French, Dutch and Belgian equity and fixed income markets. Chairman of Dematerialisation Implementation Group. A fellow of the Irish Institute of Chartered Accountants. Former senior manager with Arthur Andersen. Member of the Securities and Investment Institute.



## **Dermott Jewell**

Chief Executive of the Consumers' Association of Ireland. Other current representations include Chairman European Consumer Centre, Chairman Irish Food Quality Association, Member Consultative Council of the FSAI, Member Bórd Bia Quality Assurance Board, Member Financial Services Ombudsman Council and Irish Representative European Consumer Consultative Group of DG Sanco. Formerly with FBD Insurance, GEC Distributors (Irl) and the Rohan Group.



### **Paul Lynch**

Chief Executive of the Irish Brokers Association whose members generate €2.5bn General Insurance and €2.6bn Life Assurance business annually. A member of the Financial Services Ombudsman Council. He holds a Masters Degree in Business Studies from University College Dublin, and is a fellow of the Chartered Institute of Personnel and Development. Formerly Secretary General of the Irish Red Cross.



### **Paul O'Donovan**

Independent consultant operating across all sectors of the Financial Services Industry and an adviser to financial regulators. Former Senior Consultant with Accenture (Andersen Consulting, Arthur Andersen & Co.) and a founder Director of Prospectus Strategy Consultants. Established O'Donovan Associates in 1994. Member of the Institute of Business Analysts & Consultants and a former Council Member of the Irish Computer Society.



### **Frank O'Dwyer**

Chief Executive of the Irish Association of Investment Managers whose members manage assets of over €200 billion on behalf of Irish and international clients. A fellow of the Institute of Chartered Accountants in Ireland, he has been Finance Director of a number of companies and was an adviser at the Department of Finance.



### **Gina Quin**

Chief Executive, Dublin Chamber of Commerce. Ireland's nominee to EU Enterprise Policy Group – DG Enterprise. A Director of Bord Bia. A Member of Dublin City Development Board. Previously CEO of Gandon Enterprises, the commercial division of the Rehab Group. Executive with the Irish Trade Board and Lansdowne Market Research, an IMS group Company.



### **Mark Redmond**

Former Director with PricewaterhouseCoopers, now Chief Executive of the Irish Taxation Institute. A fellow of the Irish Taxation Institute. A member of the Governing Authority and Finance Committee of University College Dublin.



### **Enda Twomey**

Deputy Chief Executive of the Irish Bankers' Federation having joined in 1999. Worked in Manufacturers Hanover Ltd. in London from 1989 to 1991, the National Treasury Management Agency from 1991 to 1997 and William Fry Solicitors from 1997 to 1999. Holder of a BCL degree. A qualified solicitor. Holder of a Master of Business Studies.

## Board Committees

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

### Funding Committee

Dan Coveney (Committee chairperson)  
Terry Hardiman  
Brian Healy  
Paul Lynch  
Frank O'Dwyer \*\*\*\*  
Enda Twomey

### Audit Committee

Brian Healy (Committee chairperson)  
Dermott Jewell  
Paul Lynch  
Frank O'Dwyer (Alternate member) \*\*\*\*  
Mark Redmond (Alternate member)

## Attendance at Board and Committee Meetings

	Board	Funding Committee	Audit Committee
<i>Number of meetings held</i>	9	5	3
Jim Bardon *	2	1	N/a
Caitríona Murphy **	7	1	N/a
Dan Coveney	9	5	N/a
Inge Clissmann	8	N/a	N/a
Ann Fitzgerald ***	4	2	N/a
Terry Hardiman	9	4	N/a
Brian Healy	7	5	3
Dermott Jewell	7	N/a	3
Paul Lynch	8	5	2
Paul O'Donovan	8	N/a	N/a
Frank O'Dwyer ****	1	1	0
Gina Quin	7	N/a	N/a
Mark Redmond	8	N/a	0
Enda Twomey	6	4	N/a

\* Appointed 28 April 2006.  
\*\* Retired 28 April 2006.  
\*\*\* Retired 19 May 2006.  
\*\*\*\* Appointed 12 June 2006.

# CHAIRPERSON'S STATEMENT

## Jim Bardon

I was appointed Chairperson on 28 April 2006 and I am pleased to present the Annual Report for the eighth year of operations and my first Chairperson's report for the year ended 31 July 2006. The previous Chairperson, Ms Caitríona Murphy, served on the Board for a total of seven years, initially as Deputy Chairperson and, for the latter three years, as Chairperson. Caitríona was a key influence in the establishment of the Scheme and proved to be a very steady pair of hands in steering the Scheme through some challenging times and, in particular, with issues arising from the failure of W&R Morrogh Stockbrokers (Morrogh). The ICCL is indebted to Caitríona for her contribution to the Scheme's development and to the important role which the ICCL fulfils as the last resort protection measure for consumers of Irish investment services.

## Overview

I welcome a fifth consecutive year in which there have been no new failures of investment firms giving rise to fresh claims for compensation from the Investor Compensation Scheme (Scheme). The failures of the two stockbroking firms, Money Markets International Stockbrokers Limited (MMI) and Morrogh, in 1999 and 2001 respectively, placed considerable strain on the funding of the newly established Scheme. This further year, free from failures, provided much needed space to build up more adequate reserves against future risks of default.

As explained in further detail later in my report, certification of net losses in respect of some 1,500 claims were received by the ICCL from the Morrogh Administrator and the ICCL issued compensation payments within two weeks of certification, which is well within the three months allowed for in legislation. At this stage, 90% of claims received by the ICCL have been certified and the Board welcomes this progress. Payment by the ICCL of statutory compensation in respect of all outstanding claims has already been fully provided for in prior year accounts.

During the year, the ICCL formally documented its strategic plan for the three years 2006 to 2009. Our strategy has been developed having regard to our experience over the past eight years, the findings of our own and of other reviews of the experiences of the Irish scheme compared to that of other schemes in the single EU market and elsewhere and our judgements about emerging developments in the regulation of the retail financial investment sector which could impact on our role or on the scope of the Scheme. Our plan sets out the ICCL's objectives, specifies the strategies and policies for achieving these objectives and outlines the programme of work which we will undertake. We will revisit our strategy annually and adjust our plans, as necessary, to ensure that we are meeting our strategic goals and we will keep our strategic goals under review.

The ICCL will continue to focus on seeking practical and implementable changes, which are within our own control, to improve the effectiveness of the Scheme for both claimants and contributors alike. It will advise and seek to influence the wider body of stakeholders, including its regulators and legislators, through consultation and discussion about changes requiring legislative or other regulatory measures to improve the soundness of the funding base or the operation of the Scheme.

## Reserves

Total Fund reserves at year end amounted to €13.5 million and are included in two funds, A and B. Fund A reserves were €3.9 million and Fund B reserves were €9.6 million. We are currently about to embark on our fourth consultation process to review our funding arrangements following which we will outline our revised plan to build total reserves to a higher level by 31 July 2010. Relative to many other EU states, the Irish investor compensation scheme has a broad coverage of firms and products. Prospective EU developments may result in a further widening of the range of products and services covered by EU investor compensation schemes. Against this background, the Board is firmly of the view that the current levels of reserves can only be regarded as minimal buffers to help smooth the impact on the industry of its liability to meet the costs of investor compensation in the event of firm failures.

## Reviews of Compensation Schemes

At year end, progress continued to be limited on the outcome of the national and EU reviews of investor compensation which were referred to in the Chairperson's statement last year. The Department of Finance review, in which ICCL and many other interested parties participated and which was conducted in the wake of the Morrogh failure and which commenced in 2004, finally concluded in August 2006. Its final report is yet to be published.

The review conducted by Oxera Consultants for the EU Commission was published late last year and the ICCL responded to the Commission's invitation for views from interested parties. The ICCL welcomed the comparative analysis, prepared by Oxera, of the incidence of failures experienced and of operational and other difficulties encountered in the implementation of the EU Directive by the Member States. Many of the conclusions in the Oxera report underpin the two key positions taken by the ICCL in the context of the national review:

- 1) that a means to facilitate an annual cap on members' contributions needs to be put in place to help manage the unlimited liability of members, and
- 2) that provision needs to be made for the more speedy winding up of failed investment firms.

Experience in the Morrogh case has shown that where recourse had to be made to the Courts for interpretation and clarification of contentious issues, long delays arose in the certification by the Administrator of certain client losses and the consequent payment by the ICCL of compensation.

These issues form a critical part of the ICCL's strategic programme of work which I referred to earlier in my report and the ICCL's commitment to finding workable solutions, in conjunction with our stakeholders, remains our priority.

## Compensation Claims

In last year's Chairperson's statement, the ICCL outlined its expectation that the Receiver, as Administrator in the Morrogh case, would certify the bulk of the remaining approximately 1,800 client claims in the last quarter of 2005. Early in 2006, approximately 1,500 claims were certified and, as promised, the ICCL paid claims as speedily as possible and well within the statutory three month period. In fact most claims are paid within a few weeks of certification. 90% of claims have now been certified and the ICCL is committed to continuing its efforts with the Administrator to have the remaining claims certified as quickly as possible.

## Staffing and Operations

The Board and I recognize the excellent work of the Chief Operations Officer and her staff and appreciate their commitment and dedication. In a busy year, contributors and claimants were dealt with in an efficient and sensitive manner by ICCL staff.

The working relationships with the Bank and with the Financial Regulator continue to operate in an effective and efficient manner. The Board greatly appreciates their support and co-operation and acknowledges their continuing commitment to providing ICCL with the services which are necessary for the efficient and smooth discharge of its functions.

## Board Retirements and Appointments

As outlined earlier in my report, the Board expresses its appreciation to Ms Caitríona Murphy (former Chairperson) who retired during the year under review. I wish also to express the Board's appreciation to Ms Ann Fitzgerald who also retired during the year having served on the Board since its inception in 1998. I wish to thank them both for their valued contributions to the deliberations of the Board and to the development of the Scheme.

I would like to welcome to the Board the new member who was appointed on 12 June 2006:

- Mr. Frank O'Dwyer, Irish Association of Investment Managers.

Finally, may I thank all my fellow Board directors for the time, expertise and commitment which they bring to the business of the Board and its committees. Their support and guidance has been invaluable.

16 October 2006

# OPERATING REPORT



*Patricia Fitzgerald*  
Chief Operations Officer

The ICCL'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 ICCL also strives to provide a value for money service to all its stakeholders.

## Overview

The year ended 31 July 2006 was the eighth year of operations for the Scheme. Key Financial results are summarised in the following tables.

## Financial Results Summary as at 31 July 2006

<b>INCOME and EXPENDITURE SUMMARY</b>	<b>Fund A €</b>	<b>Fund B €</b>	<b>Total €</b>
Income from annual contributions	2,219,097	1,630,506	3,849,603
Interest Income	215,690	221,088	436,778
Compensation costs and provisions	(246,653)	–	(246,653)
Administration expenses / bad debts / provisions for bad debts	(326,371)	(419,903)	(746,274)
<b>Surplus for Year</b>	<b>1,861,763</b>	<b>1,431,691</b>	<b>3,293,454</b>

<b>BALANCE SHEET SUMMARY</b>	<b>Fund A €</b>	<b>Fund B €</b>	<b>Total €</b>
Cash at bank	7,748,547	9,732,435	17,480,982
Fixed assets	9,495	9,496	18,991
Debtors	11,190	66,471	77,661
Creditors	(73,569)	(193,138)	(266,707)
Provision for liabilities and charges	(3,715,329)	(9,996)	(3,725,325)
Share capital	(2)	(2)	(4)
<b>Fund Reserves</b>	<b>3,980,332</b>	<b>9,605,266</b>	<b>13,585,598</b>

## Funding of the Scheme

The ICCL relies entirely on contributions from authorised investment firms and from insurance intermediaries in order to fund the Scheme. There were 230 Fund A contributors (2005: 228) and 3,099 Fund B contributors (2005: 3,030).

Annual contributions received were as follows:

	<b>Fund A €</b>	<b>Fund B €</b>	<b>Total €</b>
Year ended 31 July 2006	2,219,097	1,630,506	3,849,603
Year ended 31 July 2005	1,765,926	1,438,014	3,203,940

The increase in Fund A contributions relates primarily to the 10% contribution rate increases each year which commenced with effect from 1 August 2004. The increase in Fund B contributions primarily relates to an increase in the number of firms contributing at higher levels. A further increase, of approximately €250,000, was required in the current year in the W&R Morrogh provision relating to Administrator costs. This provision relates to certain limited costs associated with the return to investors of their shareholdings.

