



**THE INVESTOR COMPENSATION COMPANY LIMITED**

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Annual Report Year Ended 31 July 2008

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**Printed on Recycled Paper**

# 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 2008**

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# DIRECTORS AND OTHER INFORMATION

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<b>Directors</b>	Jim Bardon (Chairperson) Daniel Coveney (Deputy Chairperson) Inge Clissmann (Re-appointed on 1 August 2008) Terry Hardiman (Re-appointed on 1 August 2008) Brian Healy Dermott Jewell (Re-appointed on 1 August 2008) Paul Lynch Paul O'Donovan (Re-appointed on 1 August 2008) Frank O'Dwyer Eimer O'Rourke Gina Quin (Re-appointed on 1 August 2008) Mark Redmond (Re-appointed on 1 August 2008)
<b>Secretary</b>	Patricia Fitzgerald
<b>Registered Office</b>	The Central Bank and Financial Services Authority of Ireland, 42-45 Dame Street, Dublin 2.
<b>Auditors</b>	PricewaterhouseCoopers, Chartered Accountants, One Spencer Dock, North Wall Quay, Dublin 1.
<b>Bankers</b>	Bank of Ireland, 2 College Green, Dublin 2.
<b>Solicitors</b>	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. Deputy Chairperson, Irish Financial Services Appeals Tribunal. 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 Traded Markets, Development, Operations, Irish Stock Exchange. Chairman of Euroclear Irish Market Advisory Committee dealing with development and harmonisation issues for the Irish, UK, French, Dutch and Belgian equity and fixed income markets. Chairman of Dematerialisation Implementation Group. A fellow of the Institute of Chartered Accountants in Ireland. 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 Governing Board Irish Food Quality Certification, Member Financial Services Ombudsman Council, Member Department of the Taoiseach National Payment Implementation Panel, Member Consultative Council of the FSAI, Chairman Bórd Bia Plant Certification Committee and Irish Representative European Consumer Consultative Group of DG Sanco. Formerly with FBD Insurance, GEC Distributors (Irl) and the Rohan Group.



### **Paul Lynch**

Former Chief Executive of the Irish Brokers Association. 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 €250 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.



### **Eimer O'Rourke**

Head of Retail Banking, Irish Banking Federation. A member of the Industry Consultative Panel to the Financial Regulator, the Department of Finance's Money Laundering Steering Committee, the Executive Committee of the European Mortgage Federation and the National Payments Implementation Programme. Director of the Dormant Accounts Board.



### **Gina Quin**

Chief Executive, Dublin Chamber of Commerce, the representative body of business in Dublin. 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 of University College Dublin.

## 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

Daniel Coveney (Committee chairperson)  
 Terry Hardiman  
 Brian Healy  
 Paul Lynch  
 Frank O'Dwyer  
 Eimer O'Rourke

### Audit Committee

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

In addition to the standing committees, during the year the Board established two temporary committees, a Claims Handling Committee and a Chief Executive Role Review Committee. Further information on the work undertaken by these committees is outlined in the Directors' Report.

## Attendance at Board and Committee Meetings

	Board	Funding Committee	Audit Committee	Claims Handling Committee	Chief Executive Role Review Committee
<i>Number of meetings held</i>	9	4	3	4	1
Jim Bardon	9	2*	N/a	N/a	1
Daniel Coveney	9	4	N/a	4	1
Inge Clissmann	6	N/a	N/a	2	N/a
Terry Hardiman	9	4	N/a	4	N/a
Brian Healy	6	4	3	N/a	1
Dermott Jewell	7	N/a	3	N/a	N/a
Paul Lynch	7	4	3	N/a	N/a
Paul O'Donovan	7	2*	N/a	4	1
Frank O'Dwyer	8	4	N/a	4	N/a
Eimer O'Rourke	9	4	N/a	3	N/a
Gina Quin	8	N/a	N/a	N/a	1
Mark Redmond	7	N/a	N/a	4	N/a

\* By invitation

# CHAIRPERSON'S STATEMENT

## Jim Bardon

I am pleased to present the Annual Report for the tenth year of operations, which is my third Chairperson's report, for the year ended 31 July 2008.

## Overview

Given the recent turbulence experienced in the financial markets, I am especially pleased to welcome a seventh 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). This further year, free from failures, provided much needed time to build up more adequate reserves against future risks of default, as evidenced by the healthier level of our reserve balances at year-end. Nevertheless, and despite our successful track record of paying compensation, we are by no means complacent about our ongoing capacity to pay compensation as it arises and we remain vigilant in our efforts to ensure the Scheme's ability to meet future claims for compensation should they arise.

