



Securities Exchanges Guarantee Corporation

ANNUAL REPORT

2020

*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 National Guarantee Fund

Securities Exchanges Guarantee Corporation Ltd (SEGC) is the trustee of the National Guarantee Fund (NGF or the Fund), which is a compensation scheme available to investor clients of stockbroker participants of licensed financial markets operated by members of SEGC.

The core purpose of the NGF is to provide compensation to meet certain types of claims from investors arising from dealings with participants of ASX Ltd (ASX) and now Chi-X Australia Pty Ltd (Chi-X) 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) (*Corporations Act*).

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

Recent Developments

During the last year at SEGC, we have finally achieved some of the things we have been discussing for many years and in many annual reports. While there is still work to do, we do celebrate these successes. These are the very recent admission of Chi-X as a member of SEGC and the introduction of caps on claims.

The admission of Chi-X as a member will streamline the investor protection regime in relation to listed securities, and the introduction of caps on claims assists to ensure the sustainability of the NGF.

Further commentary on both of these is included later in this letter and report.

Assets of the NGF

As at 30 June 2020, the net assets of the NGF were \$96.6 million (compared to \$96.4 million as at 30 June 2019). As at 30 June 2020, the gross investment assets (including distributions receivable) of the fund were \$96.7 million (compared to \$96.6 million as at 30 June 2019).

During the financial year the investment assets of the NGF remained below the minimum amount of \$100 million which has been set in accordance with s889I of the *Corporations Act*. This was foreshadowed in last year's SEGC Annual Report as investment assets were expected to fall with the payment of claims. However, the investment assets are now above the minimum amount of \$100 million, having increased as a result of recoveries in the order of \$4.5 million from the BBY Ltd (BBY) liquidation. When 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 (refer section 892F of the *Corporations Act*).

BBY collapse and liquidation

The SEGC Board is pleased that the protracted BBY liquidation process is drawing to a close for it and for clients of BBY after more than five years.

SEGC received around 600 claims as a result of the collapse of BBY in May 2015, seven of which had been assessed but not yet paid at the start of FY2020. SEGC has now paid four of these open claims. The remaining three claimants have not responded to correspondence or the relevant entity has been deregistered. No further claims were received during the period.

SEGC, as trustee of the NGF, has now recovered around \$4.5 million of the monies paid to certain claimants under its subrogated rights as discussed above.

Based on our experiences dealing with BBY claims and participating as a non-representative defendant in the BBY liquidators' proceedings, the SEGC Board has identified many lessons. Some of these relate to SEGC's own practices and arrangements, but a number detailed below relate to the responsibilities of other bodies – in particular, the regulator, the Australian Securities and Investments Commission (ASIC). These are discussed further in the "Lessons from BBY" section at the beginning of the Annual Report.

Introduction of caps on claims and reform of NGF claims provisions

The SEGC Board congratulates the Government on the introduction of what the Board considers the single most important reform required to ensure sustainability of the NGF arrangements, namely capping of claims. Under the amended regulations, claims are capped at \$1 million per claimant, with a sublimit of \$250,000 for cash held on account with an insolvent participant. In addition, there is a cap across all heads of claim of 15 per cent of the minimum amount per insolvent participant, which currently equates to \$15 million.

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

Beyond capping of claims, it would be desirable for the Government to give consideration to reviewing the legislative provisions regulating the NGF compensation arrangements. Current provisions are largely the same provisions developed when the separate state stock exchanges were amalgamated in the 1980s to form the ASX. Time and experience with these provisions has shown inconsistencies in outcomes, excessive costs and difficulties in administration that would be worth addressing.

Consultative Committee

SEGC has formed a Consultative Committee with members from Australian Government Treasury (Treasury), ASIC and industry to consult on matters affecting SEGC and the NGF. It is grateful for the participation and input of all Consultative Committee members.

New member

The sole member of the SEGC to 26 October 2020 was ASX. The Board had conditionally approved the admission of the operator of another financial market, Chi-X Australia Pty Ltd (Chi-X) and due to progress in late September on this matter, Chi-X became a member of SEGC on 26 October 2020.

Peter Warne has now resigned from the Board as an ASX Director and David Trude has been appointed as a member director by Chi-X.

Investment environment

SEGC is operating in a challenging investment environment. It is likely that returns on investment on the NGF funds will be low for at least the medium term. The Board therefore is focussed on ensuring that the amount in the NGF remains adequate to meet SEGC's costs and any claims on the NGF.

As noted above, the investment assets of the NGF have been below the minimum amount but have been replenished by the BBY recoveries. When the size of the NGF falls below the minimum amount, in accordance with the Board's capital management plan it triggers consideration by the Board of what action, if any, may be appropriate. 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 has not determined a levy in the 2019/2020 financial year. This is because the Board had an expectation of recoveries from the BBY liquidation which have now been paid. In addition, as noted above, caps on claims on the NGF have been introduced which potentially reduce the consequences of claims being made on the NGF and hence affect the amount required to be held in the NGF.

The SEGC Board resolved not to change the minimum amount at this time. 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. A triennial review of the minimum amount will be undertaken in 2020/2021 which will take into account the BBY lessons described in this report, capping of claims, the admission of a new member and an allowance for investment risk.