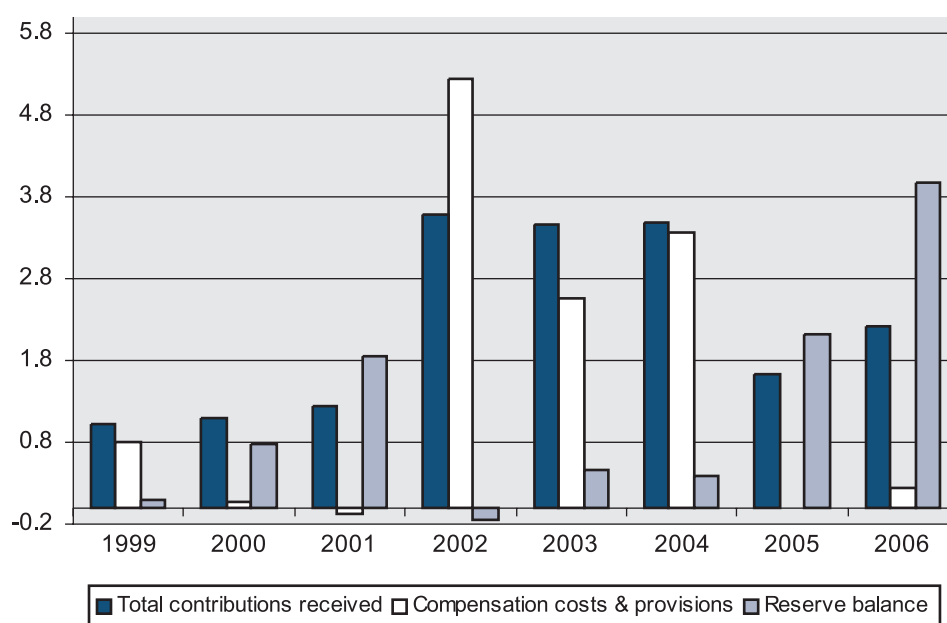
Fund A reserves improved significantly again this year in line with expectations and now stand at €3,980,332 (2005: €2,118,569). I hope that this trend will continue and that the Fund A reserves will be replenished in the coming years.

Fund B reserves stood at €9,605,266 at the year-end (2005: €8,173,575).

The following tables demonstrate, for each of the funds, the scale of contributions received over the past eight years and how much of these funds have either been absorbed by claims or accumulated in reserves.

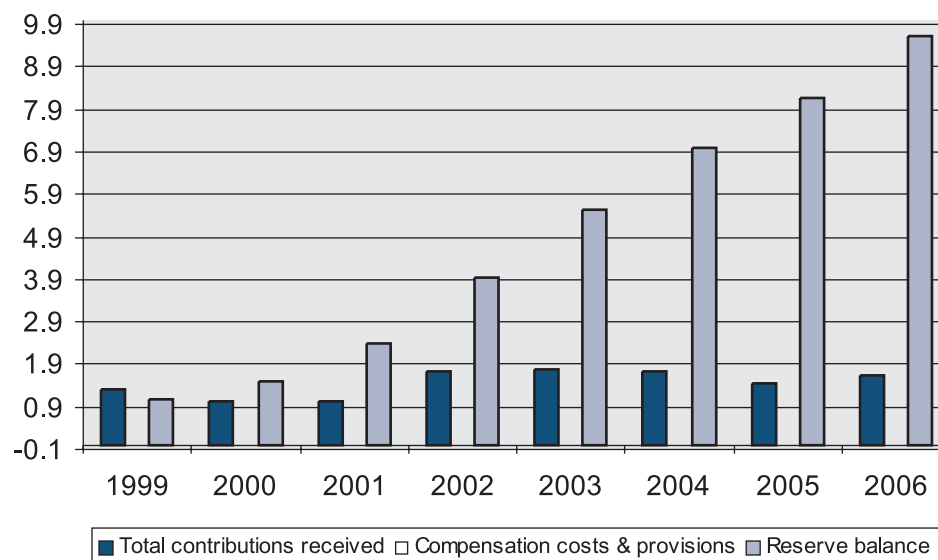
€ million

## Fund A



## Fund B

€ million



Due to size constraints, Fund B compensation costs and provisions in 2000 and 2001 of €49,141 and (€20,000) respectively do not appear on this graph.

## Contributions Outstanding

We are grateful to the vast majority of contributors who have co-operated with the ICCL in ensuring that contributions are paid in a timely manner. At 31 July 2006, contributions were outstanding from 1 Fund A contributor (2005: 8) and 82 Fund B contributors (2005: 100). The ICCL operates a self-assessment regime for contributors, and, in cases where contributors have yet to indicate the appropriate contribution rate, no estimates have been made for such debtors. The ICCL is dedicated to ensuring that all firms comply with their obligations. The ICCL applies interest to unpaid contributions. The ICCL also reports firms, whose contributions are outstanding, to the Financial Regulator for failing to comply with their obligations under the Act. The Financial Regulator has the power to require firms to suspend the carrying on of the business in cases of non-compliance. In addition, the ICCL works closely with product producers and insurance companies to ensure full contribution compliance by all tied agents. Since 2003, firms contributing to Fund B have the facility to pay contributions by direct debit and the numbers taking up this option continue to increase year on year. Details on debtors are set out in Note 5 on page 37.

## Payment of Compensation

Since the incorporation of the ICCL, three determinations have been made under the Act. These resulted in claims for compensation being made on the Scheme. One of these, relating to Andrew Casey trading as Andrew Casey Life & Pensions, a firm covered by Fund B, was made in October 1999. The other two determinations relate to stockbrokers covered by Fund A, Money Markets International Stockbrokers Limited and W&R Morrogh Stockbrokers.

Under the Act, where the ICCL has paid compensation to a claimant, the ICCL becomes subrogated to the rights of that claimant in the liquidation proceedings for the amount of the compensation paid. This means that the ICCL steps into the shoes of the claimant in the liquidation proceedings and, after compensating the claimant, is entitled to the payment of a dividend, if any, from the liquidation. Any actionable claim by the ICCL arising from its subrogated position is the subject of careful review by the ICCL with a view to reimbursing the ICCL in respect of compensation paid.

### *Andrew Casey trading as Andrew Casey Life & Pensions*

Total compensation payments in this case involved a relatively modest amount of money (€20,000) which has been paid under the Scheme.

### *Money Markets International Stockbrokers Limited (“MMI”)*

Since 1999, 313 claims have been received as a result of the liquidation of MMI. To date, 310 claims have been dealt with and compensation payments amounting to €772,294 have been made. The outstanding claims, which are affected by a number of factors, continue to be progressed by the Administrator. Compensation costs have been provided for in prior year accounts.

