



THE INVESTOR COMPENSATION COMPANY LIMITED

Annual Report Year Ended 31 July 2010



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Mission Statement

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 the Scheme's claimants and contributors.
- We work in a consultative and co-operative manner with our contributors, with the Central Bank of Ireland 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.



**The
Investor
Compensation
Company
Limited**



**Annual Report
Year Ended
31 July 2010**

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DIRECTORS AND OTHER INFORMATION

Directors	Jim Bardon	(Chairperson)
	Daniel Coveney	(Deputy Chairperson) (Re-appointed on 5 September 2009)
	Inge Clissmann	
	Terry Hardiman	
	Brian Healy	
	Dermott Jewell	
	Paul O'Donovan	
	Frank O'Dwyer	
	Eimer O'Rourke	(Re-appointed on 1 August 2010)
	Ciaran Phelan	(Appointed on 1 August 2009)
	Gina Quin	
Mark Redmond		

Secretary Anne Troy

Registered Office Central Bank of Ireland,
Spencer Dock,
North Wall Quay,
Dublin 1.

Auditors PricewaterhouseCoopers,
Chartered Accountants,
One Spencer Dock,
North Wall Quay,
Dublin 1.

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

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

Registered No 293240

The Board of Directors

All members serve as non-executive directors



Jim Bardon

(Chairperson)

Director General of the Irish Bankers' Federation from 1988 to 2004. Former Chairman of the Executive Committee of the European Banking Federation, and the Consumer Affairs Committee of the European Banking Federation. 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 the cross-market Irish Market Advisory Committee dealing with development and harmonisation issues for equity and fixed income markets. Previously worked with Arthur Andersen. A fellow of the Institute of Chartered Accountants in Ireland and a member of the Chartered Institute of Securities and Investment. He is also an Accredited Mediator.



Dermott Jewell

Chief Executive of the Consumers' Association of Ireland. Current representations include Chairperson Financial Services Ombudsman Council, Chairperson European Consumer Centre, Chairperson Governing Board Irish Food Quality Certification, Board Member Consultative Council of the FSAI, Board Member Bórd Bia Quality Assurance Board and Irish Representative of the European Consumer Consultative Group of DG Sanco.



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.



Eimer O'Rourke

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



Ciaran Phelan

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



Gina Quin

Chief Executive, Dublin Chamber of Commerce, the representative body of business in Dublin. A Member of the Board of ESB Networks. 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.

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
 Ciaran Phelan
 Frank O'Dwyer
 Eimer O'Rourke

Audit Committee

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

Attendance at Board and Committee Meetings

	Board	Funding Committee	Audit Committee
<i>Number of meetings held</i>	9	7	4
Jim Bardon	8	2	N/a
Daniel Coveney	9	7	N/a
Inge Clissmann	5	N/a	N/a
Terry Hardiman	9	7	N/a
Brian Healy	8	5	4
Dermott Jewell	8	N/a	4
Paul O'Donovan	7	N/a	N/a
Frank O'Dwyer	8	7	1
Eimer O'Rourke	4	3	N/a
Ciaran Phelan	9	6	N/a
Gina Quin	9	N/a	N/a
Mark Redmond	8	N/a	3

CHAIRPERSON'S STATEMENT

Jim Bardon

I am pleased to present the Annual Report for the twelfth year of operations, which is my fifth Chairperson's report, for the year ended 31 July 2010.

Overview

I am pleased to report a ninth 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). Each year, free from failures, provides 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, which stood at just over €18m for Fund A and €16m for Fund B. In addition, we have a standby credit facility of €50m in place and have recently finalised a new layer of insurance cover for both funds.

During the year, following a consultation with our contributors and other relevant stakeholders, we published revised Funding Arrangements. That paper sets out the annual contribution rates for the next three years starting from 1 August 2010. Unfortunately, we have had to increase rates in order to continue to build the reserves for both Fund A and B. However, in recognition of the current economic difficulties for small businesses, we have made some changes to Level 1 for Fund B firms, lowering the income band range from €0 to €60,000 (previously €0 - €75,000) and reducing the contribution from €300 to €250. This is intended to accommodate either new businesses setting up or existing businesses, with relatively modest turnover, with a slightly reduced rate of contribution compared with the previous minimum rate. In addition, we have reverted to charging on a pro-rata basis. This means that businesses setting up in the middle of our funding year – or, indeed, those unfortunately having to close during the year – will pay only a proportion of the annual contribution.

The report of the Morrogh Working Group, which was chaired by the Department of Finance and in which the Investor Compensation Company Limited (ICCL) and many other interested parties participated, was published in November 2006. One of the key recommendations of that report was that, to speed payment of claims in circumstances where a shortfall in client assets arises following the failure of an investment firm, pre-determined rules should be developed for the distribution of client assets. The ICCL engaged its legal advisors to draft appropriate amending legislation which, I am pleased to report, will be included in the forthcoming Central Bank Reform No 2 Bill.

