



Securities Exchanges Guarantee Corporation

ANNUAL REPORT

2015

*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 2015 the net assets of the NGF were \$103.5 million (compared to \$103.7 million as at 30 June 2014).

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. As a result of an actuarial review, the Board of the SEGC has determined a new minimum amount of \$100 million. This will become effective as the minimum amount on approval by the Minister. The actuarial review recommends a minimum amount of \$107 million and this increases further on admission of a new member exchange. The SEGC Board will continue to review the minimum amount with a view to seeking to increase it to the recommended minimum.

No levy has been required since the inception of the NGF, however, given the current shortfall of funds to the recommended minimum and other circumstances such as increased expenses, potential claims and low interest environment, a levy may become necessary.

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

SEGC has received a number of claims during the financial year, most of them since late May 2015 as a result of the collapse of the BBY Group (BBY). A claimant has also requested that SEGC reconsider a claim disallowed in a prior financial year relating to Opes Prime. Further commentary in relation to claims is included later in the report.

Currently, the sole member of the SEGC is ASX. However the Board has conditionally approved the admission of an operator of another financial market, Chi-X Australia Pty Ltd (Chi-X). SEGC is working with Chi-X to fulfil the conditions and if those conditions are fulfilled it is expected that Chi-X will become a member in 2016.

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. Given the determination of a new minimum amount by the Board and the recommended

minimum of \$107 million, the Board does not expect any further Ministerial approvals for FIDA payments for the time being.

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. A number of recent events have highlighted the need for change. These include recent actuarial reviews of the minimum amount of the NGF, the proposed admission of Chi-X and the insolvency of BBY Limited which has led to an influx of claims, testing the regulatory provisions. 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 introduction of appropriate caps on claims would also significantly reduce the minimum amount recommended by SEGC's actuaries.

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', enclosed within a thin rectangular border.

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.

Portfolio earnings have been the only source of income for the NGF. The earnings of the NGF are income tax exempt.

At 30 June 2015, the net assets of the NGF were \$103.5 million. This compares with \$103.7 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 generally apply to trading of individual derivatives contracts.

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

- Firstly, if an exchange traded option over quoted securities is exercised, the resulting purchase and sale will generally be covered by the contract completion provisions of Subdivision 4.3 discussed above.

- Secondly, if a client has entrusted property to a dealer in the course of dealing in exchange traded options, the NGF provides protection against loss of that property in accordance with the provisions of Subdivision 4.9, also discussed above.

The NGF does not provide protection in relation to futures. 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. In 2014 the Board commissioned its actuaries to conduct a full review of the minimum amount. The actuarial review recommended a minimum amount of \$107 million and the recommendation may increase on admission of Chi-X as a member of SEGC. The SEGC Board has determined a new minimum amount of \$100 million. This will become effective as the minimum amount on approval by the Minister. The Board continues to review the minimum amount in line with its capital management plan.

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. However, if the minimum amount is increased to the recommended minimum, the amount in the NGF will fall below the minimum amount and the SEGC Board will consider what action must be taken in accordance with the SEGC capital management plan.

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.

During the financial year \$3,204,748 was paid to the FIDA. These funds were for the following approved purposes:

- the ASX Investor Education Program;
- the Australian Share Ownership Survey;
- 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.

The SEGC Board has conditionally approved an application for membership by Chi-X. SEGC is working with Chi-X to fulfil the conditions.

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 Superannuation Administration Corporation Board, Director of ALE Property Group Limited and NSW Division Councillor of NSW Council of the Australian Institute of Company Directors.

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

Susan Doyle, BA,

Non-Executive Director. Director since 1 January 2007.

Former Chairman of State Library of NSW Audit Committee. Director of Lawcover Pty Limited and Lawcover Insurance Pty Limited and Member of Taronga Zoo Conservation Society. Member of TCorp Board Investment Committee.

Previously, Ms Doyle has been the Chairman of Commonwealth Superannuation Corporation, Director of Aircruising Australia Ltd and Member of the Future Fund Board of Guardians.

Ian McGaw,

Non-Executive Director. 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.

Director of BT Funds Management Ltd, BT Funds Management No 2 Ltd and Westpac Securities Administration Ltd. Director of 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. Former Commissioner of Private Health Insurance Administration Council.

Peter Warne, BA, FAICD

Non-Executive Director. Director since October 2006.

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

Chairman of ASX Clear (Futures) Pty Limited, Director of ASX Clearing Corporation Limited, Austraclear Limited and ASX Settlement Corporation 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. Director of Macquarie Group Limited, Macquarie Bank Limited, 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	6/7
P Warne	5/7
IWT McGaw	7/7
Nancy Milne	7/7
Lynn Ralph	7/7

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 (other than the Company Secretary and Legal Counsel), 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.

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

Gabby Hart (LLB) is the Company Secretary and Legal Counsel of SEGC.

The appointment of the Company Secretary 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 has received a number of claims since late May 2015 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.

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.

In their report to creditors of BBY dated 12 June 2015, the administrators stated that, in their opinion, there will likely be a shortfall in client money accounts (CMAs) in the order of \$10 million, not including any amounts relating to the BBY Saxo CMA (the details of which were unavailable at that time). At the second meeting of creditors on 22 June 2015, the administrators stated that further reconciliation work indicated that outstanding obligations to clients in relation to Saxo may be in the order of \$6 million, with the consequence that there may be a shortfall in the BBY CMAs in the order of \$16 million against total client trust account obligations of over \$30 million. The liquidators have since revised the amount of the shortfall to \$12 million.

The liquidators have applied 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 CMAs that may be covered by the NGF. These broadly relate to pooling of CMA's prior to distribution and indemnification of both representative defendants and the liquidators fees from the CMAs

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

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

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

In relation to the claims received to date, there are specific criteria contained in the Corporations Regulations which must be met before a claim can be allowed by SEGC. SEGC is currently considering and obtaining information relevant to whether these criteria have been satisfied.

To ensure that all claims are fairly dealt with, SEGC will not be determining any claims made under subdivision 4.9 until all the affected clients of BBY have been afforded the opportunity to make a claim once the outcome of the liquidators proceedings are known. This is because, in the case of subdivision 4.9 claims, the legislation places a cap on total payments for similar claims of \$11.4 million.

SEGC received sixteen new claims during the financial year. Two claims were carried forward from the previous financial year. SEGC also determined two claims during the year, No claims were paid. SEGC has received a number of claims this financial year in connection with BBY and expects that further claims will be received.

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

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, however, a claimant has requested that SEGC reconsider a claim disallowed in a prior financial year in relation to Opes Prime.

FINANCIAL STATEMENTS

*Securities Exchanges Guarantee Corporation Limited Financial Statements
for the Year Ended 30 June 2015*

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2015**

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2015

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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 2015 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 M 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 2015. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2015.

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

There were no significant changes in the state of affairs of SEGC during the current financial year ended 30 June 2015.

Events subsequent to balance date

No matter or circumstance has arisen from the end of the reporting period to the date of this report, which has significantly affected, the operations of SEGC, the results of those operations or the state of affairs of the SEGC or may do so in future 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.

Directors' report - continued

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.

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.

An independent contractor performs the management and secretarial functions for SEGC. Certain employees of ASX Operations Pty Limited (ASXO), a wholly owned subsidiary of ASX, are seconded to SEGC as required. Both the independent contractor and ASX seconded staffs 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. The performance of these services is subject to the same internal audits that are performed within ASX and its controlled entities.

Non-audit services

The auditor, PricewaterhouseCoopers, did not provide any non-audit in the current or prior financial period.

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, 25 August 2015



Auditor's Independence Declaration

As lead auditor for the audit of Securities Exchanges Guarantee Corporation for the year ended 30 June 2015, 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 'Matthew Lunn', written over a horizontal line.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
25 August 2015

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

	2015 \$	2014 \$
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Statement of comprehensive income

For the year ended 30 June 2015

Total comprehensive income	-	-
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Balance sheet

As at 30 June 2015

Net assets	-	-
Total equity	-	-

Statement of changes in equity

For the year ended 30 June 2015

Opening balance	-	-
Closing balance	-	-

Statement of cash flows

For the year ended 30 June 2015

Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net cash flows	-	-
Cash at the beginning of the financial year	-	-
Cash at the end of the financial year	-	-

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 25 August 2015. 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

The new standards and amendments to standards that are mandatory for the first time in the annual reporting period commenced on 1 July 2014 do not affect any amounts recognised in the current or prior periods, 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 2015.

New accounting standards and interpretations not yet adopted

There are no new or amended accounting standards and interpretations issued by the AASB that have been identified as those which may have a material impact on SEGC 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, 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 2015. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2015.