The Capital and Investment Committee continues to actively monitor the NGF's capital and investments to make recommendations to the Board. How SEGC manages financial risk and capital management is explained in more detail later in the report.

It has been a pleasure to serve as Chair of the SEGC Board throughout the year. I thank my fellow directors for all their efforts and support over this busy period. In particular, I would like to thank Peter Warne for his valuable contribution over many years and I welcome David Trude to the Board. I look forward to continuing in this role during the next financial year.



Nancy Milne

Chair

2 November 2020

LESSONS FROM BBY

As noted in the letter from the Chair, the SEGC Board has identified many lessons from BBY. SEGC has written to ASIC about some of these matters which are summarised below.

Lack of regulatory sanctions

The SEGC Board is not aware of any specific actions taken by ASIC or any other enforcement agency in response to the collapse of BBY. We are particularly disappointed that no charges have been made nor other regulatory action taken by ASIC against those responsible for the collapse and shortfall of trust property. Such action would reinforce the integrity of regulatory arrangements and investor protection, thereby reducing the risk of a recurrence of a case like BBY. It might also reduce the risk of future claims on the NGF.

Auditing, and use, of client funds

The BBY liquidators have stated that BBY was insolvent for a number of years prior to its collapse. Improper use of funds from client money accounts had continued for years without detection. While we note that there was a change to permitted uses of funds in, and reporting in relation to, derivatives accounts following the collapse, the SEGC Board is not aware of other meaningful modification of the oversight of client money accounts or ASX participants in general that would mitigate against another collapse such as BBY.

The previous significant claim paid out of the NGF of around \$4 million to clients of Hogan and Partners Stockbrokers Pty Ltd (Hogans) in 2012 was also a result of improper use of client trust accounts which had also been occurring for several years. In both these cases, had the client segregated accounts been properly audited and the results reported to clients, ASX and ASIC, we believe the improper activity would have been discovered much earlier or may not have even occurred in the first place. We strongly recommend that it be an obligation on all AFSL holders and exchange participants to have client trust accounts properly audited with the results reported to all relevant stakeholders in terms that are at least as strong as other industries that hold client money.

We note that this is certainly the case where legal practitioners operate client trust accounts and where failure to properly operate client trust accounts is dealt with very severely. This would be a useful and appropriate precedent to drive better practice and protect clients.

The collapse of Halifax Investment Services Pty Ltd (which was not an ASX participant and hence did not come within the scope of the protection afforded by the NGF) several years after BBY with no advance warning signs is another indication that oversight arrangements may require clarification and possible tightening. We encourage ASIC to give further consideration to this issue.

Disclosure of counterparty risk

One of the matters that we saw in looking at hundreds of claims was that many people transacted through BBY, but not directly on the ASX. They traded on other platforms to ultimately purchase a beneficial interest in ASX shares.

- Where investors traded directly on the ASX through BBY acting as an ASX participant, they held shares in their own holder identification number (HIN). Upon the collapse of BBY, those investors still owned their shares and did not have them dealt with as part of the liquidation. Moreover, since they made their investment transactions through BBY as an ASX participant, they were potentially covered by the NGF.
- On the other hand, investors who traded on platforms offered by BBY and held an indirect interest or a derivative were exposed to counterparty risk – the risk that the securities they thought they owned could be at risk because of BBY's insolvency. While certain risks may have been notified to these investors before trading on these platforms, counterparty risk may not have been clearly disclosed to them. On the collapse of BBY, their interests were caught up in the liquidation as they were either legally held by BBY or involved contractual obligations of BBY rather than ownership of shares. In addition, as those interests had not been acquired through trading directly on ASX through BBY as a participant, they were not covered by the NGF.

While there may be good commercial reasons to trade on different platforms where securities are not directly held, SEGC believes that retail investors should be fully informed where counterparty risk exists, particularly as it can be avoided by doing things differently. We believe that it would be appropriate, 5 years after the BBY collapse, for ASIC to give further consideration to tightening up the disclosure requirements relating to counterparty risk for this type of transaction.

Complexity and cost of liquidation proceedings

The BBY liquidation has been complicated and costly. Four client groups were represented in the liquidators' proceedings by representative defendants, paid for out of client monies. The liquidators and their lawyers' fees were also paid for out of the client money accounts. SEGC was represented at its own cost. The liquidators presented evidence and, at least initially, took no formal view on how the funds should be distributed, leaving it to the representative defendants and SEGC to argue the matter. ASIC had no involvement in the proceedings. In cases such as BBY, where many retail investors face costs, delays and complexities associated with collective action that they are ill equipped to manage, we would encourage ASIC to give consideration to what role it could play or how things may be done differently in future, in furtherance of its investor protection role.

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* and the *Corporations Regulations 2001* (Cth) (*Corporations Regulations*). 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 and now Chi-X 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 and only levy to date on dealers. The earnings of the NGF are income tax exempt.

At 30 June 2020, the net assets of the NGF were \$96.6 million. This compares with \$96.4 million at the end of the previous financial year.

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 (Subdivision 4.9).

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

Caps on claims

The *Corporations Amendment (National Guarantee Fund Payments) Regulations 2019* (the Regulation) was made and registered in November 2019. The Regulation commenced on 19 November 2019 and amended the *Corporations Regulations*, including to insert Regulations 7.5.72A and 7.5.72B.