As outlined in my 2007 report, the ICCL shares the concerns of respondents in relation to the open-ended liability of firms to fund the Scheme and is committed to finding workable solutions to issues relating to establishing borrowing facilities which would allow the Scheme to manage the unlimited liability of the ICCL's contributors in extreme circumstances. In this context, the ICCL has continued its engagement with the Department of Finance, the Financial Regulator and the Central Bank and Financial Services Authority of Ireland (the Bank) regarding satisfactory, last-resort funding arrangements. Current difficult market conditions and the failure experiences in other jurisdictions reinforces the ICCL's belief that robust funding arrangements require the ultimate back-stop of a State guarantee to facilitate the ICCL in paying compensation on a timely basis.

The report of the Morrogh Working Group, which was chaired by the Department of Finance and in which the ICCL and many other interested parties participated, was published in November 2006. One of the key recommendations of that report stated that pre-determined rules should be developed for the distribution of client assets in circumstances where a shortfall in client assets arises following the failure of an investment firm. In the absence of any other party doing so, the ICCL has engaged its legal advisors to draft appropriate amending legislation and is preparing to further consult with key stakeholders on how best to advance this matter. Furthermore, I am pleased to report that, during the year, we successfully concluded our review of claims handling issues arising from the Morrogh case. Our report, which included a number of recommendations of a strategic as well as an operational nature, was circulated to stakeholders in December 2007 and the ICCL has worked tirelessly in implementing those recommendations which fall within its remit and in engaging with relevant stakeholders in progressing other recommendations.

In 2006, the ICCL formally documented its strategic plan for the three years ending 31 December 2009. As previously noted, our strategy was developed having regard to our experience over the 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 set out the ICCL's objectives, specified the strategies and policies for achieving these objectives and outlined the programme of work which we will undertake. We closely monitor our progress and we have revisited and adjusted our strategy and plans, as necessary, to ensure that we are meeting our strategic goals. Plans for our 2008 special strategic review are well advanced and include consideration of, amongst other matters, the implications for the ICCL of the Department of Finance's recent decision to increase the compensation limit available to depositors in credit institutions as well as credit unions from a maximum of €20,000 up to a maximum of €100,000. The compensation limit available to investors is currently at 90% of the compensatable loss up to a maximum of €20,000. However, in its press release of 20 September 2008, the Department has undertaken to review the adequacy of this limit with stakeholders and the ICCL looks forward to participating in this process.



I am also pleased to report that during the year the ICCL engaged consultants to assess the feasibility of developing a robust risk-based funding forecasting model which would inform the ICCL's funding decisions going forward. In this context, the ICCL appreciates the co-operation of contributors and representative bodies which assisted in this work. While the study concluded that there was scope for the development of such a model, the Board of the ICCL is mindful of the significant challenges affecting the robustness of any such model, the significant costs associated with its development, and the notable absence of such models in other jurisdictions. This matter will receive further consideration by the ICCL in the coming year in conjunction with our contributors and key stakeholders.

We regret that the ICCL's efforts to develop, in conjunction with the Financial Regulator, a co-ordinated approach to collecting levies from contributors have been unsuccessful. 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

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 Scheme, particularly in its early years. I welcome the support of our contributors in working with the Scheme to ensure that it is adequately funded. Total Fund reserves at year-end amounted to €24.6 million and are included in two funds, A and B. Fund A reserves were €11.6 million and Fund B reserves were €13.0 million. Relative to almost all 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 remains 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.

Certification of net losses in respect of some 35 claims were received by the ICCL from the W & R Morrogh Stockbrokers (Morrogh) Administrator and the ICCL issued compensation payments within two weeks of certification which is well within the three months set out in legislation. At this stage, the Administrator of Morrogh has certified 98% of claims received by the ICCL and the Board welcomes this progress. Payment by the ICCL of statutory compensation in respect of all outstanding claims was fully provided for in prior year accounts on the basis of estimates provided to the ICCL by the Administrator of Morrogh. Given the significant progress with the claims certification and with the Receivership process, much of the uncertainty associated with the earlier provisions has now dissipated, and we are pleased to be in a position to further reduce the provision, required for the claims yet to be certified, by some €336k and to release this amount directly to Fund A reserves.

## Review of Compensation Schemes

The review conducted by Oxera Consultants for the EU Commission was published towards the end of 2005 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 speedier 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 arise in the certification by an Administrator of 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, but ultimately the resolution of these issues is outside the ICCL's control. The ICCL's commitment to find workable solutions to issues which affect the scheme's ongoing sustainability, in conjunction with our stakeholders, remains our priority.

## **Compensation Claims**

The ICCL has continued to pay 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. 98% of the Morrogh 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 recognise the excellent work of the Chief Operations Officer and her staff and appreciate their commitment and dedication. Contributors and claimants were dealt with in an efficient and sensitive manner by ICCL staff. After ten years in existence, during 2008, the Board undertook a review of the role of the Chief Operations Officer and approved a revised job specification for this critical ICCL executive position.

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 cooperation and acknowledges their continuing commitment to providing ICCL with the services which are necessary for the efficient and smooth discharge of its functions and statutory duties.

