



Securities Exchanges Guarantee Corporation

ANNUAL REPORT

2014

*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 CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF), which is a compensation scheme available to the operators of licensed financial markets who are members of SEGC. ASX Limited (ASX) has been the only member of SEGC since the NGF was created in 1987. As at 30 June 2014 the net assets of the NGF were \$103.7 million (compared to \$103.9 million as at 30 June 2013).

The core purpose of the NGF is to provide compensation to meet certain types of claims arising from dealings with participants of ASX 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).

In the event that the amount of the NGF falls below the minimum amount set under s889I of the Corporations Act, 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 minimum amount of the NGF is currently set at \$76 million. SEGC has commissioned its actuaries to undertake a full review of the minimum amount. The review would take into consideration the current market trends and how this impacts on the minimum amount and also the impact that any new members of the NGF would have on the minimum amount.

No levy has been required since the inception of the NGF.

The minimum amount and other measures available to SEGC to manage financial risk are explained in more detail in the report.

Commentary in relation to claims considered, determined and paid during the financial year is included later in the report.

Currently, the sole member of the SEGC is ASX. However the Board is open to broadening the cover of the compensation regime and is considering the procedures required for introducing new members to the NGF. This process, though in its preliminary stages, aims to provide the Board with confidence that once implemented the NGF will encompass wider protection for the public and will ensure the existence of a robust compensation structure.

The Board is mindful of the economic environment and structural changes that are occurring in the financial markets industry alongside regulatory changes, including changes to the supervision of brokers. In this context, the Board continues to pay close regard to the importance of maintaining the adequacy of the funds held in the NGF in order to be in a position to meet claims that may arise. In previous years the SEGC Board has voiced its concerns about the level of projected payments from the NGF to the Financial Industry Development Account (FIDA) over the next few years based on Ministerial approvals. More recently, the Board has reiterated its concerns regarding the implications of FIDA payments for the adequacy of level of funds in the NGF, to the Government.

The Board has previously expressed to Government and Treasury policy advisors its strong view that given the developments in the structure of the markets and changes to broking operations it would be timely for a full

review of the compensation arrangements for financial markets to be conducted. It remains the Board's opinion that any such review should encompass the heads of claim which have not been changed in a number of years, to ensure that they reflect modern financial markets structure and practice, and capping of claims, to ensure that the NGF provides compensation for retail investors and remains on a strong financial footing. The Board is concerned that without each of the heads of claim being capped, a large claim or claims could exhaust the NGF. Successive Boards of SEGC have long held the view that these matters should be reviewed.

The Board is engaged in ongoing discussions with Treasury and the regulatory agencies to inform and assist the development of future policy in relation to securities industry compensation funds.

It has been a pleasure to serve as Chairman of the SEGC Board throughout the year. I thank the directors for all their efforts and support over this period.

A handwritten signature in cursive script, appearing to read 'N. Milne'.

Nancy Milne
Chairman

OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for administering the NGF and operates in accordance with Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. The assets of the NGF are the property of SEGC but are held on trust for the purposes set out in the legislation.

The SEGC Board is made up of directors experienced in matters involving the securities and financial services industries. During the course of the year covered by this report, the sole member of SEGC was ASX.

What is the NGF?

The NGF is a compensation fund available to meet certain types of claims arising from dealings with participants of ASX 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.

Investment earnings are the major source of income for the NGF. The earnings of the NGF are income tax exempt.

At 30 June 2014, the net assets of the NGF were \$103.7 million. This compares with \$103.9 million at the end of the previous financial year.

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

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

- loss that results if a dealer transfers marketable or certain other securities without authority (Subdivision 4.7);
- loss that results if a dealer cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the operating rules of ASX Settlement Pty Limited (Subdivision 4.8);
- loss that results if a dealer becomes insolvent and fails to meet its obligations in respect of property (usually money or securities) that had been entrusted to it in the course of, or in connection with, its business of dealing in securities, up to a statutory maximum per dealer of 15% of the minimum amount of the NGF (Subdivision 4.9). Based on the current minimum amount, this cap would be \$11.4 million. (See below for an explanation of the minimum amount.)

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

Claims which cannot be made on the NGF

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

- for loss arising from investment decisions, or from relying on investment advice given by a dealer;
- for loss if a dealer fails to act on instructions to buy or to sell;
- for money lent to a dealer which has not been repaid;
- in respect of conduct by an entity other than the specific entity which is the dealer; and
- 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.

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

Claims in relation to exchange traded derivatives

The contract completion provisions of Subdivision 4.3 referred to above in relation to ASX's securities markets do not apply to trading of individual derivatives contracts (other than warrants quoted and traded on ASX).

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

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

The NGF does not provide protection in relation to futures. 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.

In 1987 when the NGF was formed, the initial minimum amount under the legislation was \$15 million. Because changes occur in the securities industry and new products and services are developed, the SEGC Board has periodically reviewed 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 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. The minimum amount remains at \$76 million.