The effect of the amendments is to extend the existing cap on subdivision 4.9, Property Entrusted Claims, to all heads of claim and to introduce caps per claimant. The caps are important, both for the sustainability of the NGF and to reduce the risk that one or more large claims could severely deplete the NGF making it less likely to be available to retail clients of participants or member exchanges.

Participant related cap

Before the Regulation there was only one cap on claims on the NGF. This was a cap on the amount paid in respect of any one insolvent participant for claims made in respect of property entrusted to it under subdivision 4.9 of Part 7.5 of the *Corporations Regulations*. The cap was 15% of the minimum amount, which currently equates to a cap of \$15 million. Following the commencement of the Regulation the amount of compensation payable in respect of any one insolvent participant across all heads of claim will be \$15 million in total.

Claimant related cap

Following commencement of the Regulation, the amount that a claimant may receive for claims relating to the same event and the same participant is \$1 million. The cash component of such claim is capped at \$250,000.

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 the ASX or Chi-X 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 or Chi-X:

- 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 a member market). 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. During the 2018/2019 financial year, the SEGC Board completed a review of the minimum amount. This included a triennial actuarial report with respect to the minimum amount. The SEGC Board resolved not to change the minimum amount at this time in accordance with its capital management plan and in light of the fact that there had been progress on a proposal to introduce certain caps on claims on the NGF which would affect the amount required to be held in the NGF. The relevant caps were introduced in November 2019.

The caps are described in the section "Caps on Claims".

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. A triennial review of the minimum amount will be undertaken in 2020/2021.

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 until 26 October 2020, when Chi-X became a member of SEGC.

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 2001* (Cth).

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."

The very low interest rate environment together with the RBA's Yield Curve Control (YCC) for the 3-year government bond yield has added to the risk of an insufficient or negative investment return. This investment return challenge has been explicitly recognised by the Board in setting the investment strategy which includes an allocation to risk-based assets. Within risk appetite, the current economic

and investment environment encourages exposure to risk-based real (inflation protected) assets over cash.

During the period, the Capital and Investment Committee monitored the investment strategy of the Fund with respect to potential returns and risk profile. The Capital and Investment Committee identified some heightened risks, including the investment and economic risks arising from COVID-19 and the inflation risks arising from the significant global fiscal and monetary responses. The Capital and Investment Committee undertook an asset risk assessment to consider extreme downside risks from the current portfolio. For the purposes of the SEGC Capital Management Plan a capital allowance of \$10 million for investment losses was considered reasonable in the circumstances. The maximum drawdown during the current financial year was \$3.1 million in March 2020.

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 and invested over a longer time horizon.

The 'Claims & Expenses Pool' is currently invested in the UBS Short-Term Fixed Income Fund (previously known as UBS Cash Plus Fund) and the bank account.

The 'Capital Pool' is currently invested in both the UBS Short-Term Fixed Income Fund and the Schroder Real Return CPI Plus 5% Fund. For this pool, the target allocation of the Fund to the Schroder Real Return fund is 60%, with an allowable range of 40% to 65%, with the remainder held in the UBS Short-Term Fixed Income Fund. No change was made to the investment mix during the 2019/2020 financial year.

The UBS Short-Term Fixed Income Fund aims to provide a return, after ongoing fees, in excess of the Bloomberg AusBond Bank Bill Index when measured over rolling 12 month periods. The UBS Short-Term Fixed Income Fund invests in bank deposits, bills of exchange and equivalents, corporate and structured floating rate notes and mortgage backed floating rate notes. SEGC considers that, given current cash rates and RBA's YCC, the expected return from this fund is likely to be minimal.

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 defined as 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 investments are held in predominantly traditional assets with no leverage and with strict limits on exposure to liquidity

constrained alternatives. SEGC considers that, given current market and economic conditions, the expected return from this fund is unlikely to match CPI plus 5%.

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.

The FIDA is an account maintained by ASX into which must be placed any funds that are paid to ASX from the NGF for an approved purpose. Funds in the FIDA can only be used by ASX for a purpose approved by the Minister.

There are no outstanding ministerial approvals for FIDA payments and no funds were paid to the FIDA during the financial year.

Multi-market environment

On 26 October 2020 (joining date), Chi-X joined ASX as a member of SEGC. Prior to this, the regulations governing when trading on the Chi-X market was or was not covered by the NGF were complex and impractical to apply.

From the joining date, trading by Chi-X participants on the Chi-X market is covered by the NGF in the same way as trading by ASX participants on the ASX market. *Corporations Regulation 7.5.85A* is a transitional regulation that seeks to clarify when trading on the Chi-X market will be covered.

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, Deputy Chair of State Insurance Regulatory Authority, Director of Asbestos Safety and Eradication Council. Chair of Accounting Professional and Ethical Standards Board. Director of Pacific Opera.

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 has a Masters of Individual and Team Psychology from INSEAD.

Colin R. Scully, Non-Executive Director since 1 July 2019

Colin has nearly 30 years ASX experience including at The Sydney Stock Exchange and the merged ASX/SFE entity. Senior roles included Chief Operation Officer, Deputy CEO and (post ASX/SFE merger) Group Executive Operations.

Colin had Executive Director roles on a number of ASX's clearing and settlement Boards including ASX Operations Pty Ltd, ASX Future Exchange Pty Ltd, Australian Clearing House Pty Ltd, Australian Clearing Corporation Ltd and ASX Settlement and Transfer Corporation Pty Ltd among others. He was also Chairman Orient Capital whilst it was an ASX owned entity.