## **Board Retirements and Appointments**

Six Directors retired by rotation on 31 July 2008. All six directors were renominated for appointment by their respective nominating persons/bodies and were reappointed for further terms of three years commencing on 1 August 2008.

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.

20 October 2008

# 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 2008 was the tenth year of operations for the Scheme, during which a number of significant milestones were reached. It was the first year of the ICCL's operations, during which, the ICCL generated sufficient interest income to cover all of its administration expenses. This meant that all of the income collected from contributors, and indeed some surplus interest income, went directly to increase fund reserves and cash balances.

Key Financial results are summarised in the following tables.

## Financial Results Summary as at 31 July 2008

<b>INCOME and EXPENDITURE SUMMARY</b>	<b>Fund A</b>	<b>Fund B</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Income from annual contributions	2,916,176	1,730,144	4,646,320
Interest Income	548,450	588,592	1,137,042
Compensation (costs/provisions) and write-backs	335,580	-	335,580
Administration expenses/bad debts/provisions for bad debts	(419,117)	(489,046)	(908,163)
<b>Surplus for Year</b>	<b>3,381,089</b>	<b>1,829,690</b>	<b>5,210,779</b>

<b>BALANCE SHEET SUMMARY</b>	<b>Fund A</b> €	<b>Fund B</b> €	<b>Total</b> €
Cash at bank	12,748,094	13,126,326	25,874,420
Fixed assets	1,175	1,176	2,351
Debtors	101,479	75,288	176,767
Creditors	(88,032)	(226,391)	(314,423)
Provision for liabilities and charges	(1,107,838)	(9,996)	(1,117,834)
Share capital	(2)	(2)	(4)
<b>Fund Reserves</b>	<b>11,654,876</b>	<b>12,966,401</b>	<b>24,621,277</b>

## Funding of the Scheme

The ICCL relies on contributions from authorised investment firms and registered insurance intermediaries in order to fund the Scheme. There were 244 Fund A contributors (2007: 236) and 4,042 Fund B contributors (2007: 3,222).

Annual contributions received were as follows:

	<b>Fund A</b> €	<b>Fund B</b> €	<b>Total</b> €
Year ended 31 July 2008	2,916,176	1,730,144	4,646,320
Year ended 31 July 2007	2,439,761	1,601,901	4,041,662

The increase in Fund A contributions relates primarily to the contribution rate increase which commenced with effect from 1 August 2007. The increase in Fund B contributions primarily relates to an increase in the number of firms contributing, albeit at lower rates.

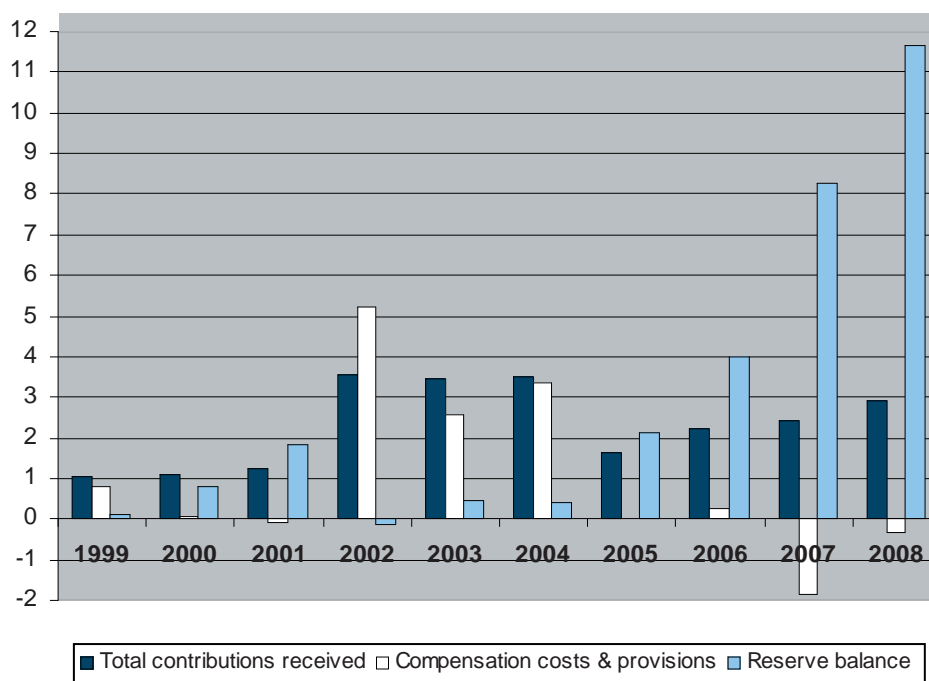
There was further significant improvement in Fund A reserves this year and these now stand at €11,654,876 (2007: €8,273,787). €336,461 of this increase relates to the reduction in the provision which was set-aside in previous years to pay Morrogh claims. Given the significant progress with the Receivership process and the certification of 98% of claims, much of the considerable uncertainty associated with earlier estimates has now dissipated. Further detail on this adjustment is provided in Note 7 to the Financial Statements.