The Board continues to monitor the minimum amount. A high level actuarial review was conducted in 2013 focussing on market and industry trends and changes that had occurred since the last full review in 2010. The Board has now commissioned its actuaries to conduct a full review of the minimum amount. The actuaries will determine the estimate of the desired minimum level of the NGF as at 30 June 2014 and further will investigate the implications upon the minimum amount on possible inclusion of new members to the SEGC. The Board is awaiting a final report on this.

SEGC liaises with ASX on new products and monitors developments in the regulatory environment so that potential changes to the NGF's risk profile may be assessed.

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 ASX or on all or a class of participants of ASX.

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

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

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

The amount in the NGF has not fallen below the applicable minimum amount since the NGF was formed and SEGC has not imposed any levies. SEGC has not needed to borrow to pay claims and has not taken out insurance against its liability to meet claims.

Financial Industry Development Account (FIDA)

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

The matters that may be an approved purpose are limited by the legislation and include:

- the creation of, or participation in, a program for the development of the financial industry that is conducted primarily for the public benefit and not primarily to promote the profitability of the commercial operations of any market; and
- costs paid and other payments made to ASIC by ASX in relation to ASIC's responsibilities for market supervision.

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.

During the financial year \$4,139,840 was paid to the FIDA. These funds were for the following approved purposes:

- the ASX Investor Education Program;
- the Industry Training and Education Program;
- the Australian Share Ownership Survey;
- research activities undertaken by the Corporate Governance Research Centre;
- cost recovery for transfer of market supervision responsibilities to ASIC; and

- research program for the development of market quality undertaken by the Financial Markets Research Centre.

Multi-market environment

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

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

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

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 Australand Holdings Limited. Director of Commonwealth Managed Investments Limited, responsible entity for the CFS Retail Property Trust, CFX Co Limited and other unlisted trusts. Director of Australian International Disputes Centre and Good Beginnings Australia Limited. Director of Crowe Horwath Australia. Commonwealth Managed Investments Limited.

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

Member of the Future Fund Board of Guardians, Australian College of Dermatology and the Barbara May Foundation. Former Chairman and current Member of State Library of NSW Audit Committee. Director of Lawcover Pty Limited and Lawcover Insurance Pty Limited.

Previously, Ms Doyle has been the Chairman of Commonwealth Superannuation Corporation and Director of Aircruising Australia Ltd.

Ian McGaw, Non-Executive Director. Appointed as a Director since July 2010.

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

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

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

Chairman of BT Funds Management Ltd group of companies within BT Financial Group, Westpac. Commissioner of the Private Health Insurance Administration Council. Director of Bangarra Dance Theatre Australia Ltd., Sydney Swans Ltd. and Sydney Institute Ltd.

Co-founder of CameronRalph Pty Ltd; Former Chief Executive Officer, Investment and Financial Services Association. Former Deputy Chairman of Australian Securities Commission.

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

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

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

Chairman of Australian Leisure and Entertainment Property Management Limited. Chairman of OzForex Group Limited. Deputy Chairman of Crowe Horwath Australasia Limited (formerly WHK Group Limited). Director of Macquarie Group Limited, Macquarie Bank Limited, Securities Industry Research Centre of Asia Pacific (SIRCA) and New South Wales Treasury Corporation. Chairman of St. Andrews Cathedral School Foundation. Member of the advisory boards of the Australian Office of Financial Management and Macquarie

University Faculty of Business and Economics. Adjunct Professor of University of Sydney Business School. Patron of Macquarie University Foundation. Former Member of the Compliance Committee of Wilson HTM. Previously, Mr Warne was a director of Macquarie Capital Alliance Group and an Executive Vice-President of Bankers Trust Australia Limited.

Directors' Attendance at Meetings

Director	Meetings attended
S Doyle	5/6
P Warne	6/6
IWT McGaw	6/6
Nancy Milne	6/6
Lynn Ralph	6/6

CORPORATE GOVERNANCE

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

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

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

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

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

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

ADMINISTRATION OF SEGC

SEGC's staff, premises and equipment are provided by ASX Operations Pty Ltd, which also provides accounting and other administrative services to SEGC on a commercial basis. The costs are incurred by ASX Operations Pty Ltd and are reimbursed by SEGC.

ASX staff on secondment acknowledges that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Gitanjali Singh (LLB, MIL) and **Paul Baranov (LLB, Grad Dip Fin Mgt, FCIS)** are the Company Secretaries and Legal Counsel of SEGC.

The appointment of the Company Secretaries is approved by the SEGC Board.

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:** 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.
- **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 one new claim during the financial year, under Subdivision 4.7. SEGC also considered one other claim that was received before the commencement of the financial year also under Subdivision 4.7.

As at the end of the financial year, two claims were outstanding.

The Directors do not believe that any provision needs to be made in relation to outstanding claims at this time.

Appeals against disallowed claims

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

No appeals against disallowed claims are outstanding.

FINANCIAL STATEMENTS

*Securities Exchanges Guarantee Corporation Limited Financial Statements
for the Year Ended 30 June 2014*

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

ABN 19 008 626 793

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2014**

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2014

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Securities Exchanges Guarantee Corporation Limited's registered office is:

Exchange Centre
20 Bridge 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 2014 and the auditor's report thereon.

