



*ANNUAL  
REPORT  
2004*



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## MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Ltd (SEGC) is the trustee of the National Guarantee Fund (NGF or the Fund). The 2003 - 2004 financial year was SEGC's seventeenth year of operation. As at 30 June 2004, the net assets of the NGF were approximately \$164.4 million.

During the year, one claim was made on the NGF. For a discussion of claims on the NGF please refer to pages 11 to 16.

Two significant developments occurred during the year which may have an impact on the future operations of SEGC and the NGF.

Firstly, in July 2003 Australian Stock Exchange Ltd (ASX) made an application under section 891A of the Corporations Act 2001 that the NGF be "split". The NGF presently fulfils two important functions under the Corporations Act:

- It provides investor protection by compensating investors in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act and Regulations 2001; and
- It provides clearing and settlement support by supporting the integrity of ASX's clearing and settlement facilities and providing the financial backing for ASX related clearing houses.

The proposal to split the NGF involves the payment of monies out of the NGF to Australian Clearing House Pty Ltd (ACH), which will assume sole responsibility for clearing counterparty risk. In the event that the NGF is split, the NGF's sole function would be to provide investor compensation.

Section 891A provides that if the Minister is satisfied that a body corporate specified in the regulations has made adequate arrangements covering all or part of the clearing and settlement system support that Division 4 of Part 7.5 of the Act provides for, the Minister may, in writing, direct SEGC to pay a specified amount to that body corporate out of the NGF. SEGC and the body corporate must comply with the direction and with any applicable conditions to which the direction is subject. However, before the Minister can direct SEGC to make a payment out of the NGF, the Minister must be satisfied that, after the payment is made, the NGF will still have an adequate amount of assets to meet claims.

SEGC has made a submission to Treasury that there is justification for the proposal to split the NGF as it will facilitate risk monitoring and management and the administration of any default and is consistent with overseas arrangements for clearing support and investor compensation. The Board contracted PricewaterhouseCoopers to provide assistance in considering the amount to be retained by the NGF in the event that the proposal is implemented. Ultimately, any decision to make a payment out of the NGF rests with the responsible Minister. SEGC understands that the proposal is now well advanced and is awaiting Government decision.

If the Minister determines that a payment should be made out of the NGF to ACH amending regulations to the Corporations Regulations will be introduced, which would have the effect of transferring the liability for clearing and settlement support to ACH. As regulation changes are subject to a non-disallowance process in both Houses of Parliament there is some uncertainty as to when the regulation changes will become effective. It is therefore difficult to predict when, or if, a payment will be made out of the NGF. It is also possible that a further payment may be made out of the NGF to ACH if regulation changes occur to cap investor protection claims which remain the responsibility of the NGF after the split (see below).

Secondly, in December 2003 the Government released a position paper on arrangements for compensation for loss in the financial services sector. This paper states that the basic requirements in the Corporations Act 2001 that markets have compensation arrangements, such as the NGF, should be retained. The paper also recommends further consideration as to restricting access to the NGF to retail clients and/or capping payments from the NGF, and capping levies on participants to fund the NGF. SEGC has made a submission to Treasury in response to the position paper.

SEGC's submission to Treasury included a submission that payments from the NGF be capped. SEGC has made a number of submissions in relation to this issue over the years as it considers that capping payments would ensure the structural soundness of the NGF without any significant reduction in investor protection. Further, capping payments from the NGF is consistent with the practice of other domestic and international investor compensation schemes

SEGC looks forward to continuing to play an active role in the Government's consideration of investor compensation and related issues.

A handwritten signature in black ink, appearing to read 'Clive Batrouney'.

Clive Batrouney  
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 in trust for the purposes set out in the legislation.

The SEGC Board is made up of directors experienced in matters involving the securities industry. The sole member of SEGC is Australian Stock Exchange Ltd (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 ACH (Dealers). It 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. At the time of its formation, the amount in the NGF was \$60.4 million.

The value of the NGF has more than doubled since it was formed. Investment earnings have been the major contributor to the increase. The earnings of

the NGF are income tax exempt. In addition, the NGF has received interest earned from the investment by ASX of trust account deposits lodged by participants with ASX under the former provisions of Part 7.8 of the Corporations Act. The Financial Services Reform Act 2001 repealed these provisions from 11 March 2002. Under transitional arrangements introduced on 14 June 2002, participants of ASX were required to establish a special purpose interest bearing trust account into which they deposited a portion of their trust account balances. The interest earned on these accounts was paid to SEGC as trustee for the NGF. However, these arrangements only continued until such time as participants transitioned to the new FSR regime which was, at the latest, March 2004. Hence, from March 2004 SEGC is not entitled to receive trust account interest.

In accordance with SEGC's investment strategy for the management and investment of the NGF's assets, the NGF has been segregated into two portions which have been invested with two professional portfolio managers. One, the 'reserve pool', is invested in cash or cash like products. The amount allocated to the reserve pool is no less than \$80 million, the minimum amount as determined under the Corporations Act. The remainder, the 'long-term



Figure 1: NGF net assets 1988 - 2004

pool', was invested in a variety of longer term asset classes in a diversified balanced fund. However, in anticipation of the NGF split, SEGC began in 2003 to progressively transfer the long-term pool to a cash fund. The transfer of funds was completed in December 2003. Fluctuations in interest rates and price movements in markets have affected the NGF's earnings on investments.

At 30 June 2004, the net assets of the NGF were \$164.4 million. This compares with \$158.0 million

at the end of the previous financial year.

The net assets of the NGF reflect variations in earnings (see Figure 2), the amount paid to ASX's Financial Industry Development Account (previously Securities Industry Development Account) (see Figure 3), the net amount paid in respect of claims (after recoveries) (see Figure 10) and changes in provisions for claims.

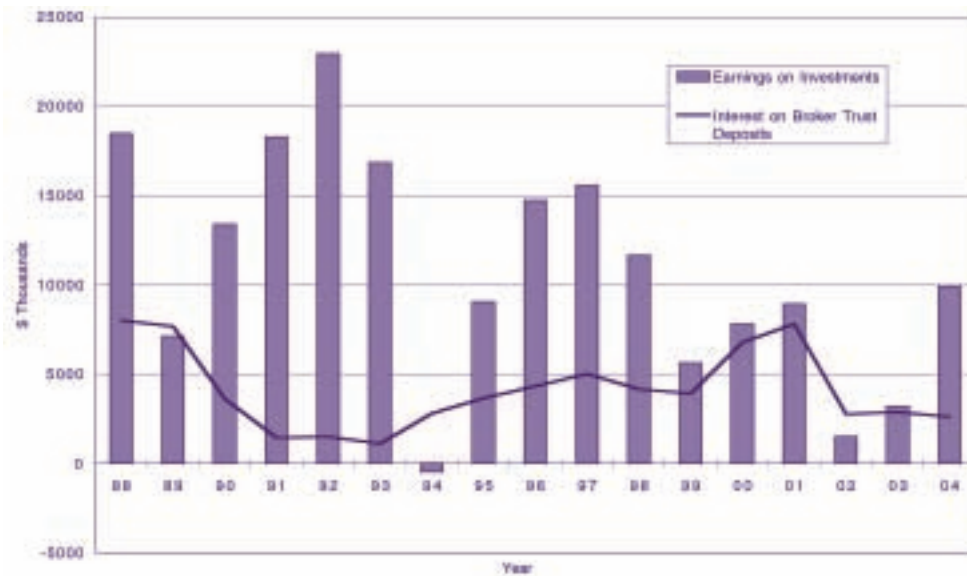


Figure 2: NGF earnings 1988 - 2004

### ***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).

At present, the NGF provides investor protection and clearing and settlement support.

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 been suspended by ASX or by ACH;

- 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 ASTC (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 14% of the 'minimum amount' of the NGF (Subdivision 4.9). Currently, the maximum is \$11.2 million (See below for an explanation of the 'minimum amount').

No claims have been made under Subdivision 4.8.

Further, the following clearing and settlement support claims may be made on the NGF:

- a Dealer may make a claim for completion of certain sales and purchases of quoted securities entered into on ASX's equities and debt markets where the transaction is required to be reported to ASX and is not novated to an ASX-related clearing house (Subdivision 4.3);
- a Dealer or an ASX-related clearing house to which a net payment obligation or a net delivery obligation is owed by the other may make a claim if that obligation is not met (Subdivision 4.5); and
- ASX may make a claim if an obligation of a Dealer under a guaranteed securities loan is not met (Subdivision 4.4).

No claims have been made under Subdivisions 4.4 or 4.5.

As discussed above, ASX has made an application that the NGF be split by way of a payment out of the NGF to ACH. If this occurs ACH will assume sole responsibility for clearing counterparty risk and the NGF will thereafter cover only investor protection claims.

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 ASX traded warrants). However, the NGF does provide a very important level of protection to clients of Dealers who trade on the ASX derivatives market. The protection operates at three levels.

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.

Thirdly, if a Dealer fails to meet a net payment obligation in respect of options transactions the NGF will provide clearing support in accordance with the provisions of subdivision 4.5 discussed above.

The NGF does not provide protection in relation to futures. The ASX Supplemental Compensation Fund covers claims in relation to money or property entrusted to a participant of ASX in respect of actual or proposed dealings in futures.

### ***Reduction of claims***

SEGC may reduce the amount of compensation payable to a 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’ which has been increased over time. Currently the amount is set at \$80 million.

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

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

- it may determine (with the Minister’s approval) to reduce 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 SEGC imposes a levy on ASX, ASX may impose a levy on its participants to go towards the levy payable to SEGC.

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 Corporations Act also provides the Board with flexibility if the amount in the NGF exceeds the ‘minimum amount’. In that circumstance, SEGC may in its discretion pay all or part of the excess to ASX to be kept in a separate account designated as FIDA (previously these payments had to be kept in an account designated as the Securities Industry Development Account (SIDA)). A total of \$126.30 million has been distributed out of the NGF to the FIDA/SIDA account held by ASX since formation of the NGF.

During the financial year, \$5.31 million was distributed to ASX’s FIDA account.

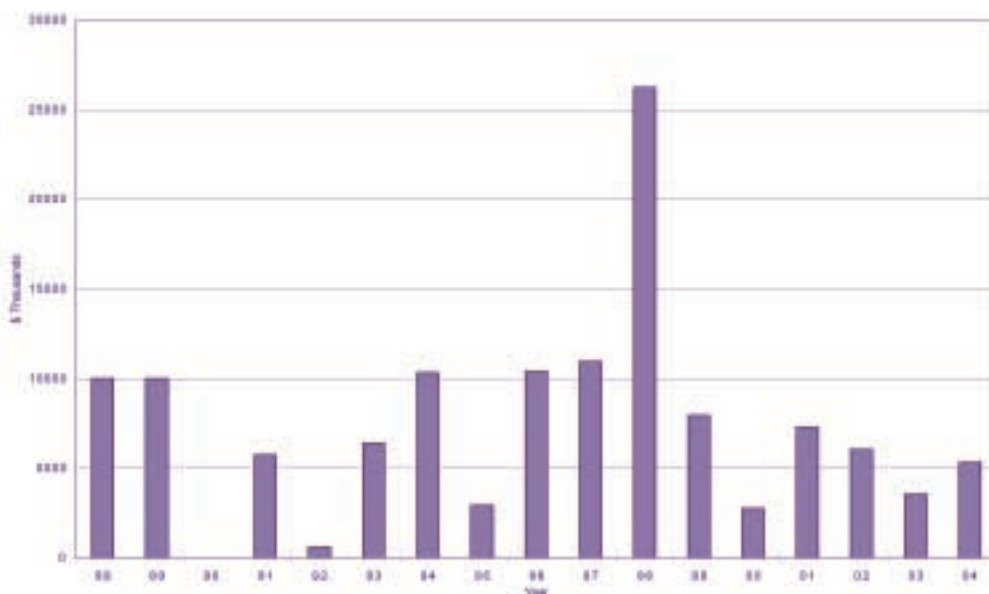


Figure 3: NGF payments to FIDA/SIDA 1988 - 2004



Money held in the FIDA account can only be used for approved purposes. These are purposes approved by the Minister and must relate to the creation of, or participation in, a program for the development of the financial industry that is conducted primarily for a public benefit and is not conducted primarily to

promote the profitability of the commercial operations of ASX. Similar limitations applied previously in relation to SIDA funding. Figure 4 shows the projects for which FIDA/SIDA funds have been used over the last sixteen years.

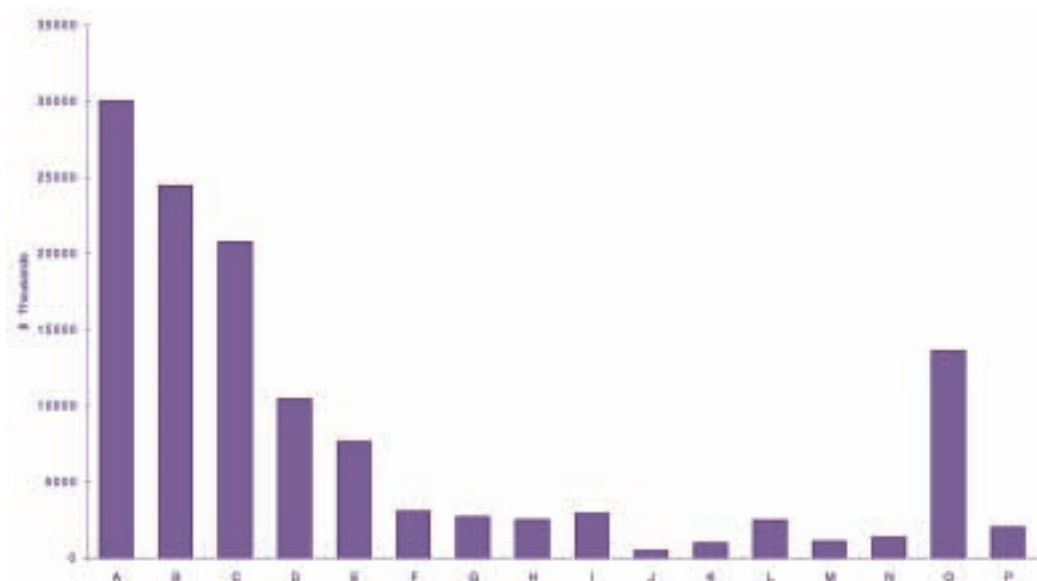


Figure 4: NGF payments to SIDA/FIDA by project 1988 - 2004

**Key to projects**

A	CHES	ASX's Clearing House Electronic Sub-register System for electronic shareholdings and automated electronic clearing and settlement of equities
B	SEATS 97	Upgrading of SEATS
C	DTF	ASX's automated Derivatives Trading Facility for screen-based options trading
D	SEATS	ASX's Stock Exchange Automated Trading System for screen-based trading of equities
E	CORE	ASX's central electronic repository for market and trading data
F	DATS	ASX's Derivatives Automated Trading System (forerunner to DTF)
G	National Data Centre	ASX's Data Centre at Bondi, NSW
H	CENSAS	ASX's Centralised Scrip & Accounting System (forerunner to CHES)
I	SIRCA	Infrastructure support for the Securities Industry Research Centre of Asia-Pacific
J	AGSM	Development of a securities markets teaching laboratory at the Australian Graduate School of Management
K	Internet	ASX's Interactive Internet Site
L	Others	Including ASX Share Ownership Study, Global Accreditation Project (Financial Associations Service Centre) and Corporate Governance Council
M	Industry Research	Individual research projects commissioned or sponsored by ASX
N	SIA	Securities Institute of Australia
O	Education	ASX investor education projects
P	IAS	International Accounting Standards project

## 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.



**Clive M. Batrouney, ASIA, FAIM**, age 63. Non Executive Director.  
Chairman since July 1998. Director since October 1997.

Former Vice Chairman of Australian Stock Exchange Ltd (1994-2002). Former Chairman of ANZ McCaughan Securities Ltd, Australian Stock Exchange (Melbourne) Ltd (1989-1991) and Australian Stock Exchange Ltd Melbourne Advisory Board (1991-1994). Chairman of Telstra Super Pty Ltd and Telstra Super Financial Planning Pty Ltd. Director of Hansen Yuncken Pty Ltd.



**Hon. Keith De Lacy, BA, HonDLitt, DUniv, QDA, FAIM, FAICD**, age 63.  
Independent Non Executive Director. Director since December 1998.

Former Treasurer of Queensland (1989-1996). Chairman of Macarthur Coal Ltd, Trinity Funds Management, CEG Group Limited and Queensland Sugar Ltd. Director of Reef Casino Trust. Chairman of Advance Cairns Limited, Salvation Army Red Shield Appeal, Cairns, Creative Industries Precinct Limited and Centre of Contemporary Arts Cairns. Councillor of AICD, Queensland Division.



**F. Allan McDonald, BEc, FCPA, FCIS, FAIM**, age 64.  
Independent Non Executive Director. Director since May 1993.

Director of GeneralCologne Life Re Australasia Ltd, GeneralCologne Re Australasia Ltd, Brambles Industries Ltd, Brambles Industries plc, DCA Group Ltd, Billabong International Ltd, Ross Human Directions Ltd, Australian Leisure and Hospitality Group Ltd and Multiplex Ltd. Director of a number of private companies.



**Maurice L. Newman, AC, FSIA**, age 66. Non Executive Director. Director since January 1995.

Chairman of Australian Stock Exchange Ltd. Former Executive Chairman of Deutsche Bank Group in Australia (1985-1999). Chancellor of Macquarie University. A Director of Queensland Investment Corporation. Chairman of Tourism New South Wales, Sydney Convention & Visitors Bureau, the Australian Government’s Financial Sector Advisory Council, the Taronga Foundation and the Australian Fathers’ Day Council. Advisor to the Marsh Group of Companies, a Member of the Business Council of Australia’s Chairmen’s Panel and the New South Wales Premier’s Major Event’s Board and a Patron of CEDA.



**Michael J. Sharpe AO, BEc, Hon.DScEcon (Sