



# Securities Exchanges Guarantee Corporation

ANNUAL REPORT

# 2018

*Securities Exchanges Guarantee Corporation Limited ABN 19 008 626 793  
(a company limited by guarantee)  
Trustee of the National Guarantee Fund ABN 69 546 559 493*

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## MESSAGE FROM THE CHAIR

The 2017/2018 financial year has been another busy one for Securities Exchanges Guarantee Corporation Limited (SEGC) and we are finally getting into a position to be able to pay most of the claims which have been allowed related to the BBY Ltd insolvency.

SEGC is the trustee of the National Guarantee Fund (NGF), which is a compensation scheme available to the operators of licensed financial markets who are members of SEGC (currently only ASX Limited (ASX)).

The core purpose of the NGF is to provide compensation to meet certain types of claims arising from dealings with participants of ASX (as sole member of SEGC) and, in limited circumstances, participants of ASX Clear Pty Limited (ASX Clear), in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act 2001 (Cth).

SEGC has received over 550 claims as a result of the collapse of the BBY Group (BBY) in May 2015. SEGC has assessed most claims, paying 42 claims during the period, disallowing 94 claims with a further 229 allowed but not yet paid. The remaining 6 claims have yet to be determined. Many of the disallowed claims have been disallowed because they didn't relate to BBY's business of trading ASX equities or exchange traded options business and are therefore out of the scope of the NGF. The SEGC Claims Committee, a delegate of the SEGC Board, has overseen the claims determination process throughout the year.

Further commentary in relation to claims is included later in the report.

In addition to assessing and determining claims, SEGC was a party in proceedings brought by the BBY liquidators to determine how monies held in BBY's client segregated accounts (CSAs) should be distributed. These broadly relate to pooling of the CSAs. Relevantly to SEGC the judge determined that the BBY equities and exchange traded options client segregated accounts should not be pooled with client segregated accounts from any other product lines. Still at issue is the distribution of costs related to the proceedings. Further commentary is included later in the report.

As at 30 June 2018 the net assets of the NGF were \$93.6 million (compared to \$96.9 million as at 30 June 2017).

As foreshadowed in last year's SEGC Annual Report at the start of the financial year the size of the NGF was below the minimum amount set in accordance with s889I of the Corporations Act. The minimum amount of the NGF is currently set at \$100 million. During the year SEGC imposed a levy on participants of the ASX market of \$13,500 per participant which replenished the NGF. The levy sought to raise around \$1 million and was payable by 30 April 2018. Investment assets as at 30 June 2018 were \$101.2 million. The size of the fund is expected to further decline as BBY related claim payments are made, including those Subdivision 4.9 related claims which are capped at \$11.4 million. SEGC will be targeting paying the majority of BBY claims by end of October 2018 although this is subject to change or delay.

When the size of the NGF falls below the minimum amount, SEGC has a number of measures at its disposal including discretion to levy any market operator of a financial market to which the NGF compensation scheme

applies, or its market participants. The legislation provides a cap on the amount of any levy. The SEGC Board is in the process of a review of the minimum amount. This includes a triennial actuarial report with respect to the minimum amount. The SEGC Board continues to review its capital management plan and will monitor the minimum amount, the amount in the fund and its tolerance limits in light of this review.

Prior to 2018, no levy had been required since the inception of the NGF. The levy forms part of a 5-year plan to return the NGF to the minimum amount following anticipated payment of claims in respect of BBY. As part of the 5-year plan, it is likely that further levies may be required to return the NGF to the minimum amount, particularly in light of other circumstances such as increased administrative expenses (as a result of the separation from ASX and increased claims processing costs) and the low interest rate environment. However, no decisions have been made in regard to future levies at this time.

The Board is mindful of the economic environment and structural changes that are occurring in the financial markets industry. In this context, the Board continues to pay close regard to the importance of maintaining the adequacy of the funds held in the NGF in order to be in a position to meet claims that may arise. In previous years the SEGC Board has voiced its concerns about payments from the NGF to the Financial Industry Development Account (FIDA) based on Ministerial approvals. When the Fund is below the minimum amount, no FIDA payments may be made out of the NGF until the Fund is replenished. Currently, there are no outstanding Ministerial approvals of FIDA funding. The Capital and Investment Committee established by the SEGC Board, continues to actively monitor the NGF's capital and investments to make recommendations to the Board with respect to capital management and investments.

How SEGC manages financial risk and capital management is explained in more detail later in the report.

Currently, the sole member of the SEGC is ASX. However, the Board has conditionally approved the admission of an operator of another financial market, Chi-X Australia Pty Ltd (Chi-X). SEGC continues to work with Chi-X to finalise its membership. One of the conditions of such membership is that a transitional regulation is made. The approval expires if the conditions are not fulfilled by 31 December 2018, unless the Board determines otherwise.

The Board has continued to pursue reform of the NGF. The principal concern continues to be capping of all claims and capping the total amount payable in respect of any particular member participant, to avoid a potential exhaustion of the fund. The Board has also continued to press Treasury for a full review of the compensation arrangements for financial markets. A number of recent events have emphasised the need for change. These include the 2015 actuarial reviews of the minimum amount of the NGF, the proposed admission of Chi-X and the insolvency of BBY Limited which led to an influx of claims, testing the regulatory provisions. It remains the Board's opinion that ideally, any such review should encompass the heads of claim which have not been changed in a number of years, to ensure that they reflect modern financial markets structure and practice, and capping of claims, to ensure that the NGF is able to provide compensation for retail investors and will remain on a strong financial footing.

The Board is engaged in ongoing discussions with Treasury and regulatory agencies to inform and assist the development of future policy in relation to the National Guarantee Fund. SEGC has also engaged with other stakeholders to develop a reform proposal.

It has been a pleasure to serve as Chair of the SEGC Board throughout the year. I would like to thank Lynn Ralph, who retired in December 2017, for her significant contribution as a director of SEGC. I welcome Michael Willcock, whose term commenced in December 2017, to the Board and I thank my fellow directors for all their efforts and support over this busy period. I look forward to continuing in this role in the next financial year.

A handwritten signature in black ink, appearing to read 'N. Milne', written in a cursive style.

Nancy Milne  
Chair

## OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for administering the NGF and operates in accordance with Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. The assets of the NGF are the property of SEGC but are held on trust for the purposes set out in the legislation. The SEGC Board is made up of directors experienced in matters involving the securities and financial services industries. During the course of the year covered by this report, the sole member of SEGC was ASX.

### *What is the NGF?*

The NGF is a compensation fund available to meet certain types of claims arising from dealings with participants of ASX (as sole member of SEGC) and, in limited circumstances, participants of ASX Clear. These participants are referred to in the legislation as “dealers”. The NGF was established by the *Australian Stock Exchange and National Guarantee Fund Act 1987*, which also created ASX as a national stock exchange. When the six state stock exchanges were merged under that Act, the assets of the fidelity funds of those state exchanges were merged to form the NGF.

Portfolio earnings have been the only source of income for the NGF until the financial year ended 30 June 2018 when SEGC imposed its first levy on dealers. The earnings of the NGF are income tax exempt.

At 30 June 2018, the net assets of the NGF were \$93.6 million. This compares with \$96.9 million at the end of the previous financial year.

The net assets of the NGF reflect variations in portfolio earnings, any amount paid to ASX’s Financial Industry Development Account, the net amount paid in respect of claims (after recoveries) as well as changes in accounting provisions for claims, administration costs plus any levies.

### *What claims can be made on the NGF?*

The claims provisions are set out in Division 4 of Part 7.5 of the Corporations Regulations. The protection provided by the NGF is only available in relation to the activities of dealers (as defined above).

The NGF covers only certain investor protection claims.

There are four subdivisions of Division 4 of Part 7.5 of the Corporations Regulations which set out the types of investor protection claims that clients of dealers may make on the NGF in certain circumstances. They are for:

- completion of sales and purchases of quoted securities on ASX’s equities or debt markets entered into by a dealer (Subdivision 4.3). The dealer may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have failed to complete a transaction because the dealer was suspended by ASX or by ASX Clear;

- loss that results if a dealer transfers marketable or certain other securities without authority (Subdivision 4.7);
- loss that results if a dealer cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the operating rules of ASX Settlement Pty Limited (Subdivision 4.8);
- loss that results if a dealer becomes insolvent and fails to meet its obligations in respect of property (usually money or securities) that had been entrusted to it in the course of, or in connection with, its business of dealing in securities, up to a statutory maximum per dealer of 15% of the minimum amount of the NGF (Subdivision 4.9). Based on the current minimum amount, this cap would be \$15 million. (See below for an explanation of the minimum amount.)