### *W&R Morrogh Stockbrokers (“Morrogh”)*

#### Claims

Some 2,625 claims for compensation were received by the ICCL following the failure of Morrogh. I am pleased to report significant progress in the certification and payment of claims. During the year a further circa 1,500 claims were certified by the Administrator. I wish to extend my gratitude to ICCL staff who worked tirelessly to ensure that all related compensation was paid to claimants well within the three months allowed under the Act (average time taken was approximately two weeks). To date, 2,372 or 90% of claims (2005: 819 or 31%) have been dealt with in part or in full and compensation payments amounting to €7.1 million have been made. The ICCL is still awaiting certification of the remaining claims by the Administrator which is expected in the coming year.

#### Compensation payable

The total estimate of compensation payable by the ICCL in this case is €10.3 million which has been provided in prior year accounts. All provisions are estimates which are prepared with assistance from the Administrator.

#### Administrator Costs

A provision of €471,900 was made in prior year accounts for the Administrator's costs arising from the Morrogh case. During the year, this provision was increased to €720,000 to allow for certain limited costs associated with the return to investors of their shareholdings. Approximately €270,400 of the Administrator's costs has already been paid.

The ICCL will continue to work closely with the Administrator to ensure that the remaining claims are certified and paid as soon as possible.

## Administration Expenses

The ICCL is very mindful of its duty to provide value for money to its stakeholders and there is a high focus on costs containment. As shown in the summary tables below, the overall administration expenses/bad debts and provisions have increased from €456,338 in 2005 to €746,274 in 2006, i.e. an increase of €289,936 or 64%. Administration expenses / bad debts and provisions in the year ended 31 July 2005 were reduced significantly due to a bad debts provision decrease of €301,024. This compares with a decrease of €24,654 in the year ended 31 July 2006. The removal of provisions from the analysis results in a 1.8% increase in costs year on year.

Apportionment of Administration costs/bad-debts and provisions:

<b>Year Ended 31 July 2006</b>	<b>Fund A €</b>	<b>Fund B €</b>	<b>Total €</b>
Bad Debts written-off	60,348	30,988	91,336
(Decrease)/Increase in provision	(50,404)	25,750	(24,654)
Administration expenses	316,427	363,165	679,592
	<b>326,371</b>	<b>419,903</b>	<b>746,274</b>

Apportionment of Administration costs/bad-debts and provisions:

<b>Year Ended 31 July 2005</b>	<b>Fund A €</b>	<b>Fund B €</b>	<b>Total €</b>
Bad Debts written-off	63,754	2,140	65,894
(Decrease)/Increase in provision	(335,802)	34,778	(301,024)
Administration expenses	313,938	377,530	691,468
	<b>41,890</b>	<b>414,448</b>	<b>456,338</b>

Administration expenses have decreased marginally from €691,468 in 2005 to €679,592 in 2006. More details are provided in Note 2 on page 35.

Due to the much greater numbers of contributors in Fund B, a proportionately higher amount of administrative time relates to collecting contributions from Fund B member firms. However, a significant amount of time has also been absorbed in the ongoing management of the Morrogh issues and is, therefore, a cost to Fund A.

A detailed system is used to track, on a weekly basis, the time which each staff member spends on tasks associated with each of the Funds. The Audit Committee reviewed the bases used for the allocation of costs between the Funds and concluded that the cost allocation bases<sup>1</sup> used were rigorous and fair.

<sup>1</sup> Costs, which are directly attributable to a particular Fund, are allocated to that Fund. Costs, which are directly related to the number of firms contributing to each Fund, are allocated on that basis. Other costs are allocated equally between the Funds.

## Strategic Plan 2006 to 2009

As outlined in the Chairperson's report, during the year, the ICCL formally documented its strategic plan for the three years 2006 to 2009. This strategy was developed having regard to our experience, to the findings of our own and of other reviews of the experiences of investor compensation schemes, and, to our judgements about emerging developments in the regulation of the retail financial investment sector which could impact on our role or on the scope of the Scheme.

Our plan, which we will review annually, sets out the ICCL's objectives, specifies the strategies and policies for achieving these objectives and outlines the programme of work which we will undertake to ensure that we are meeting our strategic goals.

## Organisation

In accordance with Section 20 of the Act, staff from the Central Bank and Financial Services Authority of Ireland (Bank) perform the administrative functions of the ICCL. A significant programme of work was undertaken during the year.

The main areas of work were:

- dealing with the Administrator in relation to compensation issues arising from the Morrogh failure,
- ongoing implementation of the 2004 Funding Arrangements,
- servicing of the Board and of Board Committee meetings,
- input to the Department of Finance Morrogh Working Group,
- implementation of the ICCL's investment policy,
- implementation and reporting on the suite of policies and procedures developed by the ICCL to ensure compliance with legislation, and
- working with the Financial Regulator towards the co-ordination of the levy raising and collection procedures for the Financial Regulator and the ICCL.

I consider that the resources, systems and procedures are in place to deal effectively with the issues as they arise and I continue to monitor ways of improving the efficiency of the operations.

Finally, I wish to express my thanks to the Board of Directors for their guidance and support and also to the staff for their continued hard work and cooperation in ensuring the smooth and efficient functioning of the Scheme's operations.

16 October 2006

# DIRECTORS' REPORT

The Directors present their report and the eighth audited financial statements for the year ended 31 July 2006.

## 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 Investor Compensation Act, 1998 ("Act").
- The maintenance of funds out of which payments or expenses are made in accordance with the Act.

Details of the operation of the ICCL and the likely future developments are contained within the Chairperson's Statement and the Operating Report on pages 11 to 20.

This was the fifth consecutive year in which there have been no new failures of investment firms giving rise to fresh claims for compensation.

Circa 1,500 Morrogh claims for compensation were certified during the year and €3.8 million was paid in respect of these claims.

The growth in each of the reserve funds was in line with expectations. Fund A reserves now stand at €3.9 million and Fund B reserves stand at €9.6 million.

## Results

The ICCL generated an operating surplus of €3,293,454 (2005: Surplus of €2,914,686).

The Directors do not recommend the payment of a dividend.

# Principal Risks and Uncertainties

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

## *Financial Risk*

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

### *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 ICCL is exposed to credit risk is through institutional deposits.

The ICCL manages this risk through its Investment Policy by placing limits on its exposure to any single counterparty. Counterparties are selected based on their credit ratings.

### *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 ICCL is exposed to interest rate risk is through institutional deposits.

The ICCL manages this risk through its Investment Policy by selecting the counterparties who initially comply with the credit rating criteria, and, subsequently 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. The EU Directive, under which the investor compensation 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, jeopardize 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. This review includes setting targets for reserve fund balances and seeking support for funding arrangements from all stakeholders,

including investment firms, the Central Bank & Financial Services Authority of Ireland and the Department of Finance, to ensure that the Scheme can meet its future funding requirements. The ICCL monitors the achievement of these targets using various reporting procedures.

### *Currency Risk*

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

The ICCL has no exposure to currency risk as all financial transactions are denominated in Euro.

## **Statement of Directors' Responsibilities**

### ***Financial Statements***

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in 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 period. 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; 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 proper books of account 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 the Irish statute comprising the Companies Acts, 1963 to 2005. 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 Investor Compensation Act, 1998 requires the directors to keep all proper 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 30 to 41, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made.

The directors have ensured that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, 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 42-45 Dame Street, Dublin 2.

## **Going Concern**

The financial statements are prepared on a 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 and Financial Services Authority of Ireland. The remaining ten directors are also non-executive 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 Financial Services Authority of Ireland 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 the Combined Code*

The Company supports the principles of corporate governance outlined in the Combined Code on Corporate Governance<sup>2</sup> adopted by the Irish and London Stock Exchanges and effective for reporting years beginning on or after 1 November 2006. While the Company is not obliged to comply with the Combined Code, it has reviewed the principles and provisions of that Code and the Directors confirm that the Company has complied throughout the accounting period with the main aspects that are appropriate to the Company. The Directors are committed to maintaining the highest standards of corporate governance.

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 financial statements, the annual budget, acquisitions and disposals. 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 materials on the Company and its operations. Details of remuneration paid to the Directors are set out on page 35. There were 9 full 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. Copies of Board papers are circulated to Directors in advance of meetings.

## *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 clear operating and reporting procedures, lines of responsibility, authorisation limits, segregation of duties

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<sup>2</sup> Higgs review of the role and effectiveness of non-executive directors and Smith review of audit committees.

and delegated authority. 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.

## *Compliance with the Turnbull Guidance*

The Directors confirm that the Company's ongoing process for identifying, evaluating and managing its significant risks is in accordance with the Turnbull guidance (Internal Control: Revised Guidance for Directors on the Combined Code, published in October 2005). 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. Ad hoc committees are formed from time to time to deal with specific matters.

Each of the permanent committees has terms of reference 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. Attendance at committee meetings held during the year is set out in the table on page 10.

### *Audit Committee*

The Audit Committee meets a minimum of three times per year. During the year, the Committee met three times. The Committee's responsibilities 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;
- Evaluating the performance of the external auditors including their independence and effectiveness;
- 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.

## Funding Committee

The Funding Committee meets a minimum of three times per year. During the year, the Committee met five 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 Investor Compensation Act, 1998;
- Reviewing the collection of contributions 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.

## 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, as defined by the Companies Act, 1990, at any time during the year ended 31 July 2006.

## Auditors

The auditors, PricewaterhouseCoopers, continue in office in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board: 16 October 2006

J. Bardon



B. Healy



**DIRECTORS**

## **Independent Auditor's Report to the members of the Investor Compensation Company Limited**

We have audited the financial statements on pages 30 to 41. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 33 and 34.

### **Respective Responsibilities of Directors and Auditors**

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (generally accepted accounting practice in Ireland) are set out in the statement of directors' responsibilities on page 23.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with generally accepted accounting practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of the company's affairs as at 31 July 2006 and of the surplus for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2005.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 21 to 27 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on page 31 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 July 2006 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors, Dublin  
16 October 2006

# F inancial Statements

## Income and expenditure account for the year ended 31 July 2006



			2006 €	2005 €
<b>INCOME</b>	<i>Notes</i>			
Contributions			3,849,603	3,203,940
Top-Up in respect of Fund A (W&R Morrogh)			-	(144,948)
Interest Income			436,778	311,891
			<b>4,286,381</b>	<b>3,370,883</b>
<b>EXPENDITURE</b>				
Compensation costs and provisions				
Claims	7	3,970		33,477
Claims – 3rd party costs	7	(250,623)	(246,653)	(33,336)
Bad debts				
Written off in year	5(b)	(91,336)		(65,894)
Decrease/(Increase) in provision	5(c)	24,654	(66,682)	301,024
Administration expenses	2		(679,592)	(691,468)
<b>TOTAL EXPENDITURE</b>			<b>(992,927)</b>	<b>(456,197)</b>
<b>SURPLUS ON ORDINARY ACTIVITIES</b>	1		3,293,454	2,914,686
Opening Surplus			10,292,144	7,377,458
Surplus at 31 July			13,585,598	10,292,144
<b>ALLOCATED BETWEEN FUNDS AS FOLLOWS:</b>				
FUND A	3		3,980,332	2,118,569
FUND B	3		9,605,266	8,173,575
			<b>13,585,598</b>	<b>10,292,144</b>

The Company had no recognised gains and losses in the period to 31 July 2006 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 period. 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 16 October 2006 and were signed on its behalf by:

J. Bardon

B. Healy



**DIRECTORS**

## Balance sheet as at 31 July 2006

	Notes	2006 €	2005 €
<b>NET ASSETS EMPLOYED</b>			
<b>FIXED ASSETS</b>			
Tangible assets	4	18,991	16,916
<b>CURRENT ASSETS</b>			
Debtors and accrued income	5(a)	77,661	74,847
Cash at bank and on deposit	13(ii)	17,480,982	17,901,130
		17,558,643	17,975,977
<b>CREDITORS:</b>			
(Amounts falling due within one year)	6	(266,707)	(326,642)
<b>NET CURRENT ASSETS</b>		17,291,936	17,649,335
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		17,310,927	17,666,251
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	7	(3,725,325)	(7,374,103)
<b>NET ASSETS</b>		13,585,602	10,292,148
<b>FINANCED BY:</b>			
Called-up share capital	9	4	4
Funds	3	13,585,598	10,292,144
	11	13,585,602	10,292,148

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

The financial statements were approved by the Board of Directors on 16 October 2006 and were signed on its behalf by:

J. Bardon   
 B. Healy 

**DIRECTORS**

## Cash flow statement for the year ended 31 July 2006

	<i>Notes</i>	<b>2006</b> €	<b>2005</b> €
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	13(i)	(405,092)	2,972,252
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets	4	(15,056)	(3,474)
<b>(DECREASE)/INCREASE IN CASH</b>	<b>13(iii)</b>	<b>(420,148)</b>	<b>2,968,778</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, 1963 to 2005 and in accordance with accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view which are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

## Accounting Convention

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

## Contributions

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

Contributions 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. A reliable estimation can normally be made only when the date for the receipt of applications for compensation has elapsed (which is not less than five months from the date of the determination).

The Company will normally become aware of a default on the presentation of a bankruptcy petition, the appointment of a liquidator or receiver or examiner, the convening of a meeting of creditors or a similar event. These events, inter alia, may lead to a determination by the Central Bank and Financial Services Authority of Ireland in accordance with the Investor Compensation Act, 1998.

Recoveries from subrogation are recognised when receipt is certain.

## Administration Expenses

Administration expenses include all costs which are not compensation costs and include costs relating to the ongoing management of the Company.

## Fixed Assets

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 1/3 % straight line
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## Funds

In accordance with the provisions of the Investor Compensation Act, 1998, the Company has established two separate Funds in respect of the various categories of investment firms.

# N

## otes to the financial statements for the year ended 31 July 2006

### 1. SURPLUS ON ORDINARY ACTIVITIES

The surplus on ordinary activities is stated after charging:

	2006	2005
	€	€
Directors' fees	129,462	126,915
Depreciation	12,981	12,981
Auditors' remuneration	12,124	12,135

The Company did not have any employees during the period. The administrative services are provided by the Central Bank and Financial Services Authority of Ireland.

The current Chairperson and Deputy Chairperson were remunerated €30,000 (2005: €30,000) and €15,000 (2005: €15,000) respectively on a pro-rata basis during the year. The other directors were remunerated at the rate of €8,500 per annum (2005: €8,500) on a pro-rata basis.

### 2. ADMINISTRATION EXPENSES ANALYSIS

	2006	2005
	€	€
Personnel costs*	429,203	412,916
Directors' fees & expenses	137,250	129,569
Administration overheads	100,158	132,002
Depreciation	12,981	12,981
	<u>679,592</u>	<u>691,468</u>

\*Personnel costs are part of the Central Bank and Financial Services Authority of Ireland charge for administrative services.

### 3. FUNDS

The income and expenditure is allocated between Funds as follows:

	Fund “A” €	Fund “B” €	2006 Total €	2005 Total €
Contributions	2,219,097	1,630,506	3,849,603	3,203,940
Top-Up Contribution	-	-	-	(144,948)
Interest income	215,690	221,088	436,778	311,891
Compensation (costs)/recoveries:				
Claims	3,970	-	3,970	33,477
Claims – 3rd party costs	(250,623)	-	(250,623)	(33,336)
Bad Debts written off	(60,348)	(30,988)	(91,336)	(65,894)
Decrease/(Increase) in provision for bad and doubtful debts	50,404	(25,750)	24,654	301,024
Administration expenses	(316,427)	(363,165)	(679,592)	(691,468)
Surplus for year	1,861,763	1,431,691	3,293,454	2,914,686
Surplus at 1 August	2,118,569	8,173,575	10,292,144	7,377,458
Surplus at 31 July	<b>3,980,332</b>	<b>9,605,266</b>	<b>13,585,598</b>	<b>10,292,144</b>
<b>Represented by:</b>				
Cash at bank	7,748,547	9,732,435	17,480,982	17,901,130
Fixed assets	9,495	9,496	18,991	16,916
Debtors	11,190	66,471	77,661	74,847
Creditors	(73,569)	(193,138)	(266,707)	(326,642)
Provision for liabilities and charges	(3,715,329)	(9,996)	(3,725,325)	(7,374,103)
Share capital	(2)	(2)	(4)	(4)
<b>Total</b>	<b>3,980,332</b>	<b>9,605,266</b>	<b>13,585,598</b>	<b>10,292,144</b>

Costs, which are directly attributable to a particular Fund, are allocated to that Fund. Costs, which are directly related to the number of firms contributing to each Fund, are allocated on that basis. Other costs are allocated equally between the Funds.

## 4. TANGIBLE ASSETS

### *Computer Software and Equipment*

	2006 €	2005 €
Cost:		
At 1 August	42,470	38,996
Disposals	-	-
Additions	15,056	3,474
At 31 July	<u>57,526</u>	<u>42,470</u>
Depreciation:		
At 1 August	25,554	12,573
On Disposals	-	-
Charge for year	12,981	12,981
At 31 July	<u>38,535</u>	<u>25,554</u>
Net book value:		
At 31 July	<u>18,991</u>	<u>16,916</u>

## 5. DEBTORS and ACCRUED INCOME

	2006 €	2005 €
<b>(a) Debtors and Accrued Income:</b>		
Debtors (after a provision for bad and doubtful debts)	1,176	12,413
Accrued income & Prepayments	<u>76,485</u>	<u>62,434</u>
	<u>77,661</u>	<u>74,847</u>
<b>(b) Bad debts written off during the year:</b>	<u>91,336</u>	<u>65,894</u>
<b>(c) Movement in respect of the provision and write off for bad and doubtful debts:</b>		
	€	€
Opening provision for bad & doubtful debts	91,099	392,123
Closing provision for bad & doubtful debts	<u>66,445</u>	<u>91,099</u>
Decrease in provision	<u>24,654</u>	<u>301,024</u>

## 6. CREDITORS

	2006 €	2005 €
Compensation costs	25,706	12,792
Central Bank and Financial Services Authority of Ireland	41,754	75,191
Directors' fees	10,833	10,833
Prepaid contributions	139,000	137,275
Other	49,414	90,551
	<u>266,707</u>	<u>326,642</u>

## 7. PROVISION FOR LIABILITIES AND CHARGES

### *(a) Money Markets International Stockbrokers Limited (Fund A) & Andrew Casey trading as Andrew Casey Life & Pensions (Fund B)*

Claims for compensation have been made by clients of Money Markets International Stockbrokers Limited (Fund A) and Andrew Casey trading as Andrew Casey Life & Pensions (Fund B) and certain compensation payments have been made. Provision has been made in respect of estimated compensation where the claims have been received by the respective Administrators but have yet to be certified. Provision has also been made in respect of third party costs, which represent the costs of the Administrator, and, also directly attributable legal costs of the Administrator based upon an estimate of these costs to the completion of the Administration process.

### *(b) W&R Morrogh Stockbrokers (Fund A)*

Claims for compensation have been made by clients of W&R Morrogh Stockbrokers. Provision has been made in respect of compensation claims which have yet to be certified by the Administrator. In this case, a provision for compensation payments totalling €10.3 million has been made to 31 July 2006, of which €7.1 million has already been paid out by 31 July 2006. The provision is based on an estimate of compensation payable. The estimate is based on three key assumptions: 1) The stock held to the order of W&R Morrogh or, as applicable, Morrogh Nominees Limited, which can be identified to purchases made for particular clients will (subject to any disposals which the Receiver will make under 2), be returned to those clients. 2) Specific costs, fees and expenses of the Receiver in carrying out his functions, as provided for in the Stock Exchange Act, 1995, are to be borne by client assets on a pro rata basis. The estimate of compensation payable has been prepared on the basis of costs, fees and expenses of €5.4 million. 3) The estimate of compensation is also dependant on the value of the shares as at the

date of realisation. The estimate has been prepared on the basis of share values as at 31 July 2004.

Provision of €720,000 has also been made in respect of the costs of the Administrator for completion of the Administration process, of which €270,400 has already been paid.

	<b>CLAIMS</b>				
	<b>Fund A</b>	<b>Fund B</b>	<b>Total</b>	<b>3<sup>rd</sup> Party Costs (Funds A &amp; B)</b>	<b>Total</b>
	€	€	€	€	€
Opening provision at 1 August 2004	7,319,874	9,142	7,329,016	372,233	7,701,249
(Decrease)/Increase in provision	(33,477)	-	(33,477)	33,336	(141)
Payments during the year	(219,521)	-	(219,521)	(107,484)	(327,005)
Provision at 31 July 2005 and at 1 August 2005	7,066,876	9,142	7,076,018	298,085	7,374,103
(Decrease) / Increase in provision	(3,970)	-	(3,970)	250,623	246,653
Payments during the year	(3,846,160)	-	(3,846,160)	(49,271)	(3,895,431)
Closing Provision at 31 July 2006	3,216,746	9,142	3,225,888	499,437	3,725,325

## 8. CONTINGENT LIABILITY

In respect of W&R Morrogh, the certification and payment of compensatable losses to claimants had been delayed in prior years as a result of uncertainties and delays experienced in the Receivership process. Significant progress in the certification and payment of claims was made during the year under review. Certification and payment of compensatable losses to many of the remaining claimants is anticipated in the coming year.

It is estimated that the compensation payable by the ICCL will be in excess of €10 million, of which €7.1 million has already been certified and paid. The balance has been provided for in the ICCL's Financial Statements to 31 July 2006.

## 9. SHARE CAPITAL

### Authorised:

10 Ordinary shares of €1.25 each

### Issued and fully paid:

3 Ordinary shares of €1.25 each

2006 €	2005 €
<u>13</u>	<u>13</u>
<u>4</u>	<u>4</u>

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

On 2 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.

## 10. TAXATION

The Company is exempt from Corporation Tax and Deposit Interest Retention Tax.

## 11. MOVEMENTS IN TOTAL FUNDS

	Share Capital attributable to Shareholders €	Attributable to Funds €	Total €
At 1 August 2005	4	10,292,144	10,292,148
Surplus for the year	<u>-</u>	<u>3,293,454</u>	<u>3,293,454</u>
At 31 July 2006	<u>4</u>	<u>13,585,598</u>	<u>13,585,602</u>

## 12. RELATED PARTIES

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

	2006 €	2005 €
Administration costs chargeable to the Company by the Central Bank and Financial Services Authority of Ireland for services provided	<u>463,538</u>	<u>445,971</u>

Other than the payment of directors' fees and expenses as disclosed in Note 2, there have been no transactions in the year to 31 July 2006 between the Company and its directors.

## 13. CASH FLOW NOTES

	2006 €	2005 €
<b>(i) Reconciliation of surplus on ordinary activities to net cash inflow from operating activities</b>		
Surplus on ordinary activities	3,293,454	2,914,686
Depreciation	12,981	12,981
(Increase)/Decrease in debtors	(2,814)	303,294
Decrease in creditors and provisions for liabilities and charges	<u>(3,708,713)</u>	<u>(258,709)</u>
	<u>(405,092)</u>	<u>2,972,252</u>
<b>(ii) Analysis of net funds</b>		
Cash at bank	<u>17,480,982</u>	<u>17,901,130</u>
<b>(iii) Reconciliation of net cash flow to movement in net funds</b>		
Net Funds at 1 August	17,901,130	14,932,352
(Decrease)/Increase in cash in the period	<u>(420,148)</u>	<u>2,968,778</u>
Net Funds at 31 July	<u>17,480,982</u>	<u>17,901,130</u>

# What is the Investor Compensation Scheme ?

## Introduction

Instances may arise in the financial services industry where a firm is unable, due to its financial circumstances, to return to investors their investment instruments and/or their money. In the past, investors could do very little to recover their assets and people have suffered losses.

The establishment of an investor compensation scheme in 1998 provides a mechanism whereby private investors may be entitled to compensation from the Investor Compensation Company Limited ("ICCL").

## Background

In March 1997, the European Council adopted a Directive in relation to the establishment of investor compensation schemes in Member States. The purpose of the Investor Compensation Directive is to provide a minimum level of protection for investors in circumstances where fraud or insolvency results in the inability of an investment firm to return investment instruments or money to investors.

The Investor Compensation Directive lays down certain basic requirements for investor compensation schemes in order to provide a harmonised minimum level of investor protection across the Community. It is left to each individual Member State to implement

an appropriate scheme and to determine the most appropriate way of organising and financing such schemes.

In Ireland, the Directive was transposed into Irish Law on 1 August 1998 through the introduction of the Investor Compensation Act, 1998.

## The Investor Compensation Act, 1998 (the "Act")

Under the Act, the ICCL was established as a company limited by guarantee and having a share capital.

A principal objective of the ICCL is the putting in place of arrangements (e.g. funding and payment procedures) to ensure that eligible

clients of a failed firm receive compensation, within the parameters set down in the Act, as quickly as possible.

A number of sections within the Investor Compensation Act, 1998, have been amended by the Central Bank and Financial Services Authority of Ireland Acts 2003 and 2004.