Our new information technology infrastructure is now being used for most of our interactions with stakeholders including contributors. It has improved the effectiveness and efficiency of the Scheme and provides the ICCL with a robust technology platform for the future.

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 two weeks of certification. 99% of the Morrogh claims have now been certified and the ICCL is committed to continuing to work with the Administrator to have the very small number of remaining claims certified as soon as possible. All MMI claims have now been certified and the ICCL now awaits the outcome of its subrogated claim from the liquidation process.

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. During this year, Patricia Fitzgerald, who had been in that position for eight years, left to take up a different role within the Central Bank of Ireland (Central Bank) and she was replaced by Anne Troy, who came to us from the Central Bank. I wish to take this opportunity to place on record the appreciation of the Board for Patricia's outstanding contribution to the company during her time with the ICCL. Thanks to the efforts of all the staff, contributors and claimants are dealt with in an efficient and sensitive manner by the ICCL.

The working relationship with the Central Bank continues to operate in an effective manner. We look forward to their continued support and co-operation to progress matters of mutual interest and to their commitment to providing ICCL with the staff and services which are necessary for the efficient discharge of our functions and statutory duties.

The Board of the ICCL attaches considerable importance to operating the company in the most efficient manner possible. The company is operated by a team of seven people who carry out all the functions including collecting close to €6m per year from over 5,000 contributors and managing reserves of €34m. In response to the current circumstances, the Directors have voluntarily agreed to a cut in their fees of 10%. We have sought to reduce costs where possible whether by negotiating reduced costs or by achieving greater efficiencies. Moreover, the members of our team, who are all public servants on secondment, have been subject to the pay cuts and levies that have applied elsewhere in the public sector.

Financial Results Summary as at 31 July 2010

INCOME and EXPENDITURE SUMMARY	Fund A	Fund B	Total
	€	€	€
Income from annual contributions	3,591,062	2,206,080	5,797,142
Interest Income	159,195	150,410	309,605
Compensation (costs/provisions) and write-backs	1,730	-	1,730
(Administration expenses/bad debts/provisions for bad debts)	(428,026)	(780,391)	(1,208,417)
Surplus for Year	3,323,961	1,576,099	4,900,060

BALANCE SHEET SUMMARY	Fund A	Fund B	Total
	€	€	€
Cash at bank	19,165,942	16,514,613	35,680,555
Fixed assets	43,176	43,176	86,352
Debtors	33,600	46,725	80,325
Creditors	(275,691)	(245,022)	(520,713)
Provision for liabilities and charges	(888,946)	(9,996)	(898,942)
Share capital	(2)	(2)	(4)
Fund Reserves	18,078,079	16,349,494	34,427,573

Board Retirements and Appointments

Mr Ciaran Phelan was appointed to the Board on 1 August 2009. Ms Eimer O'Rourke, who retired by rotation on 31 July 2010, has been re-appointed to the Board. Mr Daniel Coveney was re-appointed as Deputy Chairman on 5 September 2009.

The Board, in September of 2010, also decided to designate Mr Paul O'Donovan as the senior independent director in fulfilment of the relevant recommendations of the Combined Code and the Higgs Guidance. While this is somewhat outside the scope of this Report, I considered it of sufficient importance for mention.

Finally, I would like to 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.

18 October 2010

OPERATING REPORT



Anne Troy
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.

I was appointed Chief Operations Officer on the 24 June 2010 and I am pleased to present the twelfth Operating Report for the year ended 31 July 2010. My predecessor, Ms Patricia Fitzgerald, served with the ICCL for a period of eight years and proved to be very efficient and effective in the delivery of ambitious work programmes over the years. The ICCL is indebted to Patricia for her contribution to the Scheme's development and I look forward to building on the considerable progress made in recent years.

Overview

The year ended 31 July 2010 was free from new failures. However, the ICCL was busy with a number of significant other activities. In a challenging environment for the firms contributing to the Scheme, income from contributions continued to grow and exceeded €5.7 million and cash at bank exceeded €35 million. The successful implementation of new IT systems last year, which were necessary to support the ICCL's operational and strategic objectives, began to deliver operational gains in a number of areas, none more so than in the collections process.

The ICCL was also an active participant at EU level, both responding to requests from the EU Commission for submissions on issues relevant to their review of the Investor Compensation Directive and engaging with other Compensation Schemes.

Both the publication of the Funding Arrangements and the inclusion of pre-determined rules for distribution in legislation, mentioned in the Chairperson's Statement, represent significant progress in achieving our second strategic plan for the three years ending 31 July 2012. Our

strategy is developed to serve our purpose which is to operate a financially sound scheme so that we can pay compensation to clients of failed investment firms. Our plan sets out the ICCL's objectives, specifies our strategies and policies for achieving these objectives and outlines the programme of work which we will undertake. We closely monitor our progress and we will revisit and adjust our strategy and plans, as necessary, to ensure that we are meeting our strategic goals.

We believe that there is scope for the development of a robust risk-based model to help determine appropriate contribution levels as between firms. However, such a model will require co-ordinated effort and resources on the part of the Central Bank of Ireland (Central Bank) and the ICCL and will take some years to develop and implement.