Notes to the financial statements - continued

Related party transactions

ASX Operations Pty Limited (ASXO), a related entity, provides operational services to SEGC and the National Guarantee Fund (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 \$757,038 (2014: \$778,273).

3. Key management personnel compensation

The key management personnel comprise the five directors of SEGC.

	2015 \$	2014 \$
Short-term employee benefits	180,000	180,000
Post-employment benefits	14,250	13,875
Total Key management personnel compensation	194,250	193,875

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

During the year the following fees were incurred for services provided by the auditor:

PricewaterhouseCoopers Australia

Statutory audit services:

Audit of the financial statements under the <i>Corporations Act 2001</i>	2,700	2,600
Total remuneration for PricewaterhouseCoopers Australia	2,700	2,600

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. The auditor did not provide any non-audit services to SEGC in the current year (2014: nil).

5. Commitments and contingent liabilities

SEGC did not have any commitments or contingent liabilities as at 30 June 2015 (30 June 2014: nil).

6. Subsequent events

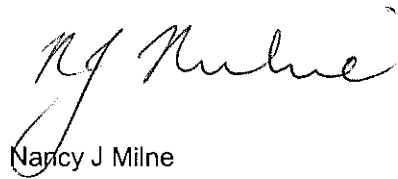
No matter or circumstance has arisen from the end of the reporting period to the date of this report, which has significantly affected, the operations of SEGC, the results of those operations or the state of affairs of the SEGC or may do so in future years.

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 2015 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, 25 August 2015



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 2015, 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, 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 the company 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 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001*.
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

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

Matthew Lunn
Partner

Sydney
25 August 2015

FINANCIAL STATEMENTS

*National Guarantee Fund Financial Statements
for the Year Ended 30 June 2015*

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2015

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2015

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Securities Exchange 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 2015 and the auditor's report thereon.

Trustee and Board of Directors

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 M 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 2015. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2015.

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 section 7.5.89 of the *Corporations Regulations 2001*, funds in excess of the minimum amount, are able to be paid from the Fund for certain purposes approved by the Minister. As at the date of this report, the minimum amount was \$76.0 million. The Board has determined a new minimum amount of \$100.0 million. This will become effective as the minimum amount on approval by the Minister.

Review and results of operations

The profit for the period was \$2,932,119 (2014: \$3,962,957). Payments of \$3,204,748 were made to the Financial Industry Development Account (FIDA) (2014: \$4,139,840).

In the current financial year, revenue decreased by \$1,052,073 from \$4,742,230 in the prior financial year to \$3,689,157 primarily due to a decrease in the fair value of the Schroders Fixed Income Fund. Expenses decreased from \$778,273 in the prior financial year to \$757,038, primarily due to lower seconded staff expenses.

Net assets of \$103,466,370 have decreased by \$272,629 from the prior year (2014: \$103,738,999). This was due to payments to FIDA exceeding the amount of earnings during the year.

There were two claims carried forward from previous year. During the year, 16 claims were received, two claims were rejected and no claims were paid. A further 21 claims were received after balance date. At the date of this report, there are 37 outstanding compensation claims on the Fund. The SEGC Board has yet to form a view on the validity of these claims. The Fund has not recognised a liability in respect of any of these claims at this time.

Financial Industry Development Account

FIDA is administered by ASX under *Corporations Regulation* section 7.5.89 of the *Corporations Regulations 2001*. During the year, the Fund made distributions of \$3,204,748 (2014: \$4,139,840), as shown in the table below:

	2015 \$	2014 \$
ASX Investor Education Program	1,376,226	2,364,305
Share Ownership Research Program	210,022	12,945
Transfer of market supervision responsibilities (cost recovery)	1,465,000	1,389,590
Industry Markets Research Centre	153,500	307,000
Industry Training and Education Program	-	66,000
Total payments to FIDA	3,204,748	4,139,840

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

Significant changes in the state of affairs

The SEGC Board has received an actuarial report that recommends the minimum amount of the Fund should be \$107 million. The SEGC Board has determined a minimum amount of \$100 million which will become effective as the minimum amount on approval by the Minister, and is in the process of developing and implementing a capital management plan with a view to transitioning to the recommended minimum. The SEGC Board will continue to review the minimum amount.

Since February 2015, ASX has not requested FIDA funding for Investor Education and Share Ownership Scheme. Approval for funding for Financial Market Research Centre expired in December 2014.

There were no other significant changes in the state of affairs of the Fund during the current financial year ended 30 June 2015.

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 the operations of the Fund, the results of those operations or the state of affairs of the Fund or may do so in future years.

Likely developments

The SEGC is considering the application by a licensed market operator to become a member of the SEGC. If the applicant is admitted as a member, this may require a review of the operations and management of the SEGC. The admission of a new member may also have an effect on the recommended minimum amount.

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.

Trustee's report - continued

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 from time to time by ASX as the sole member of SEGC.

An independent contractor performs the management and secretarial functions for SEGC. Certain employees of ASX Operations Pty Limited (ASXO), a wholly owned subsidiary of ASX, are seconded to SEGC as required. Both the independent contractor and ASX seconded staffs 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. The performance of these services is subject to the same internal audits that are performed within ASX and its controlled entities.

Non-audit services

The auditor of the Fund, PricewaterhouseCoopers, did not provide any non-audit services in the current or prior financial period.

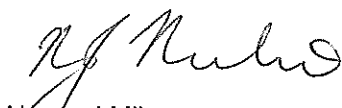
Auditor independence

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

The Fund is of a kind referred to in Class Order 98/100 issued by ASIC, relating to the rounding of amounts in the financial statements. Where indicated, amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

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



Nancy J Milne
Chairperson

Sydney, 25 August 2015



Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2015, 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 stylized flourish at the end.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
25 August 2015

Statement of comprehensive income

For the year ended 30 June 2015

	Note	2015 \$'000	2014 \$'000
Revenue			
Net (loss)/gain on financial instruments held at fair value	10	(264)	1,043
Distribution income	11	3,952	3,697
Interest Income		1	-
Refund of imputation credits		-	2
		3,689	4,742
Expenses			
Operating expenses	13	(757)	(779)
		(757)	(779)
Profit for the period		2,932	3,963
Other comprehensive income for the period		-	-
Total comprehensive income for the period		2,932	3,963

NATIONAL GUARANTEE FUND

Balance sheet

As at 30 June 2015

	Note	2015 \$'000	2014 \$'000
Current assets			
Cash	2	1	1
Receivables	4	5	79
Prepayments		45	47
Investments	2	103,549	103,824
Total current assets		103,600	103,951
Total assets		103,600	103,951
Current liabilities			
Related party payables	2	134	212
Total current liabilities		134	212
Total liabilities		134	212
Net assets		103,466	103,739
Equity			
Retained earnings		103,466	103,739
Total equity		103,466	103,739

Statement of changes in equity

For the year ended 30 June 2015

Retained earnings	Note	2015 \$'000	2014 \$'000
Opening balance at 1 July		103,739	103,916
Profit for the period		2,932	3,963
Total comprehensive income for the period		2,932	3,963
Payments to the Financial Industry Development Account (FIDA)	3	(3,205)	(4,140)
Closing balance at 30 June		103,466	103,739

NATIONAL GUARANTEE FUND

Statement of cash flows

For the year ended 30 June 2015

	Note	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Proceeds from the redemption of investments		3,962	4,963
Investment distribution income received		3,952	3,697
Reinvestment of distribution income		(3,952)	(3,697)
Payments to suppliers (inclusive of GST)		(760)	(824)
Claims		2	-
Interest received		1	-
Net cash inflow from operating activities	6	3,205	4,139
Payments to FIDA	3	(3,205)	(4,140)
Net cash (outflow) from investing activities		(3,205)	(4,140)
Net cash flows from financing activities		-	-
Net (decrease) in cash		-	(1)
Cash at the beginning of the financial year		1	2
Cash at the end of the financial year		1	1

Notes to the financial statements

1. Summary of significant accounting policies

These financial statements are for the 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 Exchanges Guarantee Corporation Limited (SEGC), on 25 August 2015. 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 new standards and amendments to standards that are mandatory for the first time in the annual reporting period commenced on 1 July 2014 do not affect any amounts recognised in the current or prior periods, 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 2015.

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 2015, and have not been early adopted by the Fund. The Fund's assessment of the impact of these standards and interpretations is set out below:

- AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Part C: Financial Instruments*, AASB 2014-1 *Amendments to Australian Accounting Standards – Part E: Financial Instruments*, AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) - Application of AASB 9 (December 2009) & AASB 9 (December 2010)*

Notes to the financial statements - continued

The new standard includes revised guidance on the classification and measurement of financial assets, and supplements the new general hedge accounting requirements previously published.