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, were as follows:

Ms Nancy J Milne (Chairperson)
Ms Susan Doyle
Mr Ian W T McGaw
Ms Lynn S Ralph
Mr Peter H Warne

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

Principal activity

SEGC administers the National Guarantee Fund (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 and results of operations

SEGC did not trade in its own right during the financial year, other than to undertake its principal activity noted above.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of SEGC during the current financial year ended 30 June 2014.

Events subsequent to balance date

No matter or circumstance has arisen since the end of the financial year to the date of these financial statements which has significantly affected, or may significantly affect the:

- (a) operations in future financial years; or
- (b) results of those operations in future financial years; or
- (c) state of affairs in future financial years.

Environmental regulation and performance

SEGC is not subject to any significant environmental regulations or laws.

Insurance of and indemnity for directors and officers

SEGC has incurred insurance premiums for its directors and officers liability insurance.

The constitution of SEGC provides that, to the extent permitted by law, the prior and current officers of SEGC are indemnified against any liability incurred in that capacity being a liability to a person other than SEGC or a related body corporate, unless the liability arises out of a lack of good faith or conduct contrary to SEGC's express instructions.

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;

Directors' Report - continued

- 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.

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

Employees of ASX Operations Pty Limited (ASXO), a controlled entity of ASX, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the course of their secondment in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Administration and accounting services are provided by ASXO and associated costs are reimbursed by the Fund to ASXO as set out in note 2. The performance of these services is subject to the same internal audits as are performed within ASX and its controlled entities.

Non-audit services

Details of audit and non-audit services provided by the auditor of SEGC, PricewaterhouseCoopers, during the year are set out below:

	2014 \$	2013 \$
Audit services:		
Audit of the financial statements of SEGC under the <i>Corporations Act 2001</i>	2,600	2,500
Total auditor's remuneration	2,600	2,500

There were no non-audit services provided by the auditor to SEGC in the current year (2013: nil).

Auditor independence

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, 26 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Securities Exchanges Guarantee Corporation for the year ended 30 June 2014, 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.



Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
26 August 2014

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

	2014	2013
	\$	\$

Statement of Comprehensive Income

For the year ended 30 June 2014

Total comprehensive income	-	-
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Balance Sheet

As at 30 June 2014

Net assets	-	-
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Total equity	-	-
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Statement of Changes in Equity

For the year ended 30 June 2014

Opening balance	-	-
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Closing balance	-	-
-----------------	---	---

Statement of Cash Flows

For the year ended 30 June 2014

Cash flows from operating activities	-	-
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Cash flows from investing activities	-	-
--------------------------------------	---	---

Cash flows from financing activities	-	-
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Net cash flows	-	-
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Cash at the beginning of the financial year	-	-
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Cash at the end of the financial year	-	-
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The statement of comprehensive income, balance sheet, statement of changes in equity and statement of cash flows should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1. Summary of significant accounting policies

These financial statements are for Securities Exchanges Guarantee Corporation Limited (SEGC). SEGC is domiciled and incorporated in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below and have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorised for issuance by the directors of SEGC on 26 August 2014. The directors of SEGC have the power to amend and reissue the financial statements.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. SEGC is a not-for-profit entity for the purpose of preparing these financial statements.

Compliance with IFRS

The financial statements of SEGC comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on a historical cost basis.

New and amended standards adopted by SEGC

SEGC has applied the following standards and amendments for first time in the annual reporting period that commenced 1 July 2013:

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*;
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*.

The impact of above new standards and amendments on SEGC is limited to disclosure changes, and do not affect any of the amounts recognised in the current period or any prior period, and are not likely to affect amounts in future periods. SEGC has not elected to apply any pronouncements before their operative date in the annual reporting period ended 30 June 2014.

New accounting standards and interpretations not yet adopted

There are no new or amended accounting standards or interpretations issued by the AASB that have been identified as those which may have a material impact on the company in the period of initial application.

Functional and presentation currency

Items included in the financial statements of SEGC are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars which is the SEGC's functional and presentation currency.

2. Related party disclosures

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy J Milne (Chairperson)
Ms Susan Doyle
Mr Ian W T McGaw
Ms Lynn S Ralph
Mr Peter H Warne

Notes to the Financial Statements – continued

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

Related party transactions

ASX Operations Pty Limited (ASXO), a related entity, provides operational services to SEGC and the Fund in the form of legal and accounting staff, administration activities, occupancy and accounting services. In addition, ASXO also facilitates the payment of all other direct operating expenses. The cost of these expenses and services is reimbursed to ASXO from the assets held by the Fund in accordance with section 889H of the *Corporations Act 2001*. The total operating costs incurred in the current financial year and subsequently reimbursed to ASXO were \$778,273 (2013: \$1,023,462).

3. Key Management Personnel compensation

The Key Management Personnel comprise the five directors of SEGC.

	2014	2013
	\$	\$
Short-term employee benefits	180,000	180,000
Post-employment benefits (superannuation)	13,875	15,175
Total Key Management Personnel compensation	193,875	195,175

These amounts were paid by ASXO and in accordance with section 889H of the *Corporations Act 2001* are reimbursed from the Fund to ASXO.

4. Auditor's remuneration

Audit services:

Audit of the financial statements of SEGC under the <i>Corporations Act 2001</i>	2,600	2,500
Total auditor's remuneration	2,600	2,500

All the amounts shown above are exclusive of GST.

In accordance with section 889H of the *Corporations Act 2001*, audit services provided to SEGC are paid by the Fund. There were no non-audit services provided by the auditor to SEGC in the current year (2013: nil).

5. Commitments and contingent liabilities

SEGC does not have any commitments or contingent liabilities as at 30 June 2014 (30 June 2013: nil).

6. Subsequent events

No matter or circumstance has arisen from the end of the reporting period to the date of this report, 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.

Directors' Declaration

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited (SEGC):

- a) the financial statements and notes of SEGC set out on pages 6 to 8 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of SEGC as at 30 June 2014 and of its performance for the year 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 SEGC 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(a).

Signed in accordance with a resolution of the directors:



Nancy J Milne
Chairperson

Sydney, 26 August 2014

Independent auditor's report to the members of Securities Exchanges Guarantee Corporation

Report on the financial report

We have audited the accompanying financial report of Securities Exchanges Guarantee Corporation (the company), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Securities Exchanges Guarantee Corporation is 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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers



Matthew Lunn
Partner

Sydney
26 August 2014

FINANCIAL STATEMENTS

*National Guarantee Fund Financial Statements
for the Year Ended 30 June 2014*

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2014

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2014

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Securities Exchanges Guarantee Corporation Limited's registered office is:

Exchange Centre
20 Bridge Street
Sydney NSW Australia

Trustee's Report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee of the National Guarantee Fund (the Fund), present their report together with the financial statements of the Fund for the year ended 30 June 2014 and the auditor's report thereon.

Trustee

The trustee of the Fund is SEGC. The directors of SEGC during the financial year and at the date of this report, unless otherwise stated, were as follows:

Ms Nancy J Milne (Chairperson)
 Ms Susan Doyle
 Mr Ian W T McGaw
 Ms Lynn S Ralph
 Mr Peter H Warne

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

Principal activity

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 Regulation 7.5.89 of the *Corporations Regulations*, funds in excess of the minimum amount, currently \$76.0 million, are able to be paid from the Fund for certain purposes approved by the Assistant Treasurer (the Minister).

Review and results of operations

The profit of the Fund for the year was \$3,962,957 (2013: \$3,499,139). Payments of \$4,139,840 were made to the Financial Industry Development Account (2013: \$2,987,980).

In the current financial year, revenue increased by \$319,155 from \$4,423,075 in the prior financial year to \$4,742,230. Expenses decreased from \$924,463 in the prior financial year to \$779,273, primarily due to lower in legal costs.

Net assets of \$103,729,137 remained consistent with prior year (2013: \$103,915,882).

There were no claims made during the financial year. At the date of this report, there are two outstanding compensation claims on the Fund. The Fund has not recognised any contingent liability in respect of these claims as they are still being assessed and the SEGC Board have yet to form a view on the claim validity.

Financial Industry Development Account (FIDA)

FIDA is administered by ASX Limited (ASX) under *Corporations Regulation* Section 7.5.89.

During the year the Fund made distributions of \$4,139,840 (2013: \$2,987,980), as shown in the table below:

	2014 \$	2013 \$
ASX Investor Education Program	2,364,305	2,502,678
Share Ownership Research	12,945	271,402
Corporate Governance Research Centre	-	181,500
Transfer of Market Supervision Responsibilities (Cost Recovery)	1,389,590	(274,600)
Financial Market Research Centre	307,000	307,000
Industry Training and Education Program	66,000	-
Total payments made	4,139,840	2,987,980

Trustee's Report – continued

All payments made to FIDA in the current and prior financial year were for purposes approved by the Minister or the Parliamentary Secretary to the Treasurer.

Significant changes in the state of affairs

In the opinion of the directors of SEGC, there were no significant changes in the state of affairs of the Fund during the current financial year ended 30 June 2014.

Events subsequent to balance date

No matter or circumstance has arisen since the end of the financial year to the date of these financial statements which has significantly affected, or may significantly affect the:

- (a) Fund's operations in future financial years; or
- (b) results of those operations in future financial years; or
- (c) Fund's state of affairs in future financial years.

Likely developments

The directors of SEGC have not determined to make any material changes to the nature of operations or management of the Fund in future financial periods.

Environmental regulation and performance

The Fund is not subject to any significant environmental regulations or laws.

Insurance of and indemnity for directors and officers

SEGC has incurred insurance premiums for directors and officers liability insurance. The constitution of SEGC provides that, to the extent permitted by law, the prior and current officers of SEGC are indemnified against any liability incurred in that capacity being a liability to a person other than SEGC or a related body corporate, unless the liability arises out of a lack of good faith or conduct contrary to SEGC's express instructions.

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.

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

Employees of ASX Operations Pty Limited (ASXO), a wholly owned subsidiary of ASX, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the course of their secondment in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Trustee's Report – continued

Administration and accounting services are provided by ASXO and associated costs are reimbursed by the Fund to ASXO. The performance of these services is subject to the same internal audits as are performed within ASX and its controlled entities.

Non-audit services

Details of audit and non-audit services paid to the auditor of the Fund, PricewaterhouseCoopers, during the year are set out below:

	2014 \$	2013 \$
Audit of financial statements of the Fund under the <i>Corporations Act 2001</i>	11,200	11,900
Total auditor's remuneration	11,200	11,900

Auditor independence

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

Rounding of amounts to nearest thousand dollars

The Fund is of a kind referred to in Class Order 98/100 issued by ASIC, relating to the "rounding off" of amounts in the financial statements. Where indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar in accordance with that Class Order.

Signed in accordance with a resolution of the directors of SEGC:



Nancy J Milne
Chairperson

Sydney, 26 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2014, 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.



Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
26 August 2014

Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Revenue			
Net gain/(loss) on financial instruments held at fair value	11	1,043	(274)
Distribution income	11	3,697	4,679
Interest income		-	15
Refund of imputation credits		2	3
		4,742	4,423
Expenses			
Claims reversed	12	-	(100)
Operating expenses	13	779	1,024
		779	924
Profit for the year		3,963	3,499
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		3,963	3,499

The statement of comprehensive income should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

Balance Sheet

As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
Current assets			
Cash	2	1	2
Receivables	4	79	8
Prepayments	5	47	40
Other financial assets – investments	2	103,824	104,047
Total current assets		103,951	104,097
Total assets		103,951	104,097
Current liabilities			
Related party payables	8	212	181
Total current liabilities		212	181
Total liabilities		212	181
Net assets		103,739	103,916
Equity			
Retained earnings		103,739	103,916
Total equity		103,739	103,916

The balance sheet should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

Statement of Changes in Equity

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Opening balance 1 July		103,916	103,405
Profit for the year		3,963	3,499
Total comprehensive income for the year, net of tax		3,963	3,499
Payments to the Financial Industry Development Account (FIDA)	3	(4,140)	(2,988)
Closing balance at 30 June		103,739	103,916

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Proceeds from the redemption of investments		4,963	8,221
Investment distribution income received		3,697	4,679
Reinvestment of distribution income		(3,697)	(4,679)
Payments to suppliers (including GST)		(824)	(1,082)
Claims paid		-	(4,165)
Interest received		-	15
Net cash inflow from operating activities	7	4,139	2,989
Payments to FIDA	3	(4,140)	(2,988)
Net cash outflow from investing activities		(4,140)	(2,988)
Net cash outflow from financing activities		-	-
Net (decrease)/increase change in cash held		(1)	1
Cash at the beginning of the financial year		2	1
Cash at the end of the financial year		1	2

The statement of cash flows should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1. Summary of significant accounting policies

These financial statements are for National Guarantee Fund (the Fund). The Fund is domiciled and incorporated in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below and have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorised for issuance by the directors of the trustee, Securities Exchange Guarantee Corporation Limited (SEGC), on 26 August 2014. The directors have the power to amend and reissue the financial statements.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Fund is a not-for-profit entity for the purpose of preparing these financial statements.

Compliance with IFRS

The financial statements of the Fund comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on a historical cost basis except for investments, which have been recognised at fair value.

Rounding of amounts

NGF is a Fund of the kind referred to in ASIC class Order 98/100. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars, unless otherwise indicated.

New and amended standards adopted by the Fund

The Fund has applied the following standards and amendments for the first time in the annual reporting period that commenced 1 July 2013:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*;
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*; and
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

The impact of the above new standards and amendments on the Fund is limited to disclosure changes, and do not affect any of the amounts recognised in the current period or any prior period, and are not likely to affect amounts in future periods. The Fund has not elected to apply any pronouncements before their operative date in the annual reporting period ended 30 June 2014.

New accounting standards and interpretations not yet adopted

The following new or amended accounting standards and interpretations issued by the AASB have been identified as those which may have a material impact on the Fund in the period of initial application. Whilst published, these standards and interpretations were not mandatory for the annual reporting period ended 30 June 2014, and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below.

Notes to the Financial Statements - continued

- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* address the classification, measurement and derecognition of financial assets and financial liabilities, and since December 2013, also sets out new rules for hedge accounting.

AASB 9 and related amending standards are first mandatory for the Fund's financial statements for the year ending 30 June 2019 (as prescribed by AASB 2014-1, refer below). The potential effect of the new and amending standards on the financial results of the Fund upon adoption has yet to be fully determined.

- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* makes changes to existing Standards and Interpretations across three topics. Parts A and B are a consequence of the amendments arising on the issuance of AASB CF 2013-1 *Amendments to the Australian Conceptual Framework*, which amends a number of standards and interpretations to delete references to AASB 1031 *Materiality*. Part A and B amendments are mandatory for the Fund's 30 June 2015 financial statements and are not expected to impact the Fund's current accounting policies and practices.