During the year under review, we pursued negotiations through our insurance brokers to secure insurance to cover the ICCL in the event of losses arising that exceeded our reserves. Since the end of the year, that insurance has been secured. It provides cover should claims from one failure or a number of failures exceed €15m. Cover will be provided for claims up to a maximum of €50m in the case of Fund A firms and up to a maximum of €10m for Fund B firms. The difference in the cover available for Fund A and Fund B is warranted, given the difference in business models of the firms contributing to these Funds. The premium charged for Fund B is proportionately less than that for Fund A. This will be reflected in the distribution of costs between the two Funds.

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 240 Fund A contributors (2009: 233) and 5,728 Fund B contributors (2009: 5,372).

Annual contributions received were as follows:

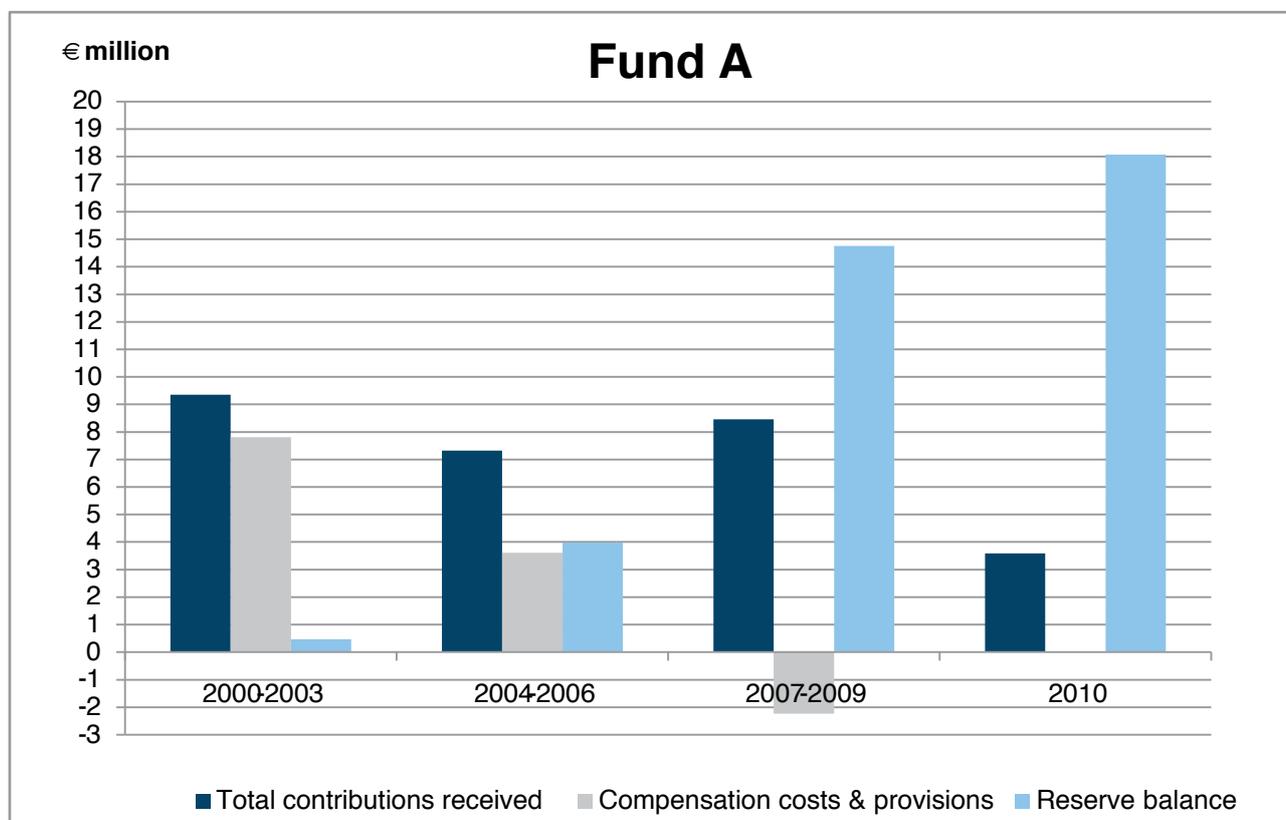
	Fund A	Fund B	Total
	€	€	€
Year ended 31 July 2010	3,591,062	2,206,080	5,797,142
Year ended 31 July 2009	3,105,301	2,097,169	5,202,470

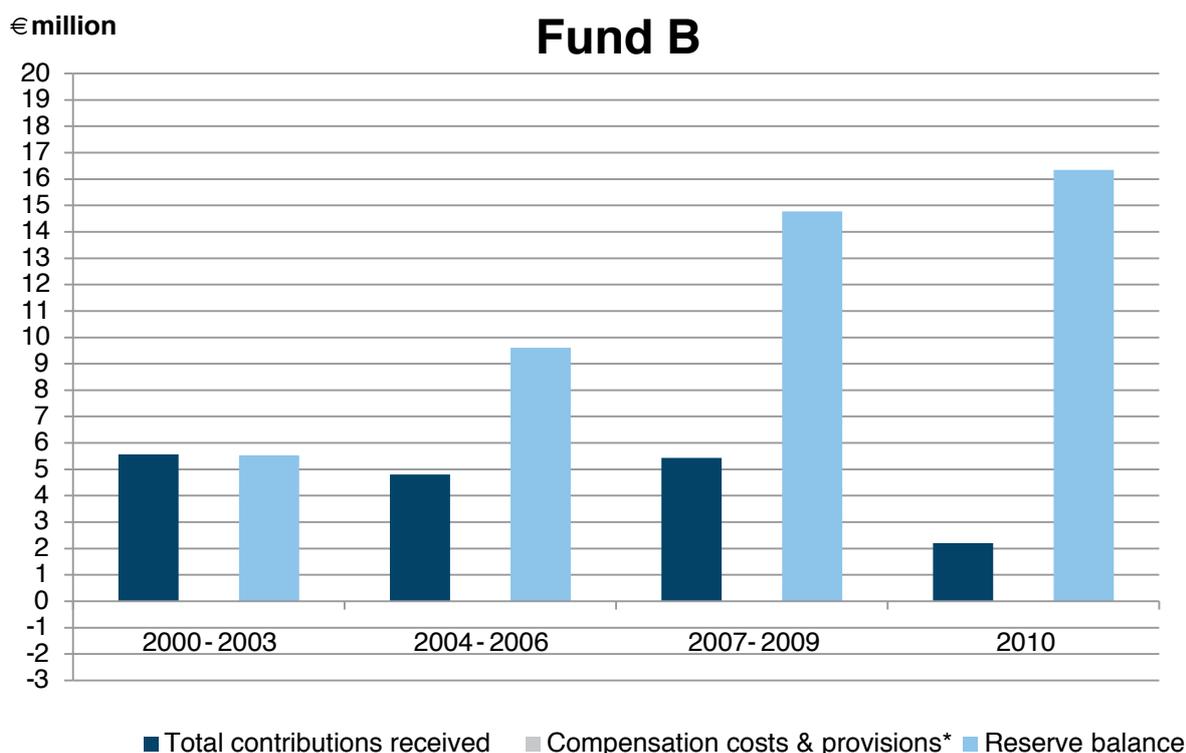
The increase in Fund A contributions relates primarily to the year-on-year contribution rate increase as agreed in the three yearly Funding Arrangements which cover the period August 2007 to July 2010. The increase in Fund B contributions arises primarily from an increase in the number of firms contributing, particularly Tied Agents of Insurance Undertakings. The number of tied agents that joined and left the Scheme throughout the year was considerable and this caused a number of difficulties particularly in relation to the collection of contributions from the tied agents in question.

There was further significant improvement in Fund A reserves this year and these now stand at €18,078,079 (2009: €14,754,118).

Fund B reserves stood at €16,349,494 at the year-end (2009: €14,773,395).

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.





* Due to size constraints, Fund B compensation costs and provisions in 2000 & 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 co-operated with the ICCL in ensuring that contributions are paid in a timely manner. At 31 July 2010, contributions were outstanding, beyond payment terms, from 3 Fund A contributors (2009: 5) and 450 Fund B contributors (2009: 498). The decrease in the number of firms with contributions outstanding at the year-end is due primarily to better IT systems being in place for following-up on unpaid accounts. The ICCL is dedicated to ensuring that all firms comply with their obligations and utilises all available methods to ensure this is achieved, including, but not limited to:

- Applying interest to unpaid contributions;
- Reporting firms, whose contributions are outstanding, to the Central Bank for failing to comply with their obligations under the Act; and
- Taking legal action to recover unpaid debts.

The Central Bank has the power to require firms to suspend the carrying on of business in cases of non-compliance. 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. The

ICCL continually examines the feasibility of alternative payment arrangements for contributors in an effort to ensure the highest possible rates of compliance from contributors. Details on debtors are set out in Note 5.

Management of Funds

The ICCL's cash reserves have grown significantly over the past few years and we adopt a rigorous approach to our management of these funds. Our primary concern is to ensure that we place funds with secure institutions. Our secondary concern is to ensure that we maximise our return on these funds. During the year ended 31 July 2010, the ICCL earned interest of €295,539 (2009: €797,105) and we achieved returns in excess of the EURIBID rates. The declining interest rate market was the main reason for the decreased interest rate returns.

Payment of Compensation

No new failures of investment firms arose in the year ended 31 July 2010. 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. To date, the ICCL has received no reimbursements from any of the three cases and is closely monitoring any developments in each case. 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. All 313 claims have been dealt with and compensation payments amounting to €774,422 have been made. The ICCL has submitted its subrogated claim to the Liquidator of MMI in respect of compensation paid to claimants and awaits the final outcome of the liquidation process.

W&R Morrogh Stockbrokers (Morrogh)

Claims

Some 2,632 claims for compensation were received by the ICCL following the failure of Morrogh. Due to the complex nature of the remaining claims, the Administrator certified one late claim during the year under review. ICCL staff ensured that all related compensation was paid to claimants well within the three months allowed under the Act (average time taken was less than two weeks). To date, 2,606 or 99% of claims (2009: 2,605 or 99%) have been dealt with in part or in full and compensation payments amounting to €7.55 million have been made.

Compensation payable

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 €8.09 million to €8.05 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 €732,000 was made in prior year accounts for the Administrator's costs arising from the Morrogh case. Approximately €391,000 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 and on containing costs. As shown in the summary tables on page 22 and 23, the overall administration expenses / bad debts and provisions have increased from €1,140,519 in 2009 to €1,208,417 in 2010, i.e. an increase of €67,898 or 6%. The largest increase, €180,950 relates to bad debts written off. All bad debts written off relate to Fund B contributors and the majority relate to Tied Agents of Insurance Undertakings. The number of tied agents that both joined and left the Scheme within the funding year was considerable. In a significant number of cases, tied agents fell within the scope of the Scheme for a matter of weeks and this resulted in collection difficulties in respect of the tied agents in question. Unfortunately, it is not always possible or cost effective to the Scheme as a whole to continue to pursue some outstanding contributions where the agent is no longer authorised to conduct business. In addition to the processes outlined under the “Contributions Outstanding” section on page 19 whereby the ICCL pursues all outstanding contributions rigorously and through a number of stages, the ICCL has engaged with Insurance Undertakings to remedy issues of non-payment by tied agents.

Other administration expenses in the year ended 31 July 2010 decreased by 3% (2009: increase of 7%) primarily due to on-going reductions in staff costs as a result of the Public Sector pay-cut (approx. €11,000) and a 10% reduction in Directors’ fees (approx. €13,000). Depreciation costs, associated with the prior year capital expenditure on IT systems, increased to approximately €25,000. More details are provided in Note 2 on page 41.

Apportionment of Administration costs / bad debts and provisions:

Year ended 31 July 2010	Fund A	Fund B	Total
	€	€	€
Bad debts written off	-	273,870	273,870
Increase in provision	(7,534)	51,860	44,326
Administration expenses	435,560	454,661	890,221
	428,026	780,391	1,208,417

Apportionment of Administration costs / bad debts and provisions:

Year ended 31 July 2009	Fund A €	Fund B €	Total €
Bad debts written off	11,170	81,750	92,920
Increase in provision	15,280	114,150	129,430
Administration expenses	426,174	491,995	918,169
	452,624	687,895	1,140,519

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 bases¹ used for cost allocation were rigorous and fair.

Strategic Plan

As outlined earlier, in April 2009 the ICCL formally documented its second strategic plan for the three years ending 31 July 2012.

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.

¹ 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.

Organisation

In accordance with Section 20 of the Act, staff on secondment from the Central Bank 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 a funding consultation and publishing revised Funding Arrangements effective 1 August 2010,
 - in conjunction with our stakeholders, submitting draft legislative amendments to implement pre-determined rules for the distribution of clients' assets,
 - responding to the EU Commission's request for information on issues affecting the Investor Compensation Directive, and,
 - reviewing our investment management objectives to ensure that we are appropriately managing the Scheme's reserves and achieving good returns for the Scheme,
- significantly upgrading our Information Technology Systems,
- ongoing implementation of the 2007 Funding Arrangements,
- ongoing implementation of the ICCL's investment policy,
- servicing of the Board and of Board Committee meetings,
- implementation of the recommendations arising from the Internal Audit of the ICCL's operations, and,
- the 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.

The ICCL also faced an unusually high level of staff turnover in the year, primarily due to transfer opportunities within the Central Bank. 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 co-operation in ensuring the smooth and efficient functioning of the Scheme's operations.

18 October 2010

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 July 2010.

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 24.

While this was the ninth 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 ongoing turbulence in the financial markets pose for investment firms.

Fund A reserves now stand at €18,078,079. One Morrogh claim for compensation was certified during the year and € 4,301 was paid in respect of this claim. The growth in the Fund B reserve was in line with expectations and reserves now stand at €16,349,494 .

Results

The ICCL generated an operating surplus of €4,900,060 (2009: Surplus of €4,906,236). The main reasons for the decrease year on year, despite an increase in contribution income of €594,672, are a decrease of €492,304 in interest income earned, an increase of €44,326 in the provision for bad and doubtful debts, and, an increase of €180,950 in bad debts. 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, interest rate, liquidity, currency risks and compensation uncertainty.

Credit Risk

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

On an on-going 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 a combination of their participation in State Guarantee Schemes and also their credit ratings which are continuously monitored.