Further information about claims made is provided in the Claims Report section.

### ***Claims which cannot be made on the NGF***

Claims cannot be made on the NGF unless they fall within one of the categories referred to earlier. Examples of claims which cannot be made are claims:

- for loss arising from investment decisions, or from relying on investment advice given by a dealer;
- for loss if a dealer fails to act on instructions to buy or to sell;
- for money lent to a dealer which has not been repaid;
- in respect of conduct by an entity other than the specific entity which is the dealer;
- in respect of alleged unauthorised withdrawal or misappropriation by the dealer of money in a client's account or held on a client's behalf, unless the circumstances are such that the loss may be claimed under one of the specific categories in the legislation;
- in respect of property entrusted to a dealer that is not in connection with its securities business;
- where property entrusted to the dealer, in the due course of administration of the trust, has ceased to be under the sole control of the dealer; and
- in respect of a loss which has no connection to a member market.

Some people are not entitled to make certain claims under Subdivision 4.7 or Subdivision 4.9. These include the dealer concerned, its officers and their spouses and relatives.

## ***Claims in relation to exchange traded derivatives***

The contract completion provisions of Subdivision 4.3 referred to above in relation to ASX's securities markets do not generally apply to trading of individual derivatives contracts.

However, the NGF does provide the following protection to clients of dealers who trade derivatives on ASX:

- Firstly, if an exchange traded option over quoted securities is exercised, the resulting purchase and sale will generally be covered by the contract completion provisions of Subdivision 4.3 discussed above.
- Secondly, if a client has entrusted property to a dealer in the course of dealing in exchange traded options, the NGF provides protection against loss of that property in accordance with the provisions of Subdivision 4.9, also discussed above.

The NGF does not provide protection in relation to futures (other than warrants that are traded on the ASX). The ASX Supplemental Compensation Fund applies to claims in relation to money or property entrusted to a participant of ASX in respect of actual or proposed dealings in futures on the ASX market.

## ***Reduction of claims***

SEGC may reduce the amount of compensation payable to a claimant:

- by reference to a right of set-off available to the claimant;
- by reference to the extent to which the claimant was responsible for causing the loss; and
- if a claimant has, without the written consent of SEGC, adversely affected SEGC's right to be subrogated to any of the claimant's rights and remedies and the claimant received a benefit for assigning its rights or remedies.

## ***The minimum amount of the NGF***

Under the Corporations Act the SEGC Board may, with the approval of the Government Minister responsible for the Corporations Act, determine that a particular amount (referred to in the legislation as the "minimum amount") is the amount needed to maintain the NGF at a viable level to meet claims and administration costs of SEGC and the NGF.

The SEGC Board periodically reviews the minimum amount based on actuarial advice. On 31 March 2005 the minimum amount was set at \$76 million. In 2010 an actuarial review was conducted as part of the SEGC Board's regular review of the minimum amount. Following that review, the SEGC Board concluded that the then current minimum amount of \$76 million remained appropriate at that time and decided that for the



purposes of prudential risk management a buffer of \$20 million should be maintained above the recommended minimum amount. In 2014 the SEGC Board undertook a full review of the minimum amount with the assistance of external actuarial advice. As a result of the review the SEGC Board determined a new minimum amount of \$100 million which became effective as the minimum amount on approval by the Minister on 3 November 2015. The SEGC Board is in the process of undertaking its triennial review of the minimum amount including external actuarial advice. The SEGC Board continues to review its capital management plan and will monitor the minimum amount, the amount in the NGF and its tolerance limits in light of this review.

If the amount in the NGF falls below the minimum amount, the Board has flexibility to manage the financial position of SEGC and the NGF as appropriate in the circumstances. For example:

- it may determine (with the Minister's approval) to adjust the minimum amount of the NGF;
- it may take out insurance against liability in respect of claims on the NGF;
- it may pay claims in instalments and in the priority set out in the legislation;
- it may borrow (including from ASX) for the purpose of meeting a payment due out of the NGF; or
- it may raise funds for the NGF by imposing a levy on member operator/s or on all or a class of participants of member operator/s.

If the amount in the NGF falls below the minimum amount, SEGC may determine in writing that the operators of all, or a class, of the financial markets to which the NGF compensation scheme applies or all, or a class, of the participants in any of those markets must pay a levy. If a levy is imposed on a market operator then the market operator may determine in writing that participants in that market must pay a levy. Since the NGF was created in 1987 ASX has been the only operator of a financial market to which the NGF compensation scheme applies.

If SEGC does impose a levy, the total of all levies must not exceed 150% of the minimum amount in any financial year.

A levy is imposed under the Corporations (National Guarantee Fund) Levies Act.

During the financial year ended 30 June 2018, the NGF was below the minimum amount. A levy on market participants of \$13,500 per participant and has raised just under \$1.0 million. SEGC continues to collect a small number of outstanding participant levies.

## *Investment Strategy for National Guarantee Fund*

The Board recognises that the investment strategy (or strategic asset allocation policy) will influence the achievement of its investment objectives. The investment strategy was determined, after consideration of a wide range of investment considerations and an external investment risk analysis.

The Board reviews the investment considerations for NGF on an annual basis. The Board has a low appetite for investment risk, with this low risk appetite for investment risk expressed as *“The investment return on the assets is expected to have a less than a 5% probability of incurring a negative return over rolling three-year periods.”*

During the period the Capital and Investment Committee reviewed the asset allocation of the Fund with respect to potential returns and risk profile. In November 2017 a decision was made by the SEGC Board to increase the allocation of the Fund to the Schroder Real Return from 40% to 60%. A review by an external asset consultant found the revised strategic asset allocation to be consistent with the risk objective of the Fund. The review showed there was room for the Fund, at the appropriate time, to take more investment risk and still be within the risk target of less than 5% probability of a negative return over a three-year period.

The Board has adopted an investment strategy where the Fund is notionally split into a ‘Claims & Expenses Pool’ and a ‘Capital Pool’:

- (i) The ‘Claims & Expenses Pool’ is a matching, or closely matching amount, of the Fund in Cash (including Cash Plus) and/or Term Deposits with maturity dates within expected claim payment dates, to meet both known and likely current claims, and 12-month expected SEGC expenses.
- (ii) The ‘Capital Pool’ is remainder of the Fund.

The ‘Claims & Expenses Pool’ is currently invested in the UBS Cash Plus Fund and the bank account.

The ‘Capital Pool’ is currently invested in the UBS Cash Plus Fund and the Schroder Real Return CPI Plus 5% Fund. For this pool, the investment in the Schroder Real Return CPI Plus 5% fund is maintained in the range of 40% to 65% of the ‘Capital Pool’.

The UBS Cash-Plus fund aims to provide a return (after ongoing fees) in excess of the Bloomberg AusBond Bank Bill Index (Benchmark) when measured over rolling 12 month periods. The UBS Cash Plus Fund invests in bank deposits, bills of exchange and equivalents, corporate and structured floating rate notes and mortgage backed floating rate notes.

The Schroder Real Return CPI Plus 5% Fund aims to achieve a return of 5% per annum (before fees) in excess of Australian inflation over rolling three year periods. Australian inflation is the RBA trimmed mean. The Schroder Real Return CPI Plus 5% Fund invests in a range of underlying investment pools, including fixed-income and equity type securities. The strategy investments are held in predominantly traditional assets with no leverage and with strict limits on exposure to liquidity constrained alternatives. The Schroder Real Return strategy invests in a diversified portfolio of assets drawn across a broad range of asset classes, including investment grade debt securities and cash, high yielding debt alternatives, and Australian and international equities and property trusts.

The investment strategy is reviewed annually by the Board and may be reviewed at any time, and in particular, if there is a significant change in the investment markets, the purpose or size of the Fund, governing legislation or for other reasons.

## ***Financial Industry Development Account (FIDA)***

The legislation includes a mechanism allowing the Minister to approve a matter as an approved purpose for which excess funds in the NGF (that is, funds in excess of the minimum amount) may be used by ASX.

Given that the NGF has fallen below the minimum amount and, following BBY claim payments, is expected to again fall below the minimum amount, there are no outstanding ministerial approvals for FIDA payments and no funds were paid to the FIDA during the financial year.

## ***Multi-market environment***

The Corporations Amendment (Compensation Arrangements) Regulation 2013 commenced in 2013. That Regulation was introduced to provide certain clarifications with respect to the operation of the compensation arrangements prescribed in Part 7.5 of the Corporations Act 2001 (which includes the NGF).

Licensed market operators are required to comply with one of two compensation regimes prescribed in Divisions 3 and 4 respectively of Part 7.5 of the Act. Division 4 sets out the regulatory framework that applies to the NGF, whereas Division 3 applies to all other compensation arrangements.

There are circumstances where a loss incurred by an investor may be connected with both types of compensation arrangements. As a consequence of the Regulation made on 27 July 2013, if a claim for a loss meets the requirements for a Division 3 loss but the loss is also connected to the ASX market for the purposes of the NGF, then the loss is taken not to be a Division 3 loss. However, if the claimant cannot claim on the NGF or their claim on the NGF is disallowed, the loss is deemed back to being a Division 3 loss.

The SEGC Board has conditionally approved an application for membership by Chi-X. One of the conditions is the making of a regulation. SEGC continues to work with Chi-X to finalise their membership.

## BOARD OF DIRECTORS

The SEGC Board is responsible for overseeing the general operation of SEGC including determining claims and deciding upon the investment strategy for the management and investment of the NGF's assets. The experience and qualifications of each director is set out below.

**Nancy Milne LLB**, OAM Non-Executive Director. Director since October 2011, Chairman since December 2011.

Director of ALE Property Group Limited, NSW Division Councillor of NSW Council of the Australian Institute of Company Directors, Deputy Chair of State Insurance Regulatory Authority, Director of Asbestos Safety and Eradication Council. Director of Fastbrick Robotics Ltd.

Previously Ms Milne has been a Director of Australand Holdings Limited, Novion Property Group, Crowe Horwath Australia and various other public, private and not for profit organisations.

**Susan Doyle, BA**, Non-Executive Director. Director since 1 January 2007.

Susan has had an extensive executive career in funds management, working with Commonwealth Superannuation Corporation, Suncorp Insurance and Finance and Insurance Australia Group.

She served as Chairman of Commonwealth Superannuation Corporation for six years and was a founding member of the Future Fund Board of Guardians, on which she served for nine years.

Susan is currently a Director of New South Wales Treasury Corporation.

**Ian McGaw**, Non-Executive Director. Director since July 2010.

Director of ASX Clear Pty Limited and ASX Settlement Pty Limited. Director of ASX Clear (Futures) Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Corporation Limited and Austraclear Limited.

Previously, Mr McGaw was the Group Managing Director at the London Clearing House (now known as LCH Clearnet Group).

**Lynn Ralph, BA, MBA, FAICD, SF(Life) Fin**, Non-Executive Director. Director since December 2011. Retired December 2017.

Member of Superannuation Complaints Tribunal. Former Director of Sydney Institute Ltd, BT Funds Management Ltd, BT Funds Management No 2 Ltd and Westpac Securities Administration Ltd. Former Director of Sydney Swans Ltd. Co-founder of CameronRalph Pty Ltd. Former Chief Executive Officer of the Investment and Financial Services Association. Former Deputy Chairman of Australian Securities Commission. Former Commissioner of Private Health Insurance Administration Council.

**Peter Warne, BA, FAICD** Non-Executive Director. Director since October 2006.

Appointed Director of ASX Limited in July 2006. Prior to this he was a Director of SFE Corporation Limited from 2000.

Director of ASX Clear (Futures) Pty Limited, Director of ASX Clearing Corporation Limited, Chairman of Austraclear Limited, Director of ASX Settlement Corporation Limited. Member of the ASX Audit and Risk Committee and the Nomination and Remuneration Committee.

Former Chairman of OFX Ltd (formerly OzForex Group Limited). Chairman of Macquarie Group Limited and Macquarie Bank Limited. Director of New South Wales Treasury Corporation. Chairman of St. Andrews Cathedral School Foundation. Member of the advisory board of Macquarie University Faculty of Business and Economics. Former adjunct Professor of University of Sydney Business School. Former Patron of Macquarie University Foundation.

**Michael Willcock BA, LLB, Master of Pub Pol** Non-Executive Director. Director since December 2017.

Michael has had 20 years' experience as a policy advisor in Australian Treasury on issues including financial markets, personal tax and retirement incomes and competition policies. Michael is currently the Secretary of the Commonwealth Grants Commission.

He is a former Senior Treasury Representative to the Australian Embassy in Beijing, former Board member of World Bank Group of institutions, representing Australia and 13 other Asia-Pacific countries and former member of World Bank board Budget and Audit Committees.

## ***Directors' Attendance at Meetings***

<b>Director/Committee member</b>	<b>Board Meetings attended</b>	<b>Claims Committee meetings attended</b>	<b>Capital and Investment Committee meetings attended</b>
Nancy Milne	6/6	7/7	4/4
Susan Doyle	5/6		4/4
Ian McGaw	6/6	6/7	
Lynn Ralph	3/3	3/3	
Peter Warne	6/6		4/4
Michael Willcock	3/3		2/2
Colin Scully (Claims Committee member)		5/5	

## CORPORATE GOVERNANCE

The Board of SEGC consists of five non-executive directors. ASX, as the sole member of SEGC, appoints two directors and those directors appoint three independent directors each of whom:

- is not a director, officer or employee of or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's business.

In the event that there is more than one member of SEGC, the Board shall comprise one person nominated by each member (member director) and three independent directors nominated by the member directors.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined by ASX as the sole member of SEGC.

The directors provide details of their current outside interests on appointment and advise any change to those interests at each Board meeting. Where it is considered that a director has a material personal interest it is noted and where appropriate the director absents himself or herself for that item. That decision is minuted.

In view of the small size of the SEGC Board, and the critical importance to the organisation of its investments and finances, the Board has resolved that it will not have a separate audit and risk committee, but that the entire Board will oversee these aspects of the Company's operations.

As SEGC is not a listed entity, the above statement is not intended to be a disclosure of corporate governance practices in accordance with the recommendations of the ASX Corporate Governance Council.

## ADMINISTRATION OF SEGC

SEGC outsources certain administration and accounting functions to a third party provider. In addition SEGC has one contractor, two part time employees and a casual employee.

The Company Secretary and General Counsel is independently contracted to SEGC.

**Gabby Hart (BA, LLB)** is the Company Secretary and General Counsel of SEGC.

The Finance Manager is employed part time by SEGC.

**Martin Hickling (BEC, FIAA, CFA)** is the Finance Manager of SEGC.

The appointment of the Finance Manager and Company Secretary are approved by the Board.

SEGC engages other independent contractors as required.

## CLAIMS REPORT

### *Claims processing procedure*

The types of claims which can be made on the NGF are set out in the Overview section.

In general, SEGC processes claims by clients of dealers in the following way:

- **Notification:** where the dealer is solvent, the dealer whose alleged conduct or default has prompted the claim is notified of the claim, so that it may consider action to settle the claim (either directly with the claimant or via SEGC) and where appropriate, notify its insurer. During the processing of the claim, SEGC attempts as far as possible to facilitate settlement between the claimant and the dealer.
- **Further information:** The claimant must establish their claim. SEGC will check that the claim meets the relevant criteria. This may involve SEGC seeking information from the claimant or from other relevant persons such as dealers, registries, liquidators, ASX and ASX Clear. Under the Corporations Act, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** Claims on the NGF are subject to time limits under the Corporations Regulations. In general, the time limit for claims is six months commencing from the time of the relevant event or from the time the claimant became aware of the loss, depending on the category of claim. In some cases, SEGC may publish a notice specifying another time limit. A claim made outside the relevant time limit is barred unless the Board otherwise determines.
- **Determination:** If the claim is not time barred, the Board will determine whether to allow or disallow the claim. Claims may be allowed or disallowed in whole or in part. If a claim is allowed, the claimant is provided with an amount of compensation determined in accordance with the legislation and consisting of securities and/or money. SEGC's strong preference is to settle all claims with monetary compensation.

- **Recovery:** The Corporations Act provides that if a claim is allowed, SEGC is subrogated to all the claimant's rights and remedies in relation to the conduct the subject of the claim. SEGC stands in the claimant's shoes and can seek recovery from the dealer, and in appropriate cases other parties. Potential recoveries are pursued where appropriate to mitigate loss to the NGF.

### *Claims processed in the current year*

SEGC has received over 550 claims as a result of the collapse of the BBY Group, a financial services and stockbroking group, of which BBY Ltd (BBY) was the main trading entity. The SEGC Board has established a Claims Committee to deal with the expanded workload arising out of this large number of claims.

Voluntary administrators and receivers were appointed to BBY on 17 May and 18 May 2015 respectively. As a consequence, ASX Limited and ASX Clear Pty Limited suspended the participation of BBY with effect from 18 May 2015.

BBY was placed into liquidation on 22 June 2015. ASX Settlement Pty Ltd suspended the participation of BBY on 3 July 2015.

In the liquidators second Annual Report for BBY published in September 2017, the liquidators indicate a shortfall in the BBY client segregated accounts (CSAs) of \$21 million against potential claims totalling \$62 million.