Fund B reserves stood at €12,966,401 at the year-end (2007: €11,136,711).

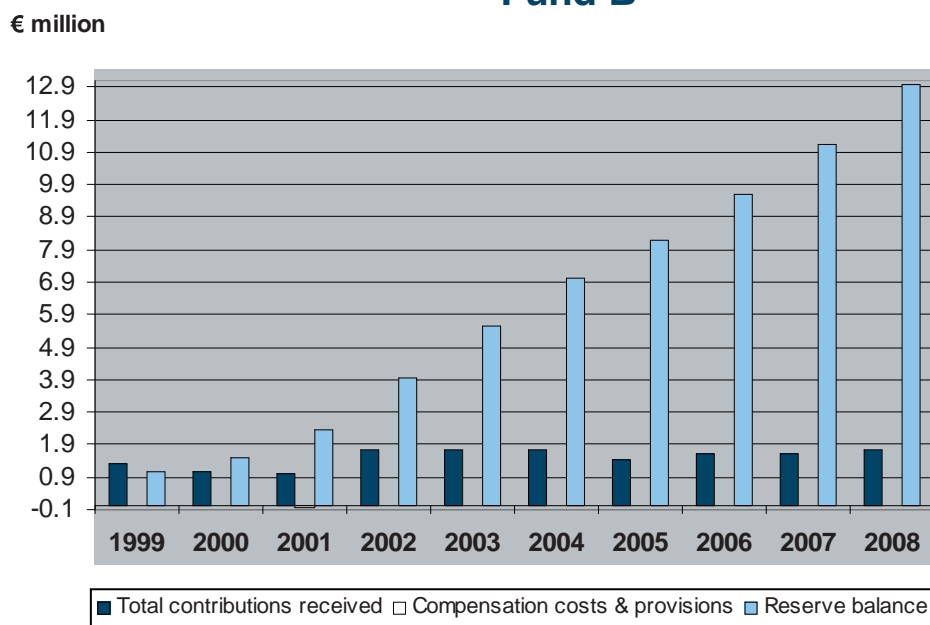
The following tables demonstrate, for each of the funds, the scale of contributions received over the past ten years and how much of these funds have either been absorbed by claims or accumulated in reserves.

€ million

## Fund A



## Fund B



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 remain grateful to the vast majority of contributors who have supported the ICCL in ensuring that contributions are paid in a timely manner. At 31 July 2008, contributions were outstanding from 3 Fund A contributors (2007: 2) and 201 Fund B contributors (2007: 92). 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 business in cases of non-compliance. Furthermore, the ICCL has successfully taken legal action to recover unpaid debts. 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.

## Payment of Compensation

Since the incorporation of the ICCL in 1998, 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, an insurance intermediary 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 €772,484 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 2,628 claims for compensation were received by the ICCL following the failure of Morrogh. During the year the Administrator certified 35 claims. I wish to extend my gratitude to ICCL staff who worked 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, 2,583 or 98% of claims (2007: 2,548 or 97%) have

been dealt with in part or in full and compensation payments amounting to €7.49 million have been made.

#### Compensation payable

As discussed earlier, given the dissipation of the uncertainty inherent in earlier estimates with the passage of time, the total estimate of compensation payable by the ICCL in this case has now been reduced from €8.45 million to €8.11 Million. This has been fully provided for in prior year accounts. All provisions are estimates which are prepared with assistance from the Administrator.

#### Administrator Costs

A provision of €720,000 was made in prior year accounts for the Administrator's costs arising from the Morrogh case. 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 achieving value as well as on containing costs. As shown in the summary tables on page 23, the overall administration expenses / bad debts and provisions have increased from €800,973 in 2007 to €908,163 in 2008, i.e. an increase of €107,190 or 13%. Administration expenses alone in the year ended 31 July 2008 increased by 10% primarily due to consultancy costs incurred in undertaking a feasibility study for the development of a pragmatic and cost-effective risk based funding model (approx. €70k), and, to the commercial borrowing commitment fees (approx. €63k) associated with the €50 million standby commercial borrowing facility which the ICCL put in place in July 2007. Given the current turbulence in the credit markets, the ICCL's timing in putting this facility in place in 2007 was fortuitous. More details are provided in Note 2 on page 43.



Apportionment of Administration costs / bad debts and provisions:

<b>Year ended 31 July 2008</b>	<b>Fund A</b> €	<b>Fund B</b> €	<b>Total</b> €
Bad debts written-off	7,195	22,007	29,202
Increase in provision	-	20,088	20,088
Administration expenses	411,922	446,951	858,873
	<b>419,117</b>	<b>489,046</b>	<b>908,163</b>

Apportionment of Administration costs / bad debts and provisions:

<b>Year ended 31 July 2007</b>	<b>Fund A</b> €	<b>Fund B</b> €	<b>Total</b> €
Bad debts (recovered)/written-off	(8,000)	29,845	21,845
(Decrease)/Increase in provision	(3,644)	3,637	(7)
Administration expenses	355,974	423,161	779,135
	<b>344,330</b>	<b>456,643</b>	<b>800,973</b>

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

## Strategic Plan

As outlined in the Chairperson's report, in 2006 the ICCL formally documented its strategic plan for the three years ending 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.

<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. 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.

Our plan, which we review regularly and update 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. Progress in achieving our strategic goals is closely monitored by the Board and details of our progress are outlined in the Chairperson's Report.

In October 2008, the Board commenced its second three-yearly strategic review process which will result in the documentation of its second strategic plan for the three years ending 31 July 2012.

## Organisation

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

The main areas of work were:

- progressing the ICCL's strategic goals, including:
  - carrying out an extensive review of our claims-handling processes and, in conjunction with our stakeholders, implementing the recommendations arising,
  - commissioning research into the feasibility of developing a pragmatic and cost effective risk-based funding model,
  - pursuing legislative amendments to the Investor Compensation Act, 1998 to reflect the changes brought about by the implementation of the Insurance Mediation and Markets in Financial Instruments legislation, and,
  - reviewing our investment management objectives to ensure that we are appropriately managing the Scheme's reserves and achieving good returns for the Scheme,
- implementing the 2007 Funding Arrangements,
- ongoing implementation of the ICCL's investment policy,
- dealing with the Administrator in relation to compensation issues arising from the Morrogh failure,
- servicing of the Board and of Board Committee meetings,
- implementation of the recommendations arising from the 2007 Internal Audit of the ICCL's operations,

- ongoing programme of work associated with the suite of policies and procedures developed by the ICCL to ensure compliance with the highest standards of corporate governance, and,
- preparing for the ICCL's relocation to new offices in Spencer Dock, due to take place in early 2009.

I consider that our resources, systems and procedures have dealt effectively with the issues as they have arisen and I continue to recommend ways of improving the efficiency and sustainability of the ICCL's 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 professionalism and for their continued hard work and cooperation in ensuring the smooth and efficient functioning of the Scheme's operations.

20 October 2008

# DIRECTORS' REPORT

The Directors present their report and the tenth audited financial statements for the year ended 31 July 2008.

## 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 management 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 25.

While this was the seventh consecutive year in which there have been no new failures of investment firms giving rise to fresh claims for compensation, the Directors are aware of the difficulties and challenges which the current turbulence in the financial markets pose for investment firms.

Fund A reserves now stand at €11.6 million. Fund A reserve growth exceeded expectations due to the write-back of €336k of the Morrogh provision, which is no longer required. 35 Morrogh claims for compensation were certified during the year and €44k was paid in respect of these claims. The growth in the Fund B reserve was in line with expectations. Fund B reserves now stand at €13.0 million.

## Results

The ICCL generated an operating surplus of €5,210,779 (2007: Surplus of €5,824,900). The main reason for the decrease year on year is due to a €336k reduction in the provision for claims in respect of Morrogh as compared to a €1.85 million reduction in the year ended 31 July 2007. In accordance with the Articles of Association, no dividend is payable by the ICCL.

## Principal Risks and Uncertainties

The principal risk to which the ICCL 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 ICCL 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 risk, interest rate risk, liquidity risk, currency risk 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 ICCL is exposed to credit risk is through institutional deposits.

On an ongoing basis the ICCL manages this risk, inter alia through its Investment Policy by placing limits on its exposure to any single counterparty. Counterparties are selected based on their credit ratings which are continuously monitored.

This is an area of heightened risk for the ICCL given the current turbulence in global financial markets 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 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.

## *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 ICCL addresses this uncertainty through detailed review of calculations underlying estimates and through 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 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;
- 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 proper 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 Acts, 1963 to 2006. 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

38 to 50, 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 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 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 and Financial Services Authority of Ireland. 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 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 Board remains committed to maintaining the highest standards and supports the principles of corporate governance outlined in the Combined Code on Corporate Governance adopted by the Irish and London Stock Exchanges and effective for reporting years beginning on or after 29 June 2008. 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 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 and the Chairman and Chief Operations Officer are available to brief members as required. Details of remuneration paid to the Directors are set out on page 43. 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.

Under the Investor Compensation Act, 1998:

- Director nominations to the Board of the ICCL are at the discretion of the Minister for Finance;
- The Governor of the Central Bank & Financial Services Authority of Ireland (Central Bank) appoints the Chairperson and Deputy Chairperson, and,
- The Financial Regulator is the supervisory authority for the ICCL.

In addition to an annual review undertaken between the ICCL Chairperson, Deputy Chairperson, Governor of the Central Bank and Chief Executive of the Financial Regulator, the Board undertakes an annual evaluation of its own performance, using the 'Performance Evaluation Guidance' set out in the *Higgs Report*, as a formal agenda item at a scheduled Board Meeting. Formal evaluation of the performance of individual Directors during the year is conducted jointly by the Chairperson and Deputy Chairperson. Evaluation of the performance of the Deputy Chairperson is conducted jointly by the Chairperson and the Chairman of the Audit Committee. Led by the Chairman of the Audit Committee, evaluation of the performance of the Chairperson is conducted by all Board Members without the Chairperson 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 demonstrate commitment to the role. The individual

Director performance evaluation process is based on the principles outlined in the Higgs Report 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, and,
- 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.

## *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<sup>2</sup>. 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.

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<sup>2</sup> Internal Control: Revised Guidance for Directors on the Combined Code, published in October 2005.

## 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. During the year ended 31 July 2008, two such committees were established – the Claims Handling Committee and the Chief Executive Role Review Committee.

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 met on three occasions during the year and, in addition, dealt with a number of items by written consent. 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,
- 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.

### *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 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.

### *Claims Handling Committee*

The Claims Handling Committee met four times during the year. The Committee was established to assist the Board in progressing two key strategic goals, namely:

- To develop and secure agreement on and agree any necessary legislative changes to ensure, for the future, a process for the certification of client losses, eligible for compensation, which would give faster results for clients than that currently provided by the Act; and,
- To develop and refine operational procedures, in the light of the ICCL's own and other schemes' experience, to ensure that the ICCL has the flexibility to quickly and efficiently expand or contract the scale of resources needed for the handling of issues surrounding firm failures and resulting claims while continuing to work efficiently and effectively and maintaining the highest corporate governance standards.

### *Chief Executive Role Review Committee*

This Committee met once during the year to review the job description of the Chief Operations Officer (COO). After ten years of the Scheme's existence the main role and responsibilities of the COO were redefined to reflect changes in responsibilities arising from internal developments as well as the more complex external environment within which the ICCL operates. The revised job description was approved by the Board in February 2008.

## 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 2008.

## Auditors

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

Signed on behalf of the Board: 20 October 2008

J. Bardon		)	) DIRECTORS
B. Healy		)	

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

We have audited the financial statements on pages 38 to 50. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 41 and 42.

## 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 29.

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 2006. 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 2008 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 2006.

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 26 to 35 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on page 39 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 2008 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  
22 October 2008

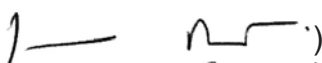

# F inancial Statements

## Income and expenditure account for the year ended 31 July 2008

		2008 €	2007 €
<b>INCOME</b>			
Contributions	<i>Notes</i>	4,646,320	4,041,662
Interest Income		<u>1,137,042</u>	<u>728,323</u>
		<b>5,783,362</b>	<b>4,769,985</b>
<b>EXPENDITURE</b>			
Compensation costs and provisions/release			
Claims provision release	7(b)	336,271	1,859,721
Claims – 3 <sup>rd</sup> party costs		(691)	(3,833)
		<u>335,580</u>	<u>1,855,888</u>
Bad debts			
Written-off in year	5(b)	(29,202)	(21,845)
(Increase)/ decrease in provision	5(c)	<u>(20,088)</u>	<u>7</u>
		(49,290)	(21,838)
Administration expenses	2	<u>(858,873)</u>	<u>(779,135)</u>
<b>TOTAL EXPENDITURE</b>		<b>(572,583)</b>	<b>1,054,915</b>
<b>SURPLUS ON ORDINARY ACTIVITIES</b>	1	5,210,779	5,824,900
Opening Surplus		<u>19,410,498</u>	<u>13,585,598</u>
Surplus at 31 July		<b><u>24,621,277</u></b>	<b><u>19,410,498</u></b>
<b>ALLOCATED BETWEEN FUNDS AS FOLLOWS:</b>			
FUND A	3	11,654,876	8,273,787
FUND B	3	<u>12,966,401</u>	<u>11,136,711</u>
		<b><u>24,621,277</u></b>	<b><u>19,410,498</u></b>

The Company had no recognised gains and losses in the year to 31 July 2008 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 20 October 2008 and were signed on its behalf by:

J. Bardon   
 B. Healy 

**DIRECTORS**



## Balance sheet as at 31 July 2008

	Notes	2008 €	2007 €
<b>NET ASSETS EMPLOYED:</b>			
<b>FIXED ASSETS</b>			
Tangible assets	4	2,351	6,850
<b>CURRENT ASSETS</b>			
Debtors and accrued income	5(a)	176,767	120,277
Cash at bank and on deposit	13(ii)	25,874,420	21,104,640
		26,051,187	21,224,917
<b>CREDITORS:</b>			
(Amounts falling due within one year)	6	(314,423)	(322,774)
<b>NET CURRENT ASSETS</b>		25,736,764	20,902,143
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		25,739,115	20,908,993
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	7	(1,117,834)	(1,498,491)
<b>NET ASSETS</b>		24,621,281	19,410,502
<b>FINANCED BY:</b>			
Called-up share capital	9	4	4
Funds	3	24,621,277	19,410,498
	11	24,621,281	19,410,502