This is an area of heightened risk for the ICCL given the on-going 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 firstly selecting the counterparties with a State Guarantee and/or appropriate credit rating criteria, and, thereafter, those institutions that offer the highest interest rates.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The risk of cash not being available could arise due to unexpected levels of demand being placed on a particular fund at a given time. In the event of a failure, the Company is obliged to pay compensation within three months of the date of certification by the Administrator. For that reason, funds are normally placed on deposit for periods not exceeding three months. In addition, a standby credit facility of €50m is in place. Furthermore, 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 of Ireland (Central Bank) 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 the receipt of regular updates from an Administrator regarding progress on the certification of claims and any issues affecting the certification of outstanding claims.

Statement of Directors' Responsibilities

Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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 year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 2009. 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 36 to 48, 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 Spencer Dock, North Wall Quay, Dublin 1.

Going Concern

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

Corporate Governance

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

Compliance with the Combined Code

The Board remains committed to maintaining the highest standards and support the principles of corporate governance outlined in the Combined Code 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 has also committed to reviewing and complying with the principles and provisions of the Corporate Governance Code for future reporting periods.

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 and acquisitions and disposals of assets. The roles of Chairperson and Chief Operations Officer are not combined. The Chief Operations Officer is accountable to the Board for all authority delegated to executive management.

The Board has also delegated some of its responsibilities to Committees of the Board. The Directors, in the furtherance of their duties, may seek independent professional advice, as required, at the expense of the Company. New Directors are provided with extensive briefing 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 41. There were nine 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 appoints the Chairperson and Deputy Chairperson, and,
- The Central Bank 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 Head of Financial Regulation at the Central Bank, 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 guidance². 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.

² 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 2010, no such *ad hoc* committees were established.

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

- Monitoring the integrity of the financial statements,
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditors including, agreeing remuneration and terms of engagement,
- Overseeing the Internal Audit process,
- Evaluating the performance of the external auditors including their independence, objectivity and effectiveness,
- 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 seven 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 2010.

Subsequent Events

On 27 September 2010, the Board of the ICCL approved the ICCL's insurance broker to conclude negotiations to secure insurance to cover the ICCL in the event of compensatable losses arising that exceeded our reserves. The insurance has been secured and is effective from 1 October 2010 (see page 17 for detail).

There were no other material events since the year end.

Auditors

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

Signed on behalf of the Board:

J. Bardon 
B. Healy 

DIRECTORS

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

We have audited the financial statements on pages 36 to 48. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 39 and 40.

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 28.

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 2009. 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 2010 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 2009.

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 25 to 33 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on page 37 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 2010 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
19 October 2010

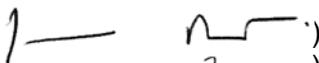
F inancial Statements

Income and expenditure account for the year ended 31 July 2010

		2010 €	2009 €
INCOME	<i>Notes</i>		
Contributions		5,797,142	5,202,470
Interest Income		309,605	801,909
		<u>6,106,747</u>	<u>6,004,379</u>
EXPENDITURE			
Compensation costs and provisions/release			
Claims provision release	7	35,699	45,741
Claims – 3 rd party costs		(33,969)	(3,365)
		<u>1,730</u>	<u>42,376</u>
Administration expenses	2	(1,208,417)	(1,140,519)
TOTAL EXPENDITURE		<u>(1,206,687)</u>	<u>(1,098,143)</u>
SURPLUS ON ORDINARY ACTIVITIES	1	4,900,060	4,906,236
Opening Surplus		<u>29,527,513</u>	<u>24,621,277</u>
Surplus at 31 July		<u>34,427,573</u>	<u>29,527,513</u>
ALLOCATED BETWEEN FUNDS AS FOLLOWS:			
FUND A	3	18,078,079	14,754,118
FUND B	3	16,349,494	14,773,395
		<u>34,427,573</u>	<u>29,527,513</u>

The Company had no recognised gains and losses in the year to 31 July 2010 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 18 October 2010 and were signed on its behalf by:

J. Bardon )
 B. Healy )
DIRECTORS

Balance sheet as at 31 July 2010

	Notes	2010 €	2009 €
NET ASSETS EMPLOYED:			
FIXED ASSETS			
Tangible assets	4	86,352	116,376
CURRENT ASSETS			
Debtors and accrued income	5(a)	80,325	118,601
Cash at bank and on deposit	13(ii)	35,680,555	30,601,857
		35,760,880	30,720,458
CREDITORS: (Amounts falling due within one year)			
	6	(520,713)	(271,870)
NET CURRENT ASSETS			
		35,240,167	30,448,588
TOTAL ASSETS LESS CURRENT LIABILITIES			
		35,326,519	30,564,964
PROVISION FOR LIABILITIES AND CHARGES			
	7	(898,942)	(1,037,447)
NET ASSETS			
		<u>34,427,577</u>	<u>29,527,517</u>
FINANCED BY:			
Called-up share capital	9	4	4
Funds	3	34,427,573	29,527,513
	11	<u>34,427,577</u>	<u>29,527,517</u>

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

The financial statements were approved by the Board of Directors on 18 October 2010 and were signed on its behalf by:

J. Bardon	)	DIRECTORS
B. Healy	)	
)	

Cash flow statement for the year ended 31 July 2010

	<i>Notes</i>	2010 €	2009 €
NET CASH INFLOW FROM OPERATING ACTIVITIES	<i>13(i)</i>	5,095,235	4,863,266
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	<i>4</i>	(16,537)	(135,829)
INCREASE IN CASH	<i>13(iii)</i>	<u>5,078,698</u>	<u>4,727,437</u>

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 2009 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 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 on-going management of the Company, including movement in provision for bad or doubtful debts and bad debts written off in the period under review.