Under the new standard an entity must classify its financial assets as amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The standard also introduces a new expected credit loss model for calculating impairment.

The Fund's assessment of the potential accounting, disclosure and financial impact on adoption of AASB 9 will continue up to the date of application.

- *AASB 15 Revenue from Contracts with Customers, AASB 2014–5 Amendments to Australian Accounting Standards arising from AASB 15*

The standard replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programs*, AASB 15 *Agreements for Construction of Real Estate*, AASB Interpretation 18 *Transfer of Assets from Customers* and AASB Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services*.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

The Fund's assessment of the potential accounting, disclosure and financial impact on adoption of AASB 15 will continue up to the date of application.

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.

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 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

Cash 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) Prepayments

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

i) Investments

The investments of the Fund are unit trust investments currently managed by two professional investment portfolio managers, UBS Global Asset Management (Australia) Limited 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.

Notes to the financial statements – continued

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

j) Payables

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

k) Payments to Financial Industry Development Account (FIDA)

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

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
As at 30 June 2015			
Financial assets			
Cash	-	1	1
Receivables	-	5	5
Investments	103,549	-	103,549
Total financial assets	103,549	6	103,555
Financial liabilities			
Related party payables	-	134	134
Total financial liabilities	-	134	134
As at 30 June 2014			
Financial assets			
Cash	-	1	1
Receivables	-	79	79
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

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 balances. For the years ended 30 June 2015 and 30 June 2014, 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 '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 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. Investments, as represented by the investments held with UBS and Schroders, have significant exposure to interest rate risk, but are classified as non-interest bearing as revenue on these investments is derived from variations in unit prices rather than directly from movements in interest rates. The unit prices, which are used to value the investments however, may be impacted by interest rate variations. This interest rate risk is managed through diversifying the total investment between two professional investment portfolio managers as shown above and the regular performance monitoring of both investments by the Board of SEGC. The UBS Cash Plus Fund includes investments in cash or cash-like products. The Schroders Fixed Income Fund includes a diversified range of fixed income securities.

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

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

	Interest bearing		Non-interest bearing		Total	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash	1	1	-	-	1	1
Investments	-	-	103,549	103,824	103,549	103,824
	1	1	103,549	103,824	103,550	103,825

The weighted average interest rate for the above interest bearing financial assets for the year was 2.36% (2014: 2.50%). The weighted average return on distributions from non-interest bearing financial assets for the year was 4.08% (2014: 3.79%).

Fair value sensitivity analysis of interest bearing financial assets:

At 30 June 2015, 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, however the amount of the effect is unknown.

Notes to the financial statements - continued

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

At 30 June 2015, if investment redemption prices increased/decreased by 25 basis points from year end prices, profit would have been \$258,873 (2014: \$259,559) 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 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.

30 June 2015	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	1	-	1
Receivables	-	5	5
Investments	103,549	-	103,549
Total financial assets	103,550	5	103,555
Financial liabilities			
Related party payables	-	134	134
Total financial liabilities	-	134	134
Net financial assets/(liabilities)	103,550	(129)	103,421

30 June 2014	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	1	-	1
Receivables	-	79	79
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

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 2015 and the prior period is shown below.

	2015 \$'000	2014 \$'000
Cash	1	1
Receivables	5	79
Investments	103,549	103,824
Total	103,555	103,904

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. There were no receivables past due or impaired at 30 June 2015 (2014: nil)

d) Capital management

The SEGC Board's policy is to maintain the assets of the Fund at a level at or above the minimum amount to meet claims and administration costs of SEGC and the Fund. The minimum amount may be determined by the Board from time to time with the approval of the Minister in accordance with the *Corporations Act 2001*. The approved 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 SEGC Board has received an actuarial report which recommends a minimum amount of \$107 million. As at the date of this report, the Board has determined a new minimum amount of \$100.0 million. This will become effective as the minimum amount on approval by the Minister. In addition the Board is finalising and implementing a capital management plan with a view to transition to the higher recommended minimum or such higher amount as determined. The Board reviews the minimum amount from time to time utilising professional advisors.

The Board has an investment strategy in place to invest available financial assets, totalling \$103,549,110 at 30 June 2015 (30 June 2014: \$103,823,766), into two cash and fixed income funds managed by two professional investment portfolio managers in order to preserve the value of the financial assets.

The Board monitors the Fund by receiving and reviewing quarterly investment reports from the fund managers and a report on outstanding claims at least at each Board meeting.

If the total fair value amount of the Fund falls below the minimum amount, the Board is able to undertake certain measures to manage the financial position, including taking insurance against claim liability, paying claims in instalments, external borrowings or imposing levies on ASX or ASX Participants. The Board has not undertaken any of these measures in the current or prior financial years. The Board periodically reviews the need for these measures to be undertaken.

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, with the approval of the Minister or his delegate. FIDA is administered by ASX.

Notes to the financial statements - continued

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 2015 (2014: nil).

	2015 \$'000	2014 \$'000
Investments		
UBS Cash Plus Fund – at quoted redemption price	52,227	51,840
Schroders Fixed Income Fund – at quoted redemption price	51,322	51,984
Total investments	103,549	103,824

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 2015 and 30 June 2014. 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

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 \$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.

	2015	2014
Transfer of market supervision responsibilities from ASX to ASIC	1,465	1,390
Investor Education Program	1,376	2,364
Share Ownership Research Program	210	13
Financial Markets Research Centre	154	307
Industry Training and Education Program	-	66
Total payments to FIDA	3,205	4,140

Notes to the financial statements - continued

4. Receivables

	2015	2014
Receivable from ASIC	-	75
Imputation credits receivable	-	2
GST receivable	5	2
Total receivables	5	79

5. Commitments and contingent liabilities

At the date of this report, there are contingent liabilities relating to 37 compensation claims which are outstanding on the Fund. The SEGC Board has yet to form a view on the validity of these claims. The Fund has not recognised a liability in respect of any of the outstanding claims. There are no other contingent liabilities or commitments.

6. Notes to the statement of cash flows

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

	2015 \$'000	2014 \$'000
Profit for the period	2,932	3,963
Changes in operating assets and liabilities:		
Decrease in investments	275	223
Decrease/(increase) in receivables	74	(71)
Decrease/(increase) in prepayments	2	(7)
(Decrease)/increase in related party payables	(78)	31
Net cash inflows from operating activities	3,205	4,139

7. Related party disclosures

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 2015. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2015.

Related party transactions

During the year, SEGC incurred operational expenses on behalf of the Fund of \$285,304 exclusive of GST (2014: \$303,026) 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*.

Notes to the financial statements - continued

The balance owing to ASXO by SEGC at 30 June 2015 was \$134,370 (2014: \$127,138) and is expected to be paid from the Fund. This balance represents operating expenses for the quarter ended 30 June 2015. No interest is charged by ASXO on the outstanding balance owing from SEGC or the Fund.

8. Key Management Personnel compensation

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

	2015 \$	2014 \$
Short-term employee benefits	180,000	180,000
Post-employment benefits	14,250	13,875
Total Key Management Personnel compensation	194,250	193,875

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* are reimbursed from the Fund to ASXO.

9. Auditor's remuneration

During the year the following fees were incurred by the Fund for services provided by the auditor:

PricewaterhouseCoopers Australia

Statutory audit services:

Audit of the financial statements under the <i>Corporations Act 2001</i>	12,500	11,200
Total remuneration for PricewaterhouseCoopers Australia	12,500	11,200

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, \$2,700 for the financial statement audit of SEGC (2014: \$2,600). The auditor did not provide any non-audit services to the Fund (2014: nil).

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

UBS Cash Plus Fund	18	(136)
Schroder Fixed Income Fund	(282)	1,179
Total net (loss)/gain on financial instruments held at fair value	(264)	1,043

11. Distribution income

UBS Cash Plus Fund	1,572	1,896
Schroder Fixed Income Fund	2,380	1,801
Total distribution income	3,952	3,697

Notes to the financial statements - continued

12. Operating expenses

Staff costs	(169)	(187)
Legal costs	(82)	(8)
Administration costs	(483)	(559)
Occupancy costs	(25)	(25)
Claims	2	-
Total operating expenses	(757)	(779)

13. Subsequent events

Post the end of the reporting period, 21 claims on the Fund have been received. The Board of SEGC have yet to form a view on the claim validity.

From the end of the reporting period to the date of this report, no other 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 or may do so in future years.

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 2015 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 the SEGC:



Nancy J Milne
Chairperson

Sydney, 25 August 2015



Independent auditor's report to the trustee 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 2015, 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 Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee 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, 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 of SEGC 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*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's opinion

In our opinion:

- (a) the financial report of the 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 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001*.
- (b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

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

Matthew Lunn
Partner

Sydney
25 August 2015

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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