Under Section 25 of the Investor Compensation Act, 1998, the Financial Regulator may also authorise the establishment of compensation schemes by professional bodies representing accountants. Such schemes would be independent of the ICCL and would provide compensation in respect of the failure of members of the relevant professional body. To date, however, no such authorisation has been granted.

Where a product producer appoints another firm to act as its agent, the appointing firm may, in certain circumstances, be obliged to pay compensation if the appointee firm fails.

## Shareholders

The ICCL's three shareholders are:

- the Central Bank & Financial Services Authority of Ireland,
- the Irish Stock Exchange, and
- the Irish Association of Investment Managers.

The structure adopted in Ireland (i.e. the establishment of a specialist company to put compensation arrangements in place) is one which has also been used in some other Member States of the European Union.

## The Board of Directors

The number of directors of the ICCL is prescribed by the Minister for Finance. The Chairperson and Deputy Chairperson of the Board are appointed by the Governor of the Central Bank and Financial Services Authority of Ireland. The ten other directors represent either the interests of consumers (5) or the interests of the financial services industry (5) and are prescribed by the Minister for Finance.

## Scope of the Scheme

The Investor Compensation Directive applies to all authorised investment firms (including Credit Institutions authorised to provide investment services). In addition to transposing the Directive into Irish Law, the Investor Compensation Act, 1998, also provides for compensation arrangements to apply to a large number of authorised investment firms which were not covered by the Directive. This reflected the Government's view that eligible investors who dealt with investment firms should be entitled to some degree of financial compensation if an authorised firm failed and investors lost assets.

Following a consultation process in early 1999 with relevant bodies in the financial sector and various investment firms, the ICCL decided on the establishment of two Funds for the following categories of membership.

## Fund A

<ul style="list-style-type: none"> <li>Investment firms authorised under Section 10 of the Investment Intermediaries Act, 1995 that are not exempt under Section 2(5) of the Investor Compensation Act, 1998.</li> </ul>
<ul style="list-style-type: none"> <li>Stockbrokers authorised under the Stock Exchange Act, 1995.</li> </ul>
<ul style="list-style-type: none"> <li>Credit Institutions authorised to provide investment services.</li> </ul>
<ul style="list-style-type: none"> <li>Certified persons who provide investment business services other than those provided by Multi Agency Intermediaries or Authorised Advisors, e.g. accountants providing investment services in a manner which <u>is not</u> incidental to their main professional activities.</li> </ul>

## Fund B

<ul style="list-style-type: none"> <li>Authorised Advisors authorised under the Investment Intermediaries Act, 1995.</li> </ul>
<ul style="list-style-type: none"> <li>Multi Agency Intermediaries authorised under the Investment Intermediaries Act, 1995.</li> </ul>
<ul style="list-style-type: none"> <li>Tied Insurance agents (unless the undertaking to which they are tied takes full and unconditional</li> </ul>

responsibility for all their activities, even those activities which may exceed the extent of their authorisation by the institution concerned).

- Certified persons who provide investment business services other than those provided by Multi Agency Intermediaries or Authorised Advisors, e.g. accountants providing investment services in a manner which is incidental to their main professional activities.
- Credit Unions authorised under the Investment Intermediaries Act, 1995 (in relation to their insurance activities).

## How is the ICCL Funded?

The Scheme is funded by contributions from firms authorised to conduct investment services ("firm/firms"). The method for calculating the contributions payable was decided following three extensive consultation processes with firms and industry representative groups (1999, 2001 and 2003).

## Contribution Rates

Current contribution rates vary depending on the membership category and are based either on the number of eligible clients of the firm or on the firm's income from investment business and insurance business.

## When is Compensation Payable?

The Scheme will pay compensation where an authorised firm is unable, due to its financial circumstances, to return money or investment instruments owed to a client. Investors will be compensated if they are eligible investors and have dealt with a firm that has been authorised to conduct business. The Scheme will not pay compensation where a loss arises as a result of poor advice or where the value of a client's investment declines because of market or other economic forces.

## Process for Paying Compensation

The ICCL can only begin the process of making compensation payments to eligible investors once it has been advised by the Financial Regulator that an authorised firm has either:

- a) been the subject of a court ruling which prevents the firm returning money or investment instruments to clients, or
- b) been the subject of a determination by the Financial Regulator that the firm is unable to meet its obligations arising from claims by clients.

Subsequently, the ICCL will write to all known eligible clients of the failed firm advising them of their right to make a claim for compensation. It will also place notices in the national newspapers and/or in Iris Oifigiúil seeking claims from investors.

Validation of claims and certification of the amount of compensation payable to claimants is carried out by an 'Administrator'. An Administrator will be either:

- the Court-appointed liquidator to the firm as a result of a proposal made by the Financial Regulator with the agreement of the ICCL, or
- a person appointed by the Financial Regulator with the agreement of the ICCL.

Investors will be given at least five months from the date of the court ruling or determination by the Financial Regulator to make a claim. Once a claim has been certified by the Administrator, the ICCL will make payments as quickly as possible and is obliged to do so within three months of the date of certification.

## Compensation Limits

The amount of compensation payable to each eligible investor is limited to 90 per cent of the amount lost, subject to a maximum payout of €20,000. This amount reflects the obligations imposed under the Investor Compensation Directive and is generally consistent with the levels of payment available in most other Member States of the European Union.

## Relationship with Claimants

The ICCL aims to actively assist eligible investors and particularly those affected by the failure of a firm. It aims to deal in a co-operative and sensitive way with investors and to provide assistance to all those who contact the ICCL. The level of these enquiries can be significant

particularly at the time of a failure of a firm. The ICCL has published an information booklet for investors which provides useful information on the scheme. This is available by clicking on the publications section in the ICCL's website or by contacting the ICCL directly (contact details are available at the back of this publication).

## **Relationship with the Central Bank and Financial Services Authority of Ireland**

The Financial Regulator is the supervisory authority for the purpose of the Act. The Financial Regulator is a constituent part of the restructured Central Bank and Financial Services Authority of Ireland which was

established following the enactment of the Central Bank and Financial Services of Ireland Act, 2003 on 1 May 2003. Accordingly, certain actions undertaken by the ICCL can only be carried out with the approval of the Financial Regulator.

These include:

- the establishment of any fund
- the raising of finance, or borrowing of any money
- amending the Memorandum and Articles of Association

Certain other matters, pertinent to the operation of the compensation scheme, require a process of consultation between the ICCL and the Financial Regulator.



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