During the financial year SEGC was a non-representative defendant in the BBY liquidators' application to the court for various orders and directions that will affect the amount of the overall shortfall and the amount of the shortfall in the CSAs that may be covered by the NGF. These broadly related to pooling of CSAs prior to distribution and indemnification of both the representative defendants and the liquidators fees from the CSAs. The application was heard in early 2017. Judgement was handed down in early 2018. As a result of the judgment, the CSAs relating to the equities and exchange traded options product lines will not be pooled with other product lines prior to distribution. Still at issue, however, is the distribution of costs of the proceedings and costs related to distribution of CSAs.

To date, most of the claims received by SEGC in connection with BBY have been made under:

- subdivision 4.3 of Part 7.5 of the Corporations Regulations - where it is alleged that BBY, as the dealer, has failed to provide to the claimants the quoted securities purchased or the proceeds of sale, or has otherwise failed to complete a transaction because of BBY's suspension; or
- subdivision 4.9 of Part 7.5 of the Corporations Regulations - where losses are alleged to have resulted from BBY's insolvency and its failure to meet its obligations in respect of property (usually money or securities) that had been entrusted to or received by it in the course of, or in connection with, its business of dealing in securities.



In relation to the claims received to date, there are specific criteria contained in the Corporations Regulations which must be met before a claim can be allowed by SEGC.

The following table summarises the number of compensation claims carried forward from the prior year, received, disallowed by the Claims Committee, and paid in current and prior years.

<b>Number of</b>	<b>FY17</b>	<b>FY18</b>
Open claims at start of period	239	257
Other claims attributable to previous period	0	14
Claims received	153	150
Claims disallowed	(94)	(150)
Claims withdrawn	(18)	Above number incl withdrawn
Claims paid	(42)	(32)
Open claims at end of period	<b>238</b>	<b>239</b>
Determined or considered but not yet paid	229	63

SEGC paid 42 claims totalling \$631,487 in FY18 (including claimant legal costs and interest).

SEGC has written to all claimants whose claims have been determined with the intention of payment around the end of September 2018 providing there is no reason to believe that subdivision 4.9 claims will exceed the \$11.4 million cap. The current expectation is that payments will be made by the end of October 2018. There are 6 remaining BBY claims yet to be finally determined.

During the financial year SEGC also received 3 claims with respect to a dealer other than BBY.

### ***Appeals against disallowed claims***

The Corporations Act provides that if the Board disallows a claim, the claimant may appeal by bringing legal proceedings within 3 months of notice of the disallowance of the claim, seeking an order directing the Board to allow the claim.

SEGC is not aware of any outstanding appeals against disallowed claims.

## **FINANCIAL STATEMENTS**

*Securities Exchanges Guarantee Corporation Limited Financial Statements for  
the Year Ended 30 June 2018*

# **SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**

**ABN 19 008 626 793**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2018**

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## Directors' report

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The directors present their report, together with the financial statements of Securities Exchanges Guarantee Corporation Limited (SEGC), for the year ended 30 June 2018 and the auditor's report thereon.

### Directors

The directors of SEGC in office during the financial year and at the date of this report were as follows:

Ms Nancy J Milne (Chairperson)  
Ms Susan M Doyle  
Mr Ian W T McGaw  
Ms Lynn S Ralph – retired 5 December 2017  
Mr Peter H Warne  
Mr Michael T Willcock – appointed 6 December 2017

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2018. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2018.

### Principal activities

SEGC administers the National Guarantee Fund (the NGF or the Fund) and holds the Fund's assets on trust in accordance with Division 4 of Part 7.5 of the *Corporations Act 2001*.

### Review of operations

SEGC did not trade in its own right during the financial year, other than to undertake its principal activity noted above. Separate Financial Statements for the NGF detail the Fund's operations and financial position.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs of SEGC during the financial year.

### Events subsequent to balance date

From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of SEGC, the results of those operations, or the state of affairs of the SEGC.

### Likely developments

SEGC has conditionally approved the application by a licensed market operator, to become a member of SEGC. SEGC continues to work with the market operator to finalise their membership. The admission of a new member may require further review of the governance, operations and management of the SEGC and the NGF.

### Environmental regulation

The operations of SEGC are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Indemnification and insurance of directors and officers

SEGC has paid insurance premiums out of the NGF in respect of directors' and officers' liability for current and former directors and officers of SEGC and related entities. The insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

The constitution of SEGC provides that every person who is or has been a director, secretary or executive officer of the SEGC, and each other officer or former officer of the SEGC or of its related bodies corporate as the directors in each case determine, is indemnified by the SEGC to the maximum extent permitted by law. The indemnity covers losses or liabilities incurred by the person as a director or officer, including but not limited to liability for negligence and for legal costs on a full indemnity basis.

### Proceedings on behalf of the Company

No application has been made under section 237 of the *Corporations Act 2001* in respect of SEGC and no proceedings have been brought or intervened in on behalf of the SEGC under that section.



## Directors' report - continued

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### Corporate governance

The Board of SEGC consists of five non-executive directors. ASX, as the sole member of SEGC, appoints two directors and those directors appoint three independent directors each of whom:

- is not a director, officer or employee of, or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

In the event that there is more than one member of SEGC, the Board shall comprise one person nominated by each member (member director) and three independent directors nominated by the member directors.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined from time to time by the ASX as the sole member of SEGC.

Two executives, independent of ASX, perform the management and secretarial functions for SEGC.

### Non-audit services

The auditor, PricewaterhouseCoopers, did not provide any non-audit services to SEGC during the year (2017: nil).

### Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is included on page 5.

Signed in accordance with a resolution of the directors:



**Nancy J Milne**  
Chairperson

Sydney, 27 August 2018



## ***Auditor's Independence Declaration***

As lead auditor for the audit of Securities Exchanges Guarantee Corporation Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'Matthew Lunn'.

Matthew Lunn  
Partner  
PricewaterhouseCoopers

Sydney  
27 August 2018

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***PricewaterhouseCoopers, ABN 52 780 433 757***

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## Statement of comprehensive income

	2018	2017
For the year ended 30 June	\$	\$
Revenue	0	0
Expenses	0	0
Profit before income tax expense	0	0
Income tax expense	0	0
Net profit for the period attributable to the Company	0	0
Other comprehensive income for the period, net of tax	0	0
Total comprehensive income for the period attributable to the Company	0	0

## Balance sheet

	2018	2017
As at 30 June	\$	\$
Total assets	0	0
Total liabilities	0	0
Net assets	0	0
Total equity	0	0



## Statement of changes in equity

	2018	2017
	\$	\$
<b>For the year ended 30 June</b>		
<b>Opening balance of equity at 1 July</b>	<b>0</b>	<b>0</b>
Profit for the period	0	0
Other comprehensive income for the period	0	0
<b>Total comprehensive income for the period, net of tax</b>	<b>0</b>	<b>0</b>
<b>Closing balance of equity at 30 June</b>	<b>0</b>	<b>0</b>

## Statement of cash flows

	2018	2017
For the year ended 30 June	\$	\$
Net cash flows from operating activities	0	0
Net cash flows from investing activities	0	0
Net cash flows from financing activities	0	0
Net movement in cash	0	0
Cash at the beginning of the financial period	0	0
Cash at the end of the financial period	0	0

# Notes to the financial statements

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## 1. Summary of significant accounting policies

Securities Exchanges Guarantee Corporation Limited (SEGC) is a not-for-profit entity domiciled and incorporated in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements for the year ended 30 June 2018 were authorised for issue by the directors on 27 August 2018. The directors have the power to amend and reissue the financial statements.

### (a) Basis of preparation

The financial statements are general purpose financial statements that:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)
- have been prepared on a historical cost basis
- are measured and presented in Australian dollars (being the SEGC's functional and presentation currency).

### New and amended and interpretations standards adopted by SEGC

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2017. In particular:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 *Statement of Cash Flows*
- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit entities

The above amendments to standards that are mandatory for the first time in the annual reporting period commenced on 1 July 2017 do not affect any amounts recognised in the current or prior periods, and are not likely to materially affect amounts in future periods. The Company has not elected to apply any pronouncements before their operative date in the annual reporting period ended 30 June 2018.

### New and amended standards interpretations not yet adopted by SEGC

The following significant standards or amendments have been issued but are not yet effective for the annual reporting period ending 30 June 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 16 *Leases*

When AASB 9 and AASB 15 are first adopted for the year ended 30 June 2019, and AASB 16 is first adopted for the year ended 30 June 2020, there will be no material impact on the transactions and balances recognised in the financial statements.

## 2. Related party transactions

### (a) Directors

The directors of SEGC in office during the financial year and at the date of this report were as follows:

Ms Nancy J Milne (Chairperson)  
Ms Susan Doyle  
Mr Ian W T McGaw  
Ms Lynn S Ralph – retired 5 December 2017  
Mr Peter H Warne  
Mr Michael T Willcock – appointed 6 December 2017

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2018. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2018.

## Notes to the financial statements – continued

### 3. Key Management Personnel compensation

Key Management Personnel (KMP) compensation provided during the financial years ended 30 June 2018 and 2017 is as follows:

	2018 \$	2017 \$
Short-term benefits	226,000	249,500
Post-employment benefits	21,470	19,448
<b>Total Key Management Personnel compensation</b>	<b>247,470</b>	<b>268,948</b>

In accordance with section 889H of the *Corporations Act 2001*, expenses incurred in the administration of the NGF, including KMP compensation, are paid by the NGF.

### 4. Auditor's remuneration

The auditor provided the following services to the Company during the year.

	2018 \$	2017 \$
<b>PricewaterhouseCoopers Australia</b>		
<b>Statutory audit services:</b>		
Audit of the financial statements under the <i>Corporations Act 2001</i>	5,227	5,100
<b>Total remuneration to PricewaterhouseCoopers Australia</b>	<b>5,227</b>	<b>5,100</b>

In accordance with section 889H of the *Corporations Act 2001*, audit services provided to SEGC are paid by the Fund.

The auditor did not provide any non-audit services to SEGC during the year (2017: nil).

### 5. Commitments and contingent liabilities

SEGC has no commitments or contingent liabilities as at 30 June 2018 (2017: nil).

### 6. Subsequent events

From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of SEGC, the results of those operations or the state of affairs of the SEGC.



## Directors' declaration

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In the directors' opinion:

- a) the financial statements and notes set out on pages 6 to 11 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.

This declaration is made in accordance with a resolution of the directors.



**Nancy J Milne**  
Chairperson

Sydney 27 August 2018

## Independent auditor's report

To the members of Securities Exchanges Guarantee Corporation Limited

### Our opinion

In our opinion:

The accompanying financial report of Securities Exchanges Guarantee Corporation Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

### What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

### Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Emphasis of matter – basis of accounting*

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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### *Other information*

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' report included in the financial statements, but does not include the financial report and our auditor's report thereon.

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

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

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

---

### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Matthew Lunn*

Matthew Lunn  
Partner

Sydney  
27 August 2018



## FINANCIAL STATEMENTS

*National Guarantee Fund Financial Statements for the Year Ended 30 June 2018*

# **NATIONAL GUARANTEE FUND**

**ABN 69 546 559 493**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2018**

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## Trustees' report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee of the National Guarantee Fund (the Fund), present their report, together with the financial statements of the Fund for the year ended 30 June 2018 and the auditor's report thereon.

### Trustee and Board of Directors

The directors of SEGC, the trustee of the Fund, in office during the financial year and at the date of this report were as follows:

Ms Nancy J Milne (Chairperson)  
Ms Susan M Doyle  
Mr Ian W T McGaw  
Ms Lynn S Ralph – retired 5 December 2017  
Mr Peter H Warne  
Mr Michael T Willcock – appointed 6 December 2017

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2018. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2018.

### Principal activities

The Fund's primary function is to provide investor compensation in the circumstances set out in Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

SEGC administers the Fund and holds the Fund's assets on trust in accordance with Division 4 of Part 7.5 of the *Corporations Act 2001*.

In accordance with sections 7.5.89 of the *Corporations Regulations 2001*, funds in excess of the minimum amount can be paid from the Fund for certain purposes approved by the Minister. As the date of this report, the minimum amount was \$100.0 million.

### Review of operations

The loss for the period was \$3,360,791 (2017: \$4,985,950 loss). No payments were made to the Financial Industry Development Account (FIDA) during the financial year ended 30 June 2018 (2017: \$ nil).

In the current financial year, revenue increased by \$2,695,554 from \$1,775,731 in the prior financial year to \$4,471,285 primarily due to lower mark-to-market losses in the investment funds, the receipt of participant levies and a recovery of GST from past years. Expenses increased from \$6,761,682 in the prior financial year to \$7,832,077. This includes Claims expenses of \$6,206,262 (2017: \$3,773,050). Legal costs were \$560,374 (2017: \$1,544,591). Staff, occupancy and administration costs decreased over the previous year.

Net assets decreased by \$3,360,791 to \$93,584,311 (2017: \$96,945,103), being a reflection of the operating result described above.

The following table summarises the number of compensation claims carried forward from prior year, received, disallowed, and paid in current and prior years.

Number of	FY18	FY17
Open claims at start of period	239	257
Other claims attributable to previous period	0	14
Claims received	153	150
Claims disallowed	(94)	(150)
Claims withdrawn	(18)	Figure above includes claims withdrawn
Claims paid	(42)	(32)
Open claims at end of period	238	239
Determined or considered but not yet paid	229	63



## Trustees' report – continued

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During the financial year the Fund paid 42 claims totalling \$631,487 (including claimant legal costs and any withholding tax withheld).

As at the end of the financial year, there are 238 outstanding claims on the Fund. Of these claims, 229 have been determined or considered as likely to be allowed by the Claims Committee of the SEGC Board, but have yet to be paid prior to the date of this report. An outstanding claims provision of \$7,784,322 has been established for the payment of these claims. Of these, 229 are in a category of claims that is subject to a cap of \$11.4 million. SEGC is seeking to pay these claims in the 2018 calendar year, subject to a number of factors, including that the SEGC Board is comfortable that the cap will not be exceeded. As the SEGC Board has yet to form a view on the validity of the remaining 9 claims, no liability has been recognised in respect of any of these claims.

No liability has been established in these accounts for any claims received after 30 June 2018.

### Financial Industry Development Account

FIDA is administered by ASX under section 7.5.89 of the *Corporations Regulations 2001*.

The Fund did not make any distributions during the financial year ended 30 June 2018 (2017: \$ nil).

There were no purposes approved by the Minister for payments to FIDA in the financial year.

### Significant changes in the state of affairs

During the year the size of the Fund was below the minimum amount of \$100 million and was replenished. In accordance with its capital management plan the SEGC Board made a determination pursuant to Section 889J of the Corporations Act that all participants in the ASX market (other than those with futures only trading authorisations) must pay a levy to the SEGC of \$13,500. This levy was payable on or before 30 April 2018. The levy raised around \$1 million during the financial year. With further outgoings expected from claims payments arising from the insolvency of BBY Limited the size of the Fund is expected to fall below the minimum amount again. Further levies may be required to return the Fund to the minimum amount.

### Events subsequent to balance date

No other matters or circumstances other than those noted in the review of operations and significant changes in the state of affairs have significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund.

### Likely developments

SEGC has conditionally approved the application by a licensed market operator to become a member of SEGC. SEGC continues to work with the market operator to finalise their membership. If the market operator is admitted as a member, this may require further review of the governance, operations and management of the SEGC and the NGF. The admission of a new member may also affect the minimum amount. The conditional approval will lapse if the conditions are not fulfilled by 31 December 2018, unless the SEGC Board determines otherwise.

The SEGC Board is undertaking a review of the minimum amount, which includes a triennial actuarial report with respect to the minimum amount. The report is not yet complete, although initial analysis suggests that overall market activity has increased since the previous report, with most factors acting to increase the risk of claims on the Fund. The SEGC Board will take into account the final report and the implications on its capital management plan when considering if any determination should be made with respect to a change in the minimum amount in relation to the NGF.

### Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Indemnification and insurance of directors and officers

SEGC has paid insurance premiums out of NGF in respect of directors' and officers' liability for current and former directors and officers of SEGC and related entities. The insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

The constitution of the SEGC provides that every person who is or has been a director, secretary or executive officer of SEGC, and each other officer or former officer of SEGC or of its related bodies corporate as the directors in each case determine, is indemnified by SEGC to the maximum extent permitted by law. The indemnity covers losses or

liabilities incurred by the person as a director or officer, including but not limited to liability for negligence and for legal costs on a full indemnity basis.

### **Corporate governance**

The Board of SEGC consists of five non-executive directors. ASX as the sole member of SEGC, appoints two directors and those directors appoint three independent directors while each of them:

- is not a director, officer or employee of or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

In the event that there is more than one member of SEGC, the Board shall comprise one person nominated by each member (member director) and three independent directors nominated by the member directors.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined from time to time by ASX as the sole member of SEGC.

Two executives, independent of ASX, perform the management and secretarial functions for SEGC.

### **Non-audit services**

The auditor, PricewaterhouseCoopers, provided non-audit services to the Fund during the year to the value of \$ nil (2017: \$5,100).

### **Rounding of amounts**

The Fund is of the kind referred to in ASIC Class Order 2016/191. In accordance with that class order, amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

### **Auditor's independence declaration**

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is included on page 6.

Signed in accordance with a resolution of the directors:



**Nancy J Milne**  
Chairperson

Sydney, 27 August 2018





## ***Auditor's Independence Declaration***

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'M Lunn', written over a horizontal line.

**Matthew Lunn**  
Partner  
PricewaterhouseCoopers

Sydney  
27 August 2018

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
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## Statement of comprehensive income

For the year ended 30 June	Note	2018 \$'000	2017 \$'000
<b>Revenue</b>			
Net (loss)/gain on financial instruments held at fair value	3	(230)	(2,296)
Distribution income	4	2,940	3,857
Participant Levies		999	0
Recovered GST		490	0
Miscellaneous Income		262	212
Interest income		10	3
		<b>4,471</b>	<b>1,776</b>
<b>Expenses</b>			
Staff		(125)	(77)
Legal		(560)	(1,545)
Administration		(854)	(1,146)
Occupancy		(66)	(51)
Claims		(6,206)	(3,773)
One-off separation costs		(21)	(170)
		<b>(7,832)</b>	<b>(6,762)</b>
<b>Loss before income tax expense</b>		<b>(3,361)</b>	<b>(4,986)</b>
<b>Income tax expense</b>		<b>0</b>	<b>0</b>
<b>Net loss for the period attributable to members of the Fund</b>		<b>(3,361)</b>	<b>(4,986)</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>0</b>	<b>0</b>
<b>Total comprehensive loss for the period attributable to members of the Fund</b>		<b>(3,361)</b>	<b>(4,986)</b>

## Balance sheet

As at 30 June	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash	2	538	526
Receivables		465	413
Prepayments		43	41
Investments	2	100,460	98,339
<b>Total current assets</b>		<b>101,506</b>	<b>99,319</b>
<b>Non-current assets</b>			
Fixed Assets		16	19
<b>Total non-current assets</b>		<b>16</b>	<b>19</b>
<b>Total assets</b>		<b>101,522</b>	<b>99,338</b>
<b>Current liabilities</b>			
Sundry creditors		70	96
Expense accruals	7	40	54
Withholding tax payable		44	34
Outstanding claims liability	5	7,784	2,209
<b>Total current liabilities</b>		<b>7,938</b>	<b>2,393</b>
<b>Total liabilities</b>		<b>7,938</b>	<b>2,393</b>
<b>Net assets</b>		<b>93,584</b>	<b>96,945</b>
<b>Equity</b>			
Retained earnings		93,584	96,945
<b>Total equity</b>		<b>93,584</b>	<b>96,945</b>



## Statement of changes in equity

<b>For the year ended 30 June</b>	<b>Note</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Opening balance of retained earnings at 1 July</b>		<b>96,945</b>	<b>101,931</b>
Loss for the period		(3,361)	(4,986)
Other comprehensive income for the period		0	0
<b>Total comprehensive loss for the period, net of tax</b>		<b>(3,361)</b>	<b>(4,986)</b>
Payments to FIDA	6	0	(0)
<b>Closing balance of retained earnings at 30 June</b>		<b>93,584</b>	<b>96,945</b>

## Statement of cash flows

For the year ended 30 June	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from the redemption of investments		800	4,187
Payments for applications of new investments		(1,012)	0
Investment distribution income received		3,024	3,532
Reinvestment of distribution income		(2,007)	(3,163)
Reinvestment of fee rebates		(132)	(125)
Miscellaneous Income		0	2
Proceeds from participant levies		932	0
Payments to suppliers (inclusive of GST)		(1,459)	(1,624)
Proceeds from recovered GST		491	0
Claims		(631)	(2,274)
Interest received		9	3
<b>Net cash inflow from operating activities</b>		<b>15</b>	<b>538</b>
<b>Cash flows from investing activities</b>			
Purchase of PP&E		(3)	(23)
Payments to FIDA	6	0	(0)
<b>Net cash (outflow) from investing activities</b>		<b>(3)</b>	<b>(23)</b>
<b>Net cash flows from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase in cash</b>		<b>12</b>	<b>515</b>
Cash at the beginning of the financial period		526	11
<b>Cash at the end of the financial period</b>		<b>538</b>	<b>526</b>
<b>Reconciliation of the operating (loss)/profit after income tax to the net cash flows from operating activities</b>			
<b>Net loss after tax</b>		<b>(3,361)</b>	<b>(4,986)</b>
<b>Adjustments for:</b>			
Depreciation and amortisation		7	0
<b>Changes in operating assets and liabilities:</b>			
Decrease/(increase) in investments		(2,121)	4,961
Increase/(decrease) in outstanding claims liability		5,575	1,574
Increase/(decrease) in expense accruals		(14)	(741)
Decrease/(increase) in receivables		(53)	(403)
Increase/(decrease) in payables		(16)	130
Decrease/(increase) in prepayments		(2)	3
<b>Net cash inflow from operating activities</b>		<b>15</b>	<b>538</b>

## Notes to the financial statements

### 1. Summary of significant accounting policies

National Guarantee Fund (the Fund) is a not-for-profit trust and is domiciled and incorporated in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements for the year ended 30 June 2018 were authorised for issue by the directors of the trustee, Securities Exchanges Guarantee Corporation (SEGC) on 27 August 2018. The directors have the power to amend and reissue the financial statements.

#### (a) Basis of preparation

The financial statements are general purpose financial statements that:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)
- have been prepared on a historical cost basis, except for investments, which have been measured at fair value
- are measured and presented in Australian dollars (being the Fund's functional and presentation currency) with all values rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Class Order 2016/191.

#### New and amended standards adopted by the Fund

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2017. In particular:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 *Statement of Cash Flows*
- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit entities

The above amendments to standards that are mandatory for the first time in the annual reporting period commenced on 1 July 2017 do not affect any amounts recognised in the current or prior periods, and are not likely to materially affect amounts in future periods. The Company has not elected to apply any pronouncements before their operative date in the annual reporting period ended 30 June 2018.

#### New accounting standards and interpretations not yet adopted by the Fund

The following new or amended accounting standards and interpretations have been issued by the AASB but are not mandatory for the annual reporting period ended 30 June 2018, and have not been early adopted by the Fund. The Fund's assessment of the impact of these standards and interpretations is set out below:

Title	Nature of change and impact on Fund	Mandatory and anticipated date of application
AASB 9 <i>Financial Instruments</i>	<p>The new standard changes the classification and recognition criteria for financial instruments and introduces a new expected credit loss model for calculating impairment. It also aligns hedge accounting more closely with common risk management practices.</p> <p>Under the new standard, the Fund's investments will continue to be measured at fair value through profit or loss.</p> <p>There will be no impact on the accounting of the Fund's financial liabilities as the new standard only impacts financial liabilities designated at fair value through profit or loss and the Fund does not have any such liabilities.</p>	1 January 2018



## Notes to the financial statements – continued

Title	Nature of change and impact on Fund	Mandatory and anticipated date of application
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>The new standard establishes a new revenue recognition model, changes the basis for deciding whether revenue is to be recognised over time or at a point in time and expands and improves disclosures about revenue.</p> <p>There will be no impact on the accounting of the Fund's financial revenue as the new standard does not have any impact on the way the Fund currently recognizes revenue from customers.</p>	1 January 2018

Title	Nature of change and impact on Fund	Mandatory and anticipated date of application
AASB 16 <i>Leases</i>	<p>The new standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases and requires new and different disclosures about leases.</p> <p>The Fund is yet to undertake a detailed assessment of the impact of AASB16. However, based on the Fund's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ended 30 June 2020 is that the asset value and financial liability of the office premises lease will be recognised on the balance sheet and the principal repayments on the lease will be reflected as a financing activity in the statement of cash flows, rather than an operating activity.</p>	1 January 2019

There are no other standards that are not yet effective that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

### (b) Revenue recognition

#### Movements in the fair value of investment units

Investments in units of managed funds are classified as financial assets at fair value through profit or loss and are stated at fair value in accordance with AASB 13 *Fair Value Measurement*. Net gains and losses that result from fair value movements in investment units are included in revenue.

#### Distributions

Distribution revenue from investments in managed funds is recognised when the right to receive the distribution has been established.

#### Interest

Interest revenue on cash at bank is recognised using the effective interest method.

#### Refund of imputation credits

The Australian Taxation Office (ATO) endorsed the Fund as an income tax exempt charitable entity. As a result, imputation credits arising from distributions received during the year are recognised as revenue. Imputation credits not received by the end of the financial year are recognised as receivables.