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

The financial statements were approved by the Board of Directors on 20 October 2008 and were signed on its behalf by:

J. Bardon  )  
 B. Healy  )

**DIRECTORS**

## Cash flow statement for the year ended 31 July 2008

	Notes	2008 €	2007 €
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	13(i)	4,771,299	3,623,658
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets	4	(1,519)	-
<b>INCREASE IN CASH</b>	13(iii)	<b>4,769,780</b>	<b>3,623,658</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 2006 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 :  $33\frac{1}{3}$  % straight line

## 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 2008

### 1. SURPLUS ON ORDINARY ACTIVITIES

The surplus on ordinary activities is stated after charging:

	2008 €	2007 €
Directors' fees	147,500	130,000
Depreciation	6,018	12,141
Auditors' remuneration	12,410	13,000

The Company's staff are sourced under a secondment arrangement with the Central Bank and Financial Services Authority of Ireland, which also provides other administrative services to the Company.

The current Chairperson and Deputy Chairperson were remunerated €35,000 (2007: €30,000) and €17,500 (2007: €15,000) respectively on a pro-rata basis during the year. The other directors were remunerated at the rate of €9,500 per annum (2007: €8,500), also on a pro-rata basis.

### 2. ADMINISTRATION EXPENSES ANALYSIS

	2008 €	2007 €
Personnel costs*	427,101	481,680
Directors' fees & expenses	151,971	135,451
Administration overheads	273,783	149,863
Depreciation	6,018	12,141
	858,873	779,135

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

### 3. FUNDS

	Fund "A"	Fund "B"	2008 Total	Fund "A"	Fund "B"	2007 Total
	€	€	€	€	€	€
Contributions	2,916,176	1,730,144	4,646,320	2,439,761	1,601,901	4,041,662
Interest income	548,450	588,592	1,137,042	342,136	386,187	728,323
Compensation (costs)/recoveries:						
Claims provision release	336,271	-	336,271	1,859,721	-	1,859,721
Claims – 3 <sup>rd</sup> party costs	(691)	-	(691)	(3,833)	-	(3,833)
Bad Debts (written off)/recovered (Increase)/decrease in provision for bad and doubtful debts	(7,195)	(22,007)	(29,202)	8,000	(29,845)	(21,845)
Administration expenses	(411,922)	(20,088)	(432,010)	3,644	(3,637)	7
Surplus for year	3,381,089	1,829,690	5,210,779	(355,974)	(423,161)	(779,135)
Surplus at 1 August	8,273,787	11,136,711	19,410,498	3,980,332	9,605,266	13,585,598
Surplus at 31 July	<b>11,654,876</b>	<b>12,966,401</b>	<b>24,621,277</b>	<b>8,273,787</b>	<b>11,136,711</b>	<b>19,410,498</b>
<b>Represented by:</b>						
Cash at bank	12,748,094	13,126,326	25,874,420	9,816,798	11,287,842	21,104,640
Fixed assets	1,175	1,176	2,351	3,425	3,425	6,850
Debtors	101,479	75,288	176,767	55,544	64,733	120,277
Creditors	(88,032)	(226,391)	(314,423)	(113,483)	(209,291)	(322,774)
Provision for liabilities and charges	(1,107,838)	(9,996)	(1,117,834)	(1,488,495)	(9,996)	(1,498,491)
Share capital	(2)	(2)	(4)	(2)	(2)	(4)
<b>Total</b>	<b>11,654,876</b>	<b>12,966,401</b>	<b>24,621,277</b>	<b>8,273,787</b>	<b>11,136,711</b>	<b>19,410,498</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 contributing to 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. TANGIBLE ASSETS

### Computer Software and Equipment

	2008 €	2007 €
Cost:		
At 1 August	57,526	57,526
Disposals	-	-
Additions	1,519	-
At 31 July	59,045	57,526
Depreciation:		
At 1 August	50,676	38,535
On Disposals	-	-
Charge for year	6,018	12,141
At 31 July	56,694	50,676
Net book value:		
At 31 July	2,351	6,850

## 5. DEBTORS AND ACCRUED INCOME

	2008 €	2007 €
<b>(a) Debtors and Accrued Income:</b>		
Debtors (after provision for bad and doubtful debts)	33,695	13,590
Accrued income & Prepayments	143,072	106,687
	176,767	120,277
	€	€
<b>(b) Bad debts written-off during the year:</b>	29,202	21,845
	€	€
<b>(c) Movement in respect of the provision and write-off &amp; for bad and doubtful debts:</b>		
Opening provision for bad & doubtful debts	66,438	66,445
Closing provision for bad & doubtful debts	86,526	66,438
Increase/(Decrease) in provision	20,088	(7)

## 6. CREDITORS

	2008 €	2007 €
Compensation costs	12,208	39,918
Central Bank and Financial Services Authority of Ireland	39,864	42,288
Directors' fees	12,292	10,833
Prepaid contributions	140,824	128,202
Other	109,235	101,533
	<u>314,423</u>	<u>322,774</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 was made to 31 July 2006. However, given the passage of time and the progress achieved in the Receivership process and in the certification of claims<sup>3</sup>, much of the uncertainty, which was inherent in the original estimates, has now dissipated. On the basis of revised estimates received from the Administrator, the Board reduced the provision for claims by €1.85 million in the year ended 31

<sup>3</sup> 98% of claims were certified as at 31 July 2008.