Peter Warne, BA, FAICD Non-Executive Director. Director since October 2006. Retired 26 October 2020.

Appointed Director of ASX Limited in July 2006, retired September 2020. 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. Former Chair 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. Director of Allens. Former adjunct Professor of University of Sydney Business School. Former Patron of Macquarie University Foundation.

Michael Willcock 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

Director/Committee member	Board Meetings attended	Claims Committee meetings attended	Capital and Investment Committee meetings attended
Nancy Milne	6/6	n/a	4/4*
Susan Doyle	6/6	n/a	4/4
Peter Warne	5/6	n/a	4/4
Michael Willcock	6/6	n/a	4/4
Colin Scully	6/6	n/a	4/4*

*Attended as observers

CORPORATE GOVERNANCE

The Board of SEGC consists of five non-executive directors. ASX, as the sole member of SEGC to 26 October 2020, appointed two directors and those directors appointed three independent directors. From 26 October 2020 ASX and Chi-X each appoint a director 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 a member of another financial market;
- is not a director, officer or employee of a member or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to a member 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 a member 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.

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 of the members 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, Littlewoods Services Pty Ltd. In addition, SEGC has one contractor and two part time employees.

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 received around 600 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. No claims were received during the 2019/2020 financial year.

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. ASX Limited and ASX Clear Pty Ltd terminated the participation of BBY with effect from 4 March 2019.

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.

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. Most matters in the proceedings have been finalised.

SEGC has received an initial distribution of around \$4.5 million into the NGF as recoveries in relation to the liquidation of BBY Ltd against certain claims paid. 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 (refer section 892F of the *Corporations Act*). The initial distribution represented 63c per dollar on equities claims (not including interest and costs paid by SEGC) and 50c per dollar on exchange traded options claims. There will be another distribution estimated bring total recoveries to 73c and 59c respectively. Given these accounts had no shortfall at the commencement of the liquidation, the entire loss on these accounts is due to the cost of the liquidation being predominantly the liquidators and their lawyers fees and the fees of the legal advisors of the representative defendants.

Most of the claims received by SEGC in connection with BBY were 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.

Number of	FY20	FY19
Open claims at start of period	7	238
Claims received	0	10
Claims disallowed	0	(5)
Claims withdrawn	0	(3)
Claims paid	(4)	(233)
Open claims at end of period	3	7
Determined or considered but not yet paid	3	7

SEGC paid 4 claims and claimant legal costs totalling \$0.083m (including any withholding tax withheld).

The claims that have not been paid are claims where relevant claimants have not responded to correspondence or the relevant entity has been deregistered.

Appeals against disallowed claims

The *Corporations Act* provides that if the Board disallows a claim, the claimant may appeal by bringing legal proceedings within three 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 REPORTS

*Securities Exchanges Guarantee Corporation Limited Financial Reports for the
Year Ended 30 June 2020*

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

ABN 19 008 626 793

FINANCIAL REPORTS

FOR THE YEAR ENDED

30 JUNE 2020

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Securities Exchanges Guarantee Corporation Limited's registered office and principal place of business:

Level 21 Australia Square
264 George Street
Sydney NSW Australia

Directors' Report

The directors present their report, together with the financial statements of Securities Exchanges Guarantee Corporation Limited (SEGC), for the year ended 30 June 2020 and the auditor's report thereon.

Directors

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

Ms Nancy J. Milne (Chairperson)
Ms Susan M. Doyle
Mr Colin R. Scully (appointed 1 July 2019)
Mr Peter H. Warne
Mr Michael T. Willcock

Mr. Peter H. Warne and Mr. Colin R. Scully were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2020 and was also a director of certain controlled entities of ASX during the financial year ended 30 June 2020.

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 and the market operator is working through a number of regulatory matters in order 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.

Environmental Regulation

The operations of SEGC are not subject to any particular or significant environmental regulations under 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

Directors' Report – Continued

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.

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 (2019: 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, 25 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of Securities Exchanges Guarantee Corporation Limited for the year ended 30 June 2020, 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 black ink, appearing to read 'M Lunn', with a horizontal line drawn underneath it.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
25 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Statement of comprehensive income

	2020	2019
For the year ended 30 June	\$	\$
Revenue	-	-
Expenses	-	-
Profit before income tax expense	-	-
Income tax expense	-	-
Net profit for the period attributable to the Company	-	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period attributable to the	-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June	2020 \$	2019 \$
Total assets	-	-
Total liabilities	-	-
Net assets	-	-
Total equity	-	-

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	2020	2019
For the year ended 30 June	\$	\$
Opening balance of equity at 1 July	-	-
Profit for the period	-	-
Other comprehensive income for the period	-	-
Total comprehensive income for the period, net of tax	-	-
Closing balance of equity at 30 June	-	-

The above Statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June	2020 \$	2019 \$
Net cash flows from operating activities	-	-
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Net movement in cash	-	-
Cash at the beginning of the financial period	-	-
Cash at the end of the financial period	-	-

The above Statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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 2020 were authorised for issue by the directors on 25 August 2020. 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 Interpretation Standards adopted by SEGC

A new and standard became effective for annual periods beginning on or after 1 July 2019. In particular: AASB 16 *Leases*

The above standard is mandatory to be applied for the first time in the annual reporting period commenced on 1 July 2019 does not affect any amounts recognised in prior periods.

New and Amended Standards Interpretations Not Yet Adopted by SEGC

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.

2. Related Party Transactions

(a) Directors

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

Ms Nancy J. Milne (Chairperson)
Ms Susan M. Doyle
Mr Colin R. Scully (appointed 1 July 2019)
Mr Peter H. Warne
Mr Michael T. Willcock

Mr. Colin R. Scully and Mr. Peter H. Warne were appointed by ASX Limited (ASX). Mr. Warne was also a director of certain controlled entities of ASX during the financial year ended 30 June 2020.

Notes to the Financial Statements – Continued

3. Key Management Personnel Compensation

Key Management Personnel (KMP) compensation provided during the financial years ended 30 June 2020 and 2019 is as follows:

	2020	2019
	\$	\$
Short-term benefits	320,000	260,833
Post-employment benefits	30,400	24,779
Total Key Management Personnel compensation	350,400	285,612

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.

	2020	2019
	\$	\$
PricewaterhouseCoopers Australia		
Statutory audit services:		
Audit of the financial statements under the <i>Corporations Act 2001</i>	5,500	5,384
Total remuneration to PricewaterhouseCoopers Australia	5,500	5,384

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

The auditor did not provide any other services to SEGC during the year (2019: nil).

5. Commitments and Contingent Liabilities

SEGC has no commitments or contingent liabilities as at 30 June 2020 (2019: 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

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 2020 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 25 August 2020



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 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2020
- 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Annual Report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 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 that we 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 in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for 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.

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. This description forms part of our auditor's report.

PricewaterhouseCoopers
PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'M Lunn'.

Matthew Lunn
Partner

Sydney
25 August 2020

FINANCIAL REPORTS

National Guarantee Fund Financial Reports for the Year Ended 30 June 2020

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL REPORTS

FOR THE YEAR ENDED

30 JUNE 2020

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Trustees' Report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee of the National Guarantee Fund (NGF or the Fund), present their report, together with the financial statements of the Fund for the year ended 30 June 2020 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 up until the date of this report were as follows:

Ms. Nancy J. Milne (Chairperson)
Ms. Susan M. Doyle
Mr. Colin R. Scully (appointed 1 July 2019)
Mr. Peter H. Warne
Mr. Michael T. Willcock

Mr. Peter H. Warne and Mr. Colin R. Scully were appointed by ASX Limited (ASX). Mr. Warne was a director of ASX during the financial year ended 30 June 2020 and was also a director of certain controlled entities of ASX during the financial year ended 30 June 2020.

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. During the financial year, the size of the Fund has remained below the minimum amount and at the date of this report, the minimum amount remained below \$100.0 million. The Board has resolved not to change the minimum amount during the financial year, nor has it decided to raise further levies pursuant to Section 889J of the *Corporations Act*.

Review of Operations

The profit for the period was \$0.216m (2019: \$2.839m). No payments were made to the Financial Industry Development Account (FIDA) during the financial year ended 30 June 2020 (2019: \$ nil).

In the current financial year, revenue decreased by \$2.761m from \$4.073m in the prior financial year to \$1.312m, primarily due to lower investment returns given the negative impact of COVID-19 on investment markets and lower running yields on debt securities. Distribution income of \$2.554m was generated from UBS and Schroders which was \$0.435 lower than the previous year (2020: UBS \$0.401m / Schroders \$2.153m, 2019: UBS \$0.930m / Schroders \$2.058m). Miscellaneous income comprises fund rebates received.

Expenses, including net claims expenses, reduced to \$1.096m (2019: \$1.234m). This includes net claims recovery of \$0.016m (2019: net claims expense \$0.100m) which benefited from provision releases and recoveries. Legal costs were \$0.237m (2019: \$0.323m). These include the General Counsel and Company Secretary costs. Administration costs increased by \$0.022m. This includes the full year effect of last year's increase in directors' fees offset by reductions in other administration costs. There was a small increase in Occupancy costs of \$0.075m (2019: \$0.069m) which were related to the effects of the application of AASB 16 *Leases* (AASB16), a rental increase and facility charges.

Net assets increased by \$0.206m to \$96.629m (2019: \$96.423m), noting that there was an opening balance adjustment to retained earnings of \$0.010m to take into effect of Accounting Standard AASB16 which came into effect on 1 July 2019 (Right of Use Asset \$0.176m and Lease Liability \$0.186m). The following table summarises the number of compensation claims carried forward from prior year, received, disallowed, withdrawn and paid in current and prior years.

Trustees' Report – Continued

Number of	FY20	FY19
Open claims at start of period	7	238
Claims received	0	10
Claims disallowed	(0)	(5)
Claims withdrawn	(0)	(3)
Claims paid	(4)	(233)
Open claims at end of period	3	7
Determined or considered but not yet paid	3	7

During the financial year the Fund paid four claims and claimant legal fees totalling \$0.083m (including any withholding tax withheld). Each of these payments had been provisioned as at 30 June 2019.

As at the end of the financial year, there are 3 outstanding claims on the Fund. These claims have been determined by the Claims Committee of the SEGC Board but have yet to be paid prior to the date of this report. This is because either, the claimant entity has been deregistered or the claimant has failed to answer communication from SEGC relating to the payment. An outstanding claims provision of \$0.015m has been established for the payment of these claims.

No claims have been received after 30 June 2020.

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 to FIDA during the financial year ended 30 June 2020 (2019: \$ 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 has remained below the minimum amount of \$100 million (refer to Likely Developments section in this report).

During the year, *Corporations Regulations 7.5.72A* and *7.5.72B* were introduced which provide for participant related limits on compensation from the NGF and claimant related limits on compensation from the NGF. The Board resolved not to change the minimum amount during the financial year.

Events Subsequent to Balance Date

SEGC received a notice in August 2020 from the liquidators of BBY Ltd that SEGC will receive recoveries into the NGF in August or September 2020 of approximately \$4.5 million. The recoveries relate to the BBY Liquidation in respect of certain claims paid. A further distribution will be made by the liquidators at a later date. 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 (refer section 892F of the *Corporations Act 2001*). The contingent asset has not been recognised in the Balance Sheet as receivable at 30 June 2020.

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 and the market operator is working through a number of regulatory matters in order 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.

In the 2020-21 financial year, SEGC will undertake a full review of the minimum amount, including a triennial actuarial report with respect to the minimum amount.

Trustees' Report – Continued

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

There were no non-audit services provided by PricewaterhouseCoopers during the year.

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, 25 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2020, 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 black ink, appearing to read 'M Lunn', with a horizontal line underneath.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
25 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Statement of comprehensive income

For the year ended 30 June	Note	2020 \$'000	2019 \$'000
Revenue			
Unrealised Net gain/(loss) on financial instruments held at fair value	3	(1,579)	771
Distribution income	4	2,554	2,989
Miscellaneous Income*		117	118
Government 'Cash Boost'		50	-
Imputation Credits*		152	184
Net Claims Recovery		16	-
Interest Income		2	11
		1,312	4,073
Expenses			
Staff Related Costs		(145)	(125)
Legal Expenses		(237)	(323)
Administration		(639)	(617)
Occupancy		(75)	(69)
Net Claims Expense		-	(100)
		(1,096)	(1,234)
(Loss)/profit before income tax expense		216	2,839
Income tax expense		-	-
Net (loss)/profit for the period attributable to members of the Fund		216	2,839
Other comprehensive income for the period, net of tax		-	-
Total comprehensive (loss)/income for the period attributable to members of the Fund		216	2,839

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

* Prior period amounts reclassified for comparability

Balance sheet

As at 30 June	Note	2020 \$'000	2019 \$'000
Current assets			
Cash	5	385	708
Receivables		1,272	480
Prepayments		47	42
Investments	6	95,027	95,408
Total current assets		96,731	96,638
Non - current assets			
Fixed Assets		5	9
Right of Use Asset		114	-
Total Non - current assets		119	9
Total assets		96,850	96,647
Current liabilities			
Sundry Creditors		26	61
Lease Liability		126	-
Expense accruals		45	30
Withholding Tax Payable		9	26
Outstanding Claims Liability	7	15	107
Total current liabilities		221	224
Total liabilities		221	224
Net assets		96,629	96,423
Equity			
Retained earnings		96,629	96,423
Total equity		96,629	96,423

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June	Note	2020 \$'000	2019 \$'000
Opening balance of retained earnings at 1 July		96,423	93,584
Opening balance adjustment on adoption of AASB 16		(10)	-
Adjusted balance of retained earnings at 1 July 2019		96,413	93,584
(Loss)/profit for the period		216	2,839
Other comprehensive income for the period		-	-
Total comprehensive (loss)/income for the period, net of tax		216	2,839
Payments to FIDA	8	-	-
Closing balance of retained earnings at 30 June		96,629	96,423

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Statement of cash flows

For the year ended 30 June	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Proceeds from the redemption of investments		-	8,000
Investment distribution income received*		651	889
Miscellaneous income		206	130
Proceeds from participant levies		-	67
Payments to suppliers (inclusive of GST)		(1,111)	(1,164)
Proceeds from recovered GST		74	15
Claims		(82)	(7,778)
Interest received		2	11
Net cash inflow from operating activities		(260)	170
Cash flows from investing activities			
Purchase of PP&E		(3)	-
Payments to FIDA	8	-	-
Net cash (outflow) from investing activities		(3)	
Cash flows from financing activities			
Lease repayment		(60)	-
Net cash flows from financing activities		(60)	-
Net increase/(decrease) in cash		(323)	170
Cash at the beginning of the financial period		708	538
Cash at the end of the financial period		385	708

Reconciliation of the operating (loss)/profit after income tax to the net cash flows from operating activities

Net (loss)/profit after tax	216	2,839
Adjustments for:		
Depreciation and amortisation	68	6
Net(gain) / loss on financial instruments held at fair value*	1,579	(662)
Changes in operating assets and liabilities:		
Decrease/(increase) in investments*	(1,198)	5,714
Decrease/(increase) in right of use asset	62	-
Increase/(decrease) in lease liability	(60)	-
Decrease/(increase) in receivables	(794)	(14)
Decrease/(increase) in prepayments	(4)	1
Increase/(decrease) in payables	(38)	(27)
Increase/(decrease) in expense accruals	1	(10)
Increase/(decrease) in outstanding claims liability	(92)	(7,677)
Net cash inflow from operating activities	(260)	170

The above Statement of cash flows should be read in conjunction with the accompanying notes.

* Prior period amounts reclassified for comparability.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

National Guarantee Fund (the Fund) is a not-for-profit trust domiciled 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 2020 were authorised for issue by the directors of the trustee, Securities Exchanges Guarantee Corporation (SEGC) on 25 August 2020. 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 came into effect for annual periods beginning on or after 1 July 2019. In particular:

- AASB 16 *Leases* - Recognition of all leases 'on balance sheet' other than those of short term or low value. The Fund adopted the standard from 1 July 2019 with a retrospective approach, thus bringing to account an opening adjustment at 1 July 2019 incorporating the 'Right of Use' Asset and 'Lease Liability' reflected in the 30 June 2020 accounts. Adoption of this standard created a negative adjustment to retained earnings of \$0.010m which has been identified in the Statement of Change to Equity on page 9.

New Accounting Standards and Interpretations Not Yet Adopted by the Fund

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.

Miscellaneous Income

Rebates of management fees associated with investments in managed funds are treated as miscellaneous income to differentiate this management fee offset.

Government 'Cash Boost'

This reflects the Government initiative to provide funding support to business, including not-for-profit organisations to retain staff during the Covid-19 global pandemic up to a maximum limit of \$50,000.

Notes to the Financial Statements – Continued

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 Australian Taxation Office 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 Australian Taxation Office are classified as operating cash flows.

(f) Cash

Cash as presented on the balance sheet and statement of cash flows comprises the cash balance held with the National Australia Bank.

(g) Receivables

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

(h) Contingent Assets

SEGC expects that the Fund will receive recoveries in relation to the liquidation of BBY Ltd against certain claims paid. 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 (refer section 892F of the *Corporations Act 2001*). In August 2020, SEGC received a notice that the amount of the first distribution to be made in August or September 2020 would be approximately \$4.5 million. A further distribution will be made at a later date. The contingent asset has not been recognised in the Balance Sheet as receivable at 30 June 2020.

(i) Prepayments

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

(j) 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

Notes to the Financial Statements – Continued

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.

(k) 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.

(l) 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 has 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.

As at 30 June 2020	Fair value through profit or loss \$'000	Amortised cost \$'000	Total \$'000
Financial assets			
Cash	-	385	385
Investments	95,027	-	95,027
Total financial assets	95,027	385	95,412
Financial liabilities			
Sundry Creditors	-	26	26
Lease Liability	-	126	126
Other Payables	-	9	9
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	221	221

Notes to the Financial Statements – Continued

As at 30 June 2019	Fair value through profit or loss \$'000	Amortised cost \$'000	Total \$'000
Financial assets			
Cash	-	708	708
Investments	95,408	-	95,408
Total financial assets	95,408	708	96,116
Financial liabilities			
Sundry Creditors	-	61	61
Lease Liability	-	-	-
Other Payables	-	26	26
Accrued Expenses	-	30	30
Outstanding Claims Liability	-	107	107
Total financial liabilities	-	224	224

(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 2020 and 30 June 2019, 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, represented by holdings in UBS and Schroders, have significant exposure to interest rate risk but are classified as non-interest bearing as the revenue generated from these investments is derived from variations in unit prices rather than directly from movements in interest rates. Unit prices, which are used to value the investments, may however be impacted by interest rate variations.

Interest rate risk is managed through diversifying the total investment portfolio between two professional investment portfolio managers as shown above and 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 are 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:

As at 30 June 2020	Interest - bearing \$'000	Non - interest - bearing \$'000	Total \$'000
Financial assets			
Cash	385	-	385
Investments	-	95,027	95,027
Total financial assets	385	95,027	95,027
Weighted average earning rate for the year	0.29%	1.35%	

Notes to the Financial Statements – Continued

As at 30 June 2019	Interest - bearing \$'000	Non - interest - bearing \$'000	Total \$'000
Financial assets			
Cash	708	-	708
Investments	-	95,408	95,408
Total financial assets	708	95,408	96,116
Weighted average earning rate for the year	1.05%	4.24%	

Sensitivity Analysis

Fair Value Sensitivity Analysis of Interest - Bearing Financial Assets:

At 30 June 2020, 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 2020, if investment redemption prices increased/decreased by 25 basis points from year end prices, profit would have been \$0.238m (2019: \$0.239m) 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 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 through 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.

The expected credit loss on Receivables as at 30 June 2020 amounted to zero (2019: zero).

Notes to the Financial Statements – Continued

(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.

At 30 June 2020	> Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	385	-	385
Investments	95,027	-	95,027
Total financial assets	95,412	-	95,412
Financial liabilities			
Sundry Creditors	-	26	26
Lease Liability	-	126	126
Other Payables	-	9	9
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	221	221
At 30 June 2019	> Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	708	-	708
Investments	95,408	-	95,408
Total financial assets	96,116	-	96,116
Financial liabilities			
Sundry Creditors	-	61	61
Lease Liability	-	-	-
Other Payables	-	26	26
Accrued Expenses	-	30	30
Outstanding Claims Liability	-	107	107
Total financial liabilities	-	224	224

(d) Equity Market Risk

The Fund is exposed to equity market risk through its holdings 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 is to be maintained within the allocation range 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, and where the assets of the Fund fall below that level to consider what action is required. This may include developing a plan to return the assets of the Fund to the minimum amount within a five-year timeframe. 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.