Part C incorporates Chapter 6 *Hedge Accounting* (issued by the IASB) into AASB 9 *Financial Instruments* and makes other amendments impacting the accounting for financial instruments. Furthermore, Part C defers the mandatory effective date of AASB 9 from 1 January 2015 to 1 January 2017. However, the effect of the more recently issued standard AASB 2014-1 *Amendments to Australian Accounting Standards* Part E is that the adoption date of AASB 9 has been deferred by a further year. This standard does not impact the Fund as it currently does not utilise hedge accounting.

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

Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars which is the Fund's functional and presentation currency.

b) Revenue recognition

Movements in 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*. Gains and losses that result from fair value movements in investment units are included as revenue in the statement of comprehensive income.

Distributions

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

Interest

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

Refund of imputation credits

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

Notes to the Financial Statements - continued

c) Claims

Claims are recognised on an accruals basis when they are considered by the 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 incurred is not recoverable from the ATO. Where it is not recoverable, GST is recognised as part of the cost of acquisition of an asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO 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.

f) Cash and cash equivalents

Cash and cash equivalents as presented on the statement of cash flows comprise cash balances held with financial institutions.

g) Receivables

Receivables, which generally have terms of 30 days, are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

h) Other financial assets – investments

The other financial assets of the Fund are unit trust investments currently managed by two professional investment portfolio managers, UBS Global Asset Management (Australia) Limited and Schroder Investment Management Australia Limited. During the year the Fund held investments in the UBS Cash Plus Fund in cash or cash-like products and in the Schroders Fixed Income Fund in a diversified range of fixed income securities. They are held at fair value through profit or loss and are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition of the asset. Subsequent to initial recognition, they are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

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.

i) Payables

These amounts 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.

j) 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.

Notes to the Financial Statements - continued

2. Financial risk management

The Fund is directly and indirectly exposed to a variety of financial risks: market risk (including interest rate and foreign currency risk), credit risk and liquidity risk. Risk management is carried out by the Board of directors of SEGC, as trustee of the Fund, who seek to minimise potentially adverse effects of financial risks on the financial performance of the Fund. The Board has endorsed an Investment Policy Statement which is varied from time to time to meet the needs of the Fund. In developing the investment policy and investment strategy contained in the statement, the Board had regard to a number of matters, including but not limited to, the purpose of the Fund as set out in the Division 4 of 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 instruments by category:

	Fair value through profit or loss \$'000	Amortised Cost \$'000	Total \$'000
<i>As at 30 June 2014</i>			
Financial assets			
Cash	-	1	1
Receivables	-	79	79
Other financial assets - investments	103,824	-	103,824
Total financial assets	103,824	80	103,904
Financial liabilities			
Related party payables	-	212	212
Total financial liabilities	-	212	212
<i>As at 30 June 2013</i>			
Financial assets			
Cash	-	2	2
Receivables	-	8	8
Other financial assets - investments	104,047	-	104,047
Total financial assets	104,047	10	104,057
Financial liabilities			
Related party payables	-	181	181
Total financial liabilities	-	181	181

Notes to the Financial Statements - continued

a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, foreign exchange rates and other market prices. The Fund is exposed to market risks, predominantly through the investment of the Fund balance. For the years ended 30 June 2014 and 30 June 2013, the Fund balances were invested with the following professional investment portfolio managers within mandates approved by the Board:

- UBS Global Asset Management (Australia) Limited (UBS): UBS Cash Plus Fund (cash or cash-like products), and
- Schroders Investment Management Australia Limited (Schroders): Schroders Fixed Income Fund (fixed income securities).

The above investments are classified as 'other financial assets – investments' on the balance sheet.

The specific market risks that arise from the above investments and other assets and liabilities of the Fund are discussed below.

(i) Interest rate risk

The Fund has exposure to interest rate risk, which arises in relation to cash at bank and indirectly from other financial assets - investments. Cash at bank includes a small amount of cash held for operational purposes and interest rate risk on this balance is considered to be low. Other financial assets – investments, as represented by the investments held with UBS and Schroders, have significant exposure to interest rate risk, but are classified as non-interest bearing as revenue on these investments is derived from variations in unit prices rather than directly from movements in interest rates. The unit prices, which are used to value the investments however, may be impacted by interest rate variations. This interest rate risk is managed through distributing the total investment between two professional investment portfolio managers as shown above and the regular performance monitoring of both investments by the Board of SEGC. The UBS Cash Plus Fund includes investments in cash or cash-like products. The Schroders Fixed Income Fund includes a diversified range of fixed income securities.

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

	Interest bearing		Non-interest bearing		Total	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash	1	2	-	-	1	2
Other financial assets - investments	-	-	103,824	104,047	103,824	104,047
	1	2	103,824	104,047	103,825	104,049

The annual average interest rate for the above interest bearing assets for the year was 2.01% (2013: 2.60%). The average return on distributions from non-interest bearing financial assets - investments for the year was 4.91% (2013: 5.31%).