July 2007 and by a further €336k in 2008. At 31 July 2008, the provision stood at €8.11 million, of which €7.49 million had been paid.

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>Fund A Claims</b>	<b>Fund B Claims</b>	<b>Total Claims</b>	<b>3<sup>rd</sup> Party Costs (Funds A &amp; B)</b>	<b>Total</b>
	€	€	€	€	€
Opening provision at 1 August 2006	3,216,746	9,142	3,225,888	499,437	3,725,325
(Decrease) / increase in provision	(1,859,721)	-	(1,859,721)	3,833	(1,855,888)
Adjustments to Certified claims	13,290	-	13,290	-	13,290
Payments during the year	(368,377)	-	(368,377)	(15,859)	(384,236)
Provision at 31 July 2007 and at 1 August 2007	1,001,938	9,142	1,011,080	487,411	1,498,491
(Decrease) / increase in provision	(336,271)	-	(336,271)	691	(335,580)
Payments during the year	(43,729)	-	(43,729)	(1,348)	(45,077)
Closing Provision at 31 July 2008	621,938	9,142	631,080	486,754	1,117,834

## 8. CONTINGENT LIABILITY

Certification and payment of compensatable losses to many of the remaining claimants is anticipated in the coming year.

Total compensation payable by the ICCL is now estimated at €8.11 million, of which €7.49 million has already been certified and paid. The balance has been provided for in the ICCL's Financial Statements to 31 July 2008.

## 9. SHARE CAPITAL

	2008 €	2007 €
<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 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 2007	4	19,410,498	19,410,502
Surplus for the year	-	5,210,779	5,210,779
At 31 July 2008	4	24,621,277	24,621,281

## 12. RELATED PARTIES

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

	2008 €	2007 €
Administration costs chargeable to the Company by the Central Bank and Financial Services Authority of Ireland for services provided	487,409	531,796

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 2008 between the Company and its directors.

## 13. CASH FLOW NOTES

	2008 €	2007 €
<b>(i) Reconciliation of surplus on ordinary activities to net cash inflow from operating activities</b>		
Surplus on ordinary activities	5,210,779	5,824,900
Depreciation	6,018	12,141
(Increase) in debtors	(56,490)	(42,616)
(Decrease) in creditors and provisions for liabilities and charges	(389,008)	(2,170,767)
	4,771,299	3,623,658
<b>(ii) Analysis of net funds</b>		
Cash at bank	25,874,420	21,104,640
<b>(iii) Reconciliation of net cash flow to movement in net funds</b>		
Net Funds at 1 August	21,104,640	17,480,982
Increase in cash in the year	4,769,780	3,623,658
Net Funds at 31 July	25,874,420	21,104,640

# 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.

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### 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 & 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 the European Communities (Markets in Financial Instruments) Regulation 2007</li></ul>   |
| <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 European Communities (Markets in Financial Instruments) Regulation 2007</li></ul>   |
| <ul style="list-style-type: none"><li>• Credit Institutions authorised to provide investment business services</li></ul>  |

## APPENDIX 1

<ul style="list-style-type: none"><li>• Certain certified persons who provide investment business services, which are similar to services provided by Fund A firms, in a manner which is incidental to their main professional activities</li></ul>
<ul style="list-style-type: none"><li>• UCITS management companies, authorised to undertake Individual Portfolio Management Services<sup>4</sup></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>• Insurance Intermediaries required to register with the Financial Regulator under the European Communities (Insurance Mediation) Regulations 2005</li></ul>
<ul style="list-style-type: none"><li>• Certain certified persons who provide investment business services, which are similar to services provided by Fund B firms, in a manner which is incidental to their main professional activities</li></ul>

<sup>4</sup> Individual Portfolio Management Services refers to the management of portfolios of investments and discretionary portfolio management services as well as non-core services such as investment advice, safekeeping and administration services.

## How is the ICCL Funded?

The Scheme is funded by contributions from firms authorised to conduct investment services and insurance mediation (firm/firms). The method for calculating the contributions payable was decided following four extensive consultation processes with firms and industry representative groups (1999, 2001, 2004 and 2007).

## 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 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.

## APPENDIX 1

### 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



## APPENDIX 1

published an information booklet which provides useful information to investors. 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 Central Bank and Financial Services Authority of Ireland which was established following the enactment of the Central Bank and Financial Services Authority 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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