Notes to the Financial Statements – Continued

The Board has an investment strategy in place to invest available financial assets, totalling \$95.027m at 30 June 2020 (30 June 2019: \$95.408m), 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 claims liability, paying claims in instalments, external borrowings or imposing levies on ASX or ASX participants. The Board periodically reviews the need for these measures to be undertaken in accordance with the SEGC capital management plan.

During the year the size of the Fund remained below the minimum amount. The Board has not undertaken any of the measures above at this stage. This is because SEGC expects the Fund will receive recoveries in relation to the liquidation of BBY Ltd against certain claims paid. This will assist to return the assets of the Fund to the minimum amount of \$100 million. In addition, during the year, Corporations Regulations 7.5.72A and 7.5.72B were introduced which provide for participant related limits on compensation from the NGF and claimant related limits on compensation from the NGF. This affects the amount required to be held in the NGF.

SEGC continues to monitor the amount in the Fund and the minimum amount in accordance with its capital management plan. Levies may be required to return the Fund to the minimum amount.

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 2020 are categorised as 'level 2' in the fair value hierarchy. The Fund did not have any financial liabilities measured at fair value as at 30 June 2020 (2019: nil).

(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 2020 or 30 June 2019. The carrying amounts 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 2020 (2019: nil).

Notes to the Financial Statements – Continued

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

	2020 \$'000	2019 \$'000
UBS Cash Plus Fund	20	86
Schroder Real Return Fund	(1,599)	685
Total net gain/(loss) financial instruments held at fair value	(1,579)	771

4. Distribution Income

	2020 \$'000	2019 \$'000
UBS Cash Plus Fund	401	931
Schroder Real Return Fund	2,153	2,058
Total distribution income	2,554	2,989

5. Cash and cash equivalents

	2020 \$'000	2019 \$'000
Cash at bank	385	708
Total cash and cash equivalents	385	708

6. Financial assets held at fair value through profit and loss

	2020 \$'000	2019 \$'000
UBS Cash Plus Fund (renamed UBS Short-Term Fixed Income Fund effective July 2020)	38,254	38,181
Schroder Real Return CPI Plus 5% Professional Fund	56,773	57,227
Total financial assets held at fair value through profit and loss	95,027	95,408

7. Outstanding Claims Accruals

	2020 \$'000	2019 \$'000
Claims (including interest)	15	22
Claimant Legal fees	-	85
Total expense accruals	15	107

8. 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.

9. Related Party Transactions

(a) Directors

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

Ms. Nancy J. Milne (Chairperson)
Ms. Susan M. Doyle

Notes to the Financial Statements – Continued

Mr. Colin R. Scully (appointed 1 July 2019)
Mr. Peter H. Warne
Mr. Michael T. Willcock

Mr Colin R. Scully and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX and was also director of certain controlled entities of ASX during the financial year ended 30 June 2020.

10. Key Management Personnel Compensation

The key management personnel comprised the five directors of SEGC.

Key management personnel compensation provided during the financial years ended 30 June 2020 and 30 June 2019, is as follows:

	2020 \$	2019 \$
Short-term benefits	320,000	260,833
Post-employment benefits	30,400	24,779
Total Key Management Personnel compensation	350,400	285,612

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

11. Auditor's remuneration

The auditor provided the following services to the Fund in relation to the year.

	2020 \$	2019 \$
PricewaterhouseCoopers Australia		
Statutory audit services:		
Audit of the financial statements under the <i>Corporations Act 2001</i>	25,500	24,768
Total remuneration to PricewaterhouseCoopers Australia	25,500	24,768

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration is paid by the Fund. In addition, the Fund is to cover costs to the auditor of \$5,500 for the audit of the SEGC financial statements (2019: \$5,384).

The auditor, PricewaterhouseCoopers, provided no other services to the Fund during the year to the value of \$nil (2019: \$nil).

12. Commitments and Contingent Liabilities

There are no other contingent liabilities or commitments.

13. Subsequent Events

In the period between 30 June 2020 and 25 August 2020, no compensation claims have been received.

SEGC received a notice in August 2020 from the liquidators of BBY Ltd that SEGC will receive recoveries into the NGF in August or September 2020 of approximately \$4.5 million. The recoveries relate to the BBY Liquidation in respect of certain claims paid. A further distribution will be made by the liquidators at a later date. 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 (refer section 892F of the *Corporations Act 2001*). The contingent asset has not been recognised in the Balance Sheet as receivable at 30 June 2020.

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.

Trustees' declaration

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 2020 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, 25 August 2020



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 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2020
- 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 trustees' 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 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.

Other information

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC) ("the directors of the trustee") are responsible for other information. Other information comprises the information included in the Trustees' Report and Annual Report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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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 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 that we 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 of the trustee for the financial report

The directors of the trustee are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of Securities Exchanges Guarantee Corporation Limited (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 the trustee 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 the trustee either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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. This description forms part of our auditor's report.

PricewaterhouseCoopers
PricewaterhouseCoopers

Matthew Lunn
Matthew Lunn
Partner

Sydney
25 August 2020

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. 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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