Notes to the Financial Statements - continued

Fair value sensitivity analysis of interest bearing financial assets:

An increase/decrease of 25 basis points in interest rates would impact interest earned on the Funds cash balance. This impact however, is not considered material.

Variations in interest rates may also affect the unit prices of the Fund's non-interest bearing other financial assets – investments, however the amount of the effect is unknown. See below for the fair value sensitivity analysis of these funds.

Fair value sensitivity analysis of non-interest bearing investments:

An increase/decrease of 25 basis points in investment redemption prices would increase/decrease the Fund's profit and loss by \$259,559 (2013: \$260,118).

(ii) Foreign currency risk

The Fund has indirect exposure to foreign currency risk from its other financial assets - investments. Where the managed funds have investments in underlying securities that are denominated in foreign currencies, the unit prices, which are used to value the investments, may be impacted by variations in exchange rates. The Board of SEGC manages this risk by regular review of the composition of both funds and the proportion of the total funds invested in securities denominated in foreign currencies.

b) Liquidity risk

Liquidity risk associated with the need to pay claims or other expenses, as determined by SEGC, is mitigated by investing in cash based funds. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund can be called upon at short notice to fund liquidity requirements as required.

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

2014

	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	1	-	1
Receivables	-	79	79
Other financial assets - investments	103,824	-	103,824
Total financial assets	103,825	79	103,904
Financial liabilities			
Related party payables	-	212	212
Total financial liabilities	-	212	212
Net financial assets/(liabilities)	103,825	(133)	103,692

Notes to the Financial Statements - continued

2013	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	2	-	2
Receivables	-	8	8
Other financial assets - investments	104,047	-	104,047
Total financial assets	104,049	8	104,057
Financial liabilities			
Related party payables	-	181	181
Total financial liabilities	-	181	181
Net financial assets/(liabilities)	104,049	(173)	103,876

c) 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 obligations to the Fund or its administrator, SEGC.

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk as at 30 June 2014 and the prior comparative period is shown below.

	2014 \$'000	2013 \$'000
Cash	1	2
Receivables	79	8
Other financial assets – investments	103,824	104,047
Total	103,904	104,057

Credit risk relating to other financial assets - 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. There were no receivables past due or impaired at 30 June 2014 (2013: nil).

d) Capital management

The SEGC Board's policy is to maintain the assets of the Fund at a satisfactory level above the minimum amount to meet claims and administration costs of SEGC and the Fund. The minimum amount may be determined by the Board from time to time with the approval of the Minister in accordance with the *Corporations Act 2001*. The minimum amount of the Fund is currently \$76.0 million. The minimum amount is subject to regular review by independent professional advisers appointed by the Board of SEGC.

The Board has an investment strategy in place to invest available financial assets, amounting to \$103,823,766 (2013: \$104,047,096), into two cash and fixed income funds managed by two professional investment portfolio managers respectively at 30 June 2014 in order to preserve the minimum fund requirement as prescribed above.

The Board monitors the Fund by receiving and reviewing quarterly reports from the two fund managers and a report on claims from legal counsel at each Board meeting.

If the total fair value amount of the Fund falls below the minimum amount, the Board is able to take measures to manage the financial position, including taking insurance against claim liability, paying claims in instalments, external borrowings or imposing levies on ASX or participants of ASX. The Board has not taken any of these measures, or considered them to be necessary in the current or prior financial years.

Notes to the Financial Statements - continued

If the amount in the Fund exceeds the minimum amount, the Board has discretion to pay the excess or part of the excess to an account designated as the Financial Industry Development Account (FIDA), with the approval of the Minister or his delegate. FIDA is administered by ASX.

e) Fair value measurements

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The below amounts represent the Fund's financial assets measured and recognised at fair value. The Fund did not have any financial liabilities measured at fair value at 30 June 2014 (2013: nil).

	2014 \$'000	2013 \$'000
Other financial assets - investments		
UBS Cash Plus Fund – at quoted redemption price	51,840	51,729
Schroders Fixed Income Fund – at quoted redemption price	51,984	52,318
Total other financial assets - investments	103,824	104,047

All of the Fund's assets are measured as 'level 2' in the fair value hierarchy.

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 2014 and 30 June 2013. The carrying amount of receivables and related party payables approximates their fair value as the impact of discounting is not significant.

3. Payments to FIDA

Subregulation 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 \$76.0 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.

The above refund and payments made to FIDA for other approved purposes are shown below.

	2014 \$'000	2013 \$'000
Transfer of market supervision responsibilities from ASX to ASIC*	1,390	(275)
Investor education initiatives	2,364	2,503
Share ownership survey	13	271
Corporate Governance Research Centre	-	182
Financial Markets Research Centre	307	307
Industry training and education programs	66	-
Total payments to FIDA	4,140	2,988

* In the current financial year, the Fund made distributions of \$1,465,000 to FIDA in respect of costs contributed to ASIC for Enhanced Market Supervision. Of this, an amount of \$75,410 was subsequently refunded to the Fund by ASIC.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements - continued

4. Receivables

	2014 \$'000	2013 \$'000
Receivable from ASIC	75	-
Imputation credits receivable	2	3
Other receivables - GST	2	5
Total receivables	79	8

5. Prepayments

Prepayments	47	40
Total prepayments	47	40

Prepayments include insurance premiums paid for directors and officers liability insurance and investment managers insurance policy.