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 2010

1. SURPLUS ON ORDINARY ACTIVITIES

The surplus on ordinary activities is stated after charging:

	2010 €	2009 €
Directors' fees	132,749	143,812
Depreciation	46,561	21,338
Auditors' remuneration	10,285	13,366

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

Director fees were reduced by 10% on 1 May 2009. The current Chairperson and Deputy Chairperson were remunerated €31,500 (2009: €34,122) and €15,750 (2009: €17,060) respectively on a pro-rata basis during the year. The other directors were remunerated at the rate of €8,550 per annum (2009: €9,263), also on a pro-rata basis.

2. ADMINISTRATION EXPENSES ANALYSIS

	2010 €	2009 €
Personnel costs*	464,644	475,260
Directors' fees & expenses	136,430	149,351
Administration overheads	242,586	272,220
Bad debts written off	273,870	92,920
Increase in provision for bad and doubtful debts	44,326	129,430
Depreciation	46,561	21,338
	<u>1,208,417</u>	<u>1,140,519</u>

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

3. FUNDS

	Fund "A"	Fund "B"	2010 Total	Fund "A"	Fund "B"	2009 Total
	€	€	€	€	€	€
Contributions	3,591,062	2,206,080	5,797,142	3,105,301	2,097,169	5,202,470
Interest income	159,195	150,410	309,605	404,189	397,720	801,909
Compensation (costs)/recoveries:						
Claims provision release	35,699	-	35,699	45,741	-	45,741
Claims – 3 rd party costs	(33,969)	-	(33,969)	(3,365)	-	(3,365)
Administration expenses:						
Bad Debts (written off)/recovered	-	(273,870)	(273,870)	(11,170)	(81,750)	(92,920)
(Increase)/decrease in provision for bad and doubtful debts	7,534	(51,860)	(44,326)	(15,280)	(114,150)	(129,430)
Other administration expenses	(435,560)	(454,661)	(890,221)	(426,174)	(491,995)	(918,169)
Surplus for year	3,323,961	1,576,099	4,900,060	3,099,242	1,806,994	4,906,236
Surplus at 1 August	14,754,118	14,773,395	29,527,513	11,654,876	12,966,401	24,621,277
Surplus at 31 July	18,078,079	16,349,494	34,427,573	14,754,118	14,773,395	29,527,513
Represented by:						
Cash at bank	19,165,942	16,514,613	35,680,555	15,774,789	14,827,068	30,601,857
Fixed assets	43,176	43,176	86,352	58,188	58,188	116,376
Debtors	33,600	46,725	80,325	37,296	81,305	118,601
Creditors	(275,691)	(245,022)	(520,713)	(88,702)	(183,168)	(271,870)
Provision for liabilities and charges	(888,946)	(9,996)	(898,942)	(1,027,451)	(9,996)	(1,037,447)
Share capital	(2)	(2)	(4)	(2)	(2)	(4)
Total	18,078,079	16,349,494	34,427,573	14,754,118	14,773,395	29,527,513

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

	2010 €	2009 €
Cost:		
At 1 August	139,190	59,045
Additions	16,537	135,829
Disposals	-	(55,684)
At 31 July	155,727	139,190
Depreciation:		
At 1 August	22,814	56,694
On Disposals	-	(55,218)
Charge for year	46,561	21,338
At 31 July	69,375	22,814
Net book value:		
At 31 July	86,352	116,376

5. DEBTORS AND ACCRUED INCOME

	2010 €	2009 €
(a) Debtors and Accrued Income:		
Debtors (after provision for bad and doubtful debts)	30,445	74,140
Accrued income & Prepayments	49,880	44,461
	80,325	118,601
(b) Bad debts written off during the year:	273,870	92,920
(c) Movement in respect of the provision for bad and doubtful debts:		
Opening provision for bad & doubtful debts	215,956	86,526
Closing provision for bad & doubtful debts	260,282	215,956
Increase in provision	44,326	129,430

6. CREDITORS

	2010 €	2009 €
Compensation costs	14,593	12,284
Central Bank of Ireland	215,634	89,919
Directors' fees and expenses	12,442	9,604
Prepaid contributions	99,818	99,940
Other	178,226	60,123
	520,713	271,870

7. PROVISION FOR LIABILITIES AND CHARGES

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

Claims for compensation have been made by clients of Money Markets International Stockbrokers Limited (MMI) and all compensation claims were certified and paid at 31 July 2010. Provision has been made in respect of estimated third party costs, which represent the costs of the Administrator, and, also directly attributable legal costs of the ICCL and the Administrator based upon an estimate of these costs to the completion of the Administration process. At 31 July 2010, the provision for costs in respect of MMI is approximately €48k.

(b) Andrew Casey trading as Andrew Casey Life & Pensions (Fund B)

Claims for compensation have been made by clients of Andrew Casey trading as Andrew Casey Life & Pensions (Andrew Casey) and certain compensation payments have been made. Provision has been made in respect of estimated compensation where the claims have been received by the Administrator but have yet to be certified. At 31 July 2010, the provision for claims yet to be certified is approximately €9k. 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. At 31 July 2010, the provision for costs in respect of Andrew Casey is approximately €1k.

(c) 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 €8.09 million was made to 31 July 2009. On the basis of revised estimates received from the Administrator, the Board reduced the provision for claims by €36k and, at 31 July 2010, the provision stood at €8.05 million, of which €7.55 million had been paid.

Provision of €732k has also been made in respect of the costs of the Administrator for completion of the Administration process, of which €391k has already been paid. At 31 July 2010, the provision for costs in respect of W&R Morrogh is approximately €341k.

	Fund A Claims	Fund B Claims	Total Claims	3rd Party Costs (Funds A & B)	Total
	€	€	€	€	€
Opening provision at 1 August 2008	621,938	9,142	631,080	486,754	1,117,834
(Decrease) / increase in provision	(45,741)	-	(45,741)	3,365	(42,376)
Payments during the year	(36,197)	-	(36,197)	(1,814)	(38,011)
Provision at 31 July 2009 and at 1 August 2009	540,000	9,142	549,142	488,305	1,037,447
(Decrease) / increase in provision	(35,699)	-	(35,699)	33,969	(1,730)
Payments during the year	(4,301)	-	(4,301)	(132,474)	(136,775)
Closing Provision at 31 July 2010	500,000	9,142	509,142	389,800	898,942

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 €8.05 million, of which €7.55 million has already been certified and paid. The balance has been provided for in the ICCL's Financial Statements to 31 July 2010.

9. SHARE CAPITAL

	2010 €	2009 €
Authorised:		
10 Ordinary shares of €1.25 each	13	13
Issued and fully paid:		
3 Ordinary shares of €1.25 each	4	4

The Investor Compensation Company Limited is a company limited by guarantee and having a share capital. There are three shareholders, the Central Bank of Ireland, the Irish Stock Exchange 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 2009	4	29,527,513	29,527,517
Surplus for the year	-	4,900,060	4,900,060
At 31 July 2010	<u>4</u>	<u>34,427,573</u>	<u>34,427,577</u>

12. RELATED PARTIES

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

	2010 €	2009 €
Administration costs chargeable to the Company by the Central Bank of Ireland for services provided	<u>552,130</u>	<u>522,934</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 2010 between the Company and its directors.

13. CASH FLOW NOTES

	2010 €	2009 €
(i) Reconciliation of surplus on ordinary activities to net cash inflow from operating activities		
Surplus on ordinary activities	4,900,060	4,906,236
Depreciation	46,561	21,338
Loss on disposal of fixed assets	-	466
Decrease in debtors	38,276	58,166
Increase/(Decrease) in creditors and provisions for liabilities and charges	110,338	(122,940)
	5,095,235	4,863,266
(ii) Analysis of net funds		
Cash at bank	35,680,555	30,601,857
(iii) Reconciliation of net cash flow to movement in net funds		
Net Funds at 1 August	30,601,857	25,874,420
Increase in cash in the year	5,078,698	4,727,437
Net Funds at 31 July	35,680,555	30,601,857

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

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- | |
|---|
| <ul style="list-style-type: none">• 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 |
| <ul style="list-style-type: none">• UCITS management companies, authorised to undertake Individual Portfolio Management Services³ |

Fund B

- | |
|---|
| <ul style="list-style-type: none">• Authorised Advisors authorised under the Investment Intermediaries Act, 1995 |
| <ul style="list-style-type: none">• Multi Agency Intermediaries authorised under the Investment Intermediaries Act, 1995 |
| <ul style="list-style-type: none">• Insurance Intermediaries required to register with the Central Bank of Ireland under the European Communities (Insurance Mediation) Regulations 2005 |
| <ul style="list-style-type: none">• 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 |

³ 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 five extensive consultation processes with firms and industry representative groups (1999, 2001, 2004, 2007 and 2010).

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.

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 Central Bank of Ireland 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 Central Bank of Ireland 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 Central Bank of Ireland with the agreement of the ICCL, or
- a person appointed by the Central Bank of Ireland 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 Central Bank of Ireland 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

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published an information booklet which provides useful information to investors. This is available by clicking on the 'Publications' section of 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 of Ireland

The Central Bank of Ireland is the supervisory authority for the purpose of the Act. Accordingly, certain actions undertaken by the ICCL can only be carried out with the approval of the Central Bank of Ireland.

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 Central Bank of Ireland.

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