### (c) Claims

Claims are recognised on an accruals basis when they are considered by the Claims Committee of the SEGC Board as valid. Provisions for claims are recognised when the following conditions are met:

- (i) the Fund has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) the amount can be reliably estimated.

If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (section 892F of the *Corporations Act 2001*).



**(d) Income tax**

No provision is made for income tax as the Fund has received notification from the ATO of endorsement as an income tax exempt charitable entity.

**(e) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense to which it relates.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

**(f) Cash**

Cash as presented on the statement of cash flows comprises cash balances held with financial institutions.

**(g) Receivables**

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

**(h) Prepayments**

Prepayments represent insurance premiums paid in advance for directors and officers liability insurance and investment managers insurance. Prepayments are amortised over the period that the service is provided.

**(i) Investments**

The investments of the Fund are unit trust investments currently managed by two professional investment portfolio managers, UBS Global Asset Management (Australia) Limited (UBS) and Schroder Investment Management Limited (Schroders). During the year, the Fund held investments in the UBS Cash-Plus fund which provides investors with access to an actively managed portfolio of high grade Australian fixed income and money market securities. The fund employs a range of credit and interest rate relative value strategies to enhance returns and minimise the risk of a negative return over any rolling three-month period. The Schroders fund invests in a wide range of assets, including domestic and global equities. The main risks specifically with investing in this strategy are market risk, equities risk, interest rate risk, credit risk, derivatives risk and risks associated with international investing such as movements in exchange rates.

The fair value of the investments is established by referring to redemption prices quoted by both fund managers. The fund managers are responsible for using the relevant market bid prices of underlying instruments in the portfolios at balance date to calculate the redemption prices for the funds.

**(j) Payables**

Payables are initially measured at fair value and represent liabilities for goods and services provided to the Fund prior to the end of the reporting period which are unpaid. The amounts, which are stated at amortised cost, are unsecured and are usually paid within 30 days of the end of each quarter to which they relate.

**(k) Payments to Financial Industry Development Account (FIDA)**

Requests for payment in relation to purposes approved for FIDA funding are recognised as a liability of the Fund once the request for payment has been submitted to and approved by the Board of Directors of SEGC.

**2. Financial risk management**

The Fund's activities expose it to a variety of financial risks including market risk (comprising interest rate and foreign currency risk), credit risk and liquidity risk. The Fund's overall risk management strategy seeks to manage potential adverse effects on the financial performance of the Fund. Risk management is carried out under policies approved by the Board of SEGC, as trustee of the Fund. The Board has endorsed an Investment Policy Statement which is varied from time to time to meet the needs of the Fund. In developing the investment policy and investment strategy contained in the statement, the Board had regard to a number of matters, including but not limited to, the purpose of the Fund as set out in the Division 4 or Part 7.5 of the *Corporations Act 2001*. The Fund's risks are managed in accordance with this statement.

The Fund holds the following financial assets and liabilities by category.



<b>As at 30 June 2018</b>	<b>Fair value through profit or loss \$'000</b>	<b>Amortised cost \$'000</b>	<b>Total \$'000</b>
<b>Financial assets</b>			
Cash	0	538	538
Investments	100,460	0	100,460
- UBS Cash-Plus Fund	46,032		
- Schroder Real Return CPI Plus 5% Fund	54,428		
<b>Total financial assets</b>	<b>100,460</b>	<b>538</b>	<b>100,998</b>
<b>Financial liabilities</b>			
Sundry creditors	0	70	70
Claims expense accruals	0	7,784	7,784
Other expense accruals	0	40	40
Withholding tax payable	0	44	44
<b>Total financial liabilities</b>	<b>0</b>	<b>7,938</b>	<b>7,938</b>
<b>As at 30 June 2017</b>			
<b>Financial assets</b>			
Cash	0	526	526
Investments	98,339	0	98,339
- UBS Cash-Plus Fund	62,510		
- Schroder Real Return CPI Plus 5% Fund	35,829		
<b>Total financial assets</b>	<b>98,339</b>	<b>526</b>	<b>98,865</b>
<b>Financial liabilities</b>			
Sundry creditors	0	96	96
Claims expense accruals	0	2,209	2,209
Other expense accruals	0	54	54
Withholding tax payable	0	34	34
<b>Total financial liabilities</b>	<b>0</b>	<b>2,393</b>	<b>2,393</b>

**(a) Market risk**

Market risk is the risk of loss arising from movements in observable market variables such as interest rates and other market prices. The Fund is exposed to market risks, predominantly through the investment of Fund balances. For the years ended 30 June 2018 and 30 June 2017, the Fund balances were invested with UBS and Schroders in accordance with the NGF Investment Policy Statement as approved by the Board.

**(i) Interest rate risk**

The Fund has exposure to interest rate risk, which arises in relation to cash at bank and indirectly from investments. Cash at bank includes an amount of cash held for operational purposes and interest rate risk on this balance is considered to be low. Investments, as represented by the investments held with UBS and Schroders, have significant exposure to interest rate risk, but are classified as non-interest bearing as revenue on these investments is derived from variations in unit prices rather than directly from movements in interest rates. The unit prices, which are used to value the investments however, may be impacted by interest rate variations.

This interest rate risk is managed through diversifying the total investment between two professional investment portfolio managers as shown above and the regular performance monitoring of both investments by the Board of SEGC. The UBS Cash Plus Fund includes investments in cash or cash-like products. The Schroders Real Return Fund includes exposure to cash, domestic fixed interest, inflation linked securities, higher yielding credit, mortgage & floating rate credit, emerging market debt and global fixed income, and other securities that exposed to interest rate risk.

The Fund's receivables and payables are non-interest bearing and not subject to interest rate risk since neither the carrying amount nor the future cash flows will fluctuate due to a change in market interest rates.

The maximum direct and indirect exposure to interest rate risk is represented by the below financial assets:

	Interest bearing \$'000	Non- interest bearing \$'000	Total \$'000
<b>As at 30 June 2018</b>			
<b>Interest bearing financial assets</b>			
Cash	538	0	538
Investments	0	100,460	100,460
<b>Total interest bearing financial assets</b>	<b>538</b>	<b>100,460</b>	<b>100,998</b>
Weighted average earning rate for the year	1.29%	3.00%	
<b>As at 30 June 2017</b>			
<b>Interest bearing financial assets</b>			
Cash	526	0	526
Investments	0	98,339	98,339
<b>Total interest bearing financial assets</b>	<b>526</b>	<b>98,339</b>	<b>98,865</b>
Weighted average earning rate for the year	1.11%	1.77%	

### Sensitivity analysis

#### **Fair value sensitivity analysis of interest bearing financial assets:**

At 30 June 2018, an increase/decrease of 25 basis points in interest rates from year end rates would have resulted in an immaterial change in profit or loss.

Variations in interest rates may also affect the unit prices of the Fund's non-interest bearing financial assets (Investments), however the amount cannot be reliably measured.

#### **Fair value sensitivity analysis of non-interest bearing financial assets:**

At 30 June 2018, if investment redemption prices increased/decreased by 25 basis points from year end prices, profit would have been \$251,150 (2017: \$245,845) higher/lower due to a change in the fair value of the investments.

### **(ii) Foreign currency risk**

The Fund has indirect exposure to foreign currency risk from its investment exposure to the Schroder Real Return CPI Plus 5% fund. Where the managed funds have investments in underlying securities that are denominated in foreign currencies, the unit prices, which are used to value the investments, may be impacted by variations in exchange rates. The Board of SEGC manages this risk by regular review of the composition of both funds and the proportion of the total funds invested in securities denominated in foreign currencies.

### **(b) Credit risk**

The Fund is exposed to credit risk which represents the potential loss that may arise from the failure of a counterparty to meet its obligation or commitments to the Fund or its administrator, SEGC.

The carrying amount of the Fund's financial assets represents the maximum exposure to credit risk.

Credit risk relating to investments is managed by investing in two separate funds which have a diversified range of investments with different counterparties. Counterparty exposure and credit quality is managed by the individual portfolio managers of each fund.

Receivables impaired as at 30 June 2018 amounted to \$27,000 (2017: \$723).

### **(c) Liquidity risk**

Liquidity risk associated with the need to pay claims or other expenses, as determined by SEGC, is mitigated by investing in funds that hold underlying liquid investments. It is considered that both the UBS Cash Plus Fund and Schroders Real Return CPI Plus 5% Fund can be called upon at short notice to fund liquidity requirements.



The maturities of the Fund's financial assets and liabilities at 30 June are shown below.

	> Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
<b>At 30 June 2018</b>			
<b>Financial assets</b>			
Cash	538	0	538
Investments	100,460	0	100,460
<b>Total financial assets</b>	<b>100,998</b>	<b>0</b>	<b>100,998</b>
<b>Financial liabilities</b>			
Sundry creditors	0	70	70
Claims expense accruals	0	7,784	7,784
Other expense accruals	0	40	40
Withholding tax payable	0	44	44
<b>Total financial liabilities</b>	<b>0</b>	<b>7,938</b>	<b>7,938</b>
<b>At 30 June 2017</b>			
<b>Financial assets</b>			
Cash	526	0	526
Investments	98,339	0	98,339
<b>Total financial assets</b>	<b>98,865</b>	<b>0</b>	<b>98,865</b>
<b>Financial liabilities</b>			
Sundry creditors	0	96	96
Claims expense accruals	0	2,209	2,209
Other expense accruals	0	54	54
Withholding tax payable	0	34	34
<b>Total financial liabilities</b>	<b>0</b>	<b>2,393</b>	<b>2,393</b>

#### (d) Equity market risk

The Fund is exposed to equity market risk through its holding in the Schroder Real Return CPI Plus 5% fund. Equity market risk relating to investments is managed by investing through a professional investment manager and exposure to that fund to be maintained within the allocation range as set in the NGF Investment Policy Statement.

#### (e) Capital management

The SEGC Board's policy is to maintain the assets of the Fund at a level at or above the minimum amount to meet claims and administration costs of SEGC and the Fund. The minimum amount may be determined by the Board from time to time with the approval of the Minister in accordance with the *Corporations Act 2001*. The minimum amount of the Fund is currently \$100 million. The minimum amount is subject to regular review with the assistance of independent professional advisers appointed by the Board of SEGC.

The Board has an investment strategy in place to invest available financial assets, totalling \$100,459,874 at 30 June 2018 (30 June 2017: \$98,338,497), into two funds managed by professional investment portfolio managers in order to appropriately manage the financial assets of the Fund.

The Board monitors the Fund by receiving and reviewing quarterly investment reports from the fund managers and regular reports from the Capital and Investment Committee with respect to capital management, investment strategy and portfolio risk analysis.

If the total fair value amount of the Fund falls below the minimum amount, the Board is able to undertake certain measures to manage the financial position, including taking insurance against claim liability, paying claims in instalments, external borrowings or imposing levies on ASX or ASX participants. In the 2018 financial year the SEGC Board determined a levy on ASX participants of \$13,500 per participant. The Board periodically reviews the need for these measures to be undertaken in accordance with the SEGC capital management plan.

Further levies may be required to return the Fund to the minimum amount if it again falls below the minimum amount as it is expected to do.

If the amount in the Fund exceeds the minimum amount, the Board has discretion to pay the excess or part of the excess to the FIDA, for purposes approved by the Minister or his delegate. FIDA is administered by ASX.



## (f) Fair value measurements

### (i) Fair value hierarchy

The Fund uses the following hierarchy to categorise its financial instruments measured and carried at fair value:

- quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

All of the Fund's assets measured and recognised at fair value at 30 June 2018 are categorised as 'level 2' in the fair value hierarchy. The Fund did not have any financial liabilities measured at fair value in either year.

### (ii) Valuation techniques used to determine fair values

Fair values of investments are established by referring to redemption prices, as quoted by the two fund managers, which are based on the relevant market prices of underlying instruments in the portfolios at balance sheet date. As the fair values of the investments are not determined directly by reference to quoted prices in active markets, they are designated in level 2 of the fair value hierarchy.

There are no financial instruments designated within level 1 or 3 of the fair value hierarchy as at 30 June 2018 or 30 June 2017. The carrying amount of receivables and related party payables approximates their fair value as the impact of discounting is not significant.

The Fund did not measure any assets or liabilities at fair value on a non-recurring basis as at 30 June 2018.

## 3. Net (loss)/gain on financial instruments held at fair value

	2018 \$'000	2017 \$'000
UBS Cash Plus Fund	217	(318)
Schroder Real Return Fund	(447)	(1,022)
Schroder Fixed Income Fund	0	(956)
<b>Total net (loss)/gain financial instruments held at fair value</b>	<b>(230)</b>	<b>(2,296)</b>

## 4. Distribution income

UBS Cash Plus Fund	933	1,707
Schroder Real Return Fund	2,007	1,829
Schroder Fixed Income Fund	0	321
<b>Total distribution income</b>	<b>2,940</b>	<b>3,857</b>

## 5. Outstanding claims accruals

	2018 \$'000	2017 \$'000
Claims (including interest)	7,282	2,053
Legal fees	502	156
<b>Total claims expense accruals</b>	<b>7,784</b>	<b>2,209</b>

## 6. Payments to FIDA

Section 7.5.89(1) of the *Corporations Regulations 2001* confers on the Board of SEGC, being the administrator of the Fund, discretion to pay amounts from the excess above the minimum amount, currently \$100.0 million, for purposes approved by the Minister or his delegate under regulation 7.5.88 of the *Corporations Regulations 2001*. Excess money paid from the Fund must be paid into FIDA and may only be used for approved purposes.

No payments to FIDA were made in the financial year and there were no approved purposes.

## 7. Related party transactions

### (a) Directors

The directors of SEGC in office during the financial year and at the date of this report were as follows:

Ms Nancy J Milne (Chairperson)

Ms Susan Doyle  
 Mr Ian W T McGaw  
 Ms Lynn S Ralph – retired 5 December 2017  
 Mr Peter H Warne  
 Mr Michael T Willcock – appointed 6 December 2017

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2018. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2018.

## 8. Key Management Personnel compensation

Key management personnel compensation provided during the financial years ended 30 June 2018 and 2017 is as follows:

	2018 \$	2017 \$
Short-term benefits	226,000	249,500
Post-employment benefits	21,470	19,448
<b>Total Key Management Personnel compensation</b>	<b>247,470</b>	<b>268,948</b>

Directors' fees and superannuation are paid to the directors of SEGC out of the Fund.

## 9. Auditor's remuneration

The auditor provided the following services to the Fund during the year.

	2018 \$	2017 \$
<b>PricewaterhouseCoopers Australia</b>		
<b>Statutory audit services:</b>		
Audit of the financial statements under the <i>Corporations Act 2001</i>	24,047	23,460
<b>Total remuneration to PricewaterhouseCoopers Australia</b>	<b>24,047</b>	<b>23,460</b>

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration has been paid by the Fund. The Fund has also paid the auditor \$5,227 for the audit of the SEGC financial statements (2017: \$5,100).

The auditor, PricewaterhouseCoopers, provided non-audit services to the Fund during the year to the value of \$ nil (2017: \$5,100).

## 10. Commitments and contingent liabilities

As at 30 June 2018, there are 9 compensation claims that have not yet been considered by the SEGC Board. The Fund has not recognised a liability in respect of any these claims as the SEGC Board has yet to form a view as to whether these claims are valid.

There are no other contingent liabilities or commitments.

## 11. Subsequent events

In the period between 30 June 2018 and 27 August 2018, no compensation claims have been received

No other matters or circumstances have arisen which have significantly affected the operations of the Fund, the results of those operations or the state of affairs of the Fund.

## Directors' declaration

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In the directors' opinion:

- a) the financial statements and notes set out on pages 7 to 19 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.

This declaration is made in accordance with a resolution of the directors.



**Nancy J Milne**  
Chairperson

Sydney, 27 August 2018





## **Independent auditor's report**

To the Trustee of National Guarantee Fund

### **Our opinion**

In our opinion:

The accompanying financial report of National Guarantee Fund (the Fund) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

### **What we have audited**

The financial report comprises:

- the balance sheet as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the declaration of the directors of Securities Exchanges Guarantee Corporation Limited (SEGC).

### **Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

### **Independence**

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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### *Emphasis of matter - basis of accounting*

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors of SEGC's financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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### *Other information*

The directors of SEGC are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Trustees' report included in the financial statements, but does not include the financial report and our auditor's report thereon.

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

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

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

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### *Responsibilities of the directors of SEGC for the financial report*

The directors of SEGC are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors of SEGC's responsibility also includes such internal control as the directors of SEGC determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of SEGC are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of SEGC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error





and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

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A handwritten signature in blue ink, appearing to read "M. Lunn", written over a horizontal line.

Matthew Lunn  
Partner

Sydney  
27 August 2018

## FURTHER INFORMATION

Further information about making claims on the NGF is contained in the NGF Information Booklet for clients which is available on SEGC's website at [www.segc.com.au](http://www.segc.com.au). A hard copy of the booklet is available from SEGC on request.

This annual report can also be found on SEGC's website.

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