6. Commitments and contingent liabilities

As at the date of the report, there are two claims outstanding on the Fund. The Fund has not recognised any contingent liability in relation to these claims as they are still being assessed and the Board of SEGC have not formed a view on whether the claims are valid. There are no other contingent liabilities or commitments of the Fund as at 30 June 2014.

7. Notes to the Statement of Cash Flows

Reconciliation of net profit to the net cash flows from operating activities:

Net profit	3,963	3,499
Changes in operating assets and liabilities:		
Decrease in investments	223	3,816
(Increase)/decrease in receivables	(71)	3
Increase in prepayments	(7)	(24)
(Decrease) in provisions	-	(4,265)
Increase/(decrease) in related party payables	31	(40)
Net cash provided by operating activities	4,139	2,989

Definition of cash

For the purposes of the statement of cash flows, cash includes cash at bank. The cash balance at balance date reflects the balance in the bank account only. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund (other financial assets – investments) can be redeemed to fund working capital requirements as required.

Notes to the Financial Statements - continued

8. Related party disclosures

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy J Milne (Chairperson)
 Ms Susan Doyle
 Mr Ian W T McGaw
 Ms Lynn S Ralph
 Mr Peter H Warne

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

Related party transactions

During the year, SEGC incurred operational expenses on behalf of the Fund of \$303,026 exclusive of GST (2013: \$252,937) in respect of staff, administration, occupancy and accounting services provided by ASX Operations Pty Limited (ASXO) for the administration of SEGC and the Fund. ASXO also paid other direct operating expenses during the financial year relating to services provided to the Fund by external suppliers. All expenses paid by ASXO are reimbursed by the Fund in accordance with section 889H of the *Corporations Act 2001*.

The balance owing to ASXO by SEGC at 30 June 2014 was \$127,138 (2013: \$181,728) and is expected to be paid from the Fund. This balance represents operating expenses for the quarter ended 30 June 2014, excluding an expense accrual for actuarial services performed on behalf of NGF, not incurred by ASXO at 30 June 2014. No interest is charged by ASXO on the outstanding balance owing from SEGC or the Fund.

9. Key Management Personnel compensation

Key Management Personnel compensation included in administration costs in the statement of comprehensive income is as follow:

	2014 \$	2013 \$
Short-term employee benefits	180,000	180,000
Post-employment benefits (superannuation)	13,875	15,175
Total Key Management Personnel compensation	193,875	195,175

Key Management Personnel compensation set out above comprises directors' fees and superannuation paid to the directors of SEGC. The amounts were paid by ASXO and in accordance with section 889H of the *Corporations Act 2001* and are reimbursed from the Fund to ASXO.

10. Auditor's remuneration

Audit services:

Audit of financial statements of the Fund under the <i>Corporations Act 2001</i>	11,200	11,900
Total auditor's remuneration	11,200	11,900

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration has been paid by the Fund. The Fund has also paid to the auditor, PriceWaterhouseCoopers, \$2,600 for the financial statement audit of SEGC. There were no non-audit services provided by the auditor to the Fund (2013: nil).

NATIONAL GUARANTEE FUND

Notes to the Financial Statements - continued

11. Revenue	2014	2013
	\$'000	\$'000

Net gain/(loss) on financial instruments held at fair value through profit or loss:

UBS Cash Plus Fund	(136)	104
Schroders Fixed Income Fund	1,179	(378)
Total	1,043	(274)

Distribution income:

UBS Cash Plus Fund	1,896	1,975
Schroders Fixed Income Fund	1,801	2,704
Total	3,697	4,679

12. Claims

Claims provided for at 30 June:

Claims provision	-	-
Adjustments to prior year claims	-	(100)
Total claims	-	(100)

The prior year included the reversal of a claim provision that was no longer required.

13. Operating expenses

Staff costs	187	137
Legal costs	8	287
Administration costs	559	575
Occupancy costs	25	25
Total operating expenses	779	1,024

14. Subsequent events

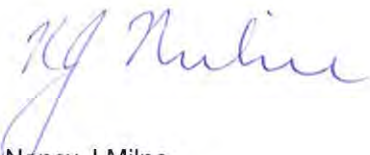
From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Fund, the results of those operations or the state of affairs of the Fund.

Directors' Declaration

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited (SEGC) as the trustee for the National Guarantee Fund (the Fund):

- a) the financial statements and notes of the Fund set out on page 7 to 21 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of the Fund as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- 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(a).

Signed in accordance with a resolution of the directors of SEGC:



Nancy J Milne
Chairperson

Sydney, 26 August 2014

Independent auditor's report to the members of National Guarantee Fund

Report on the financial report

We have audited the accompanying financial report of National Guarantee Fund (the Fund), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Fund 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of National Guarantee Fund is 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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the Fund 's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn

Matthew Lunn
Partner

Sydney
26 August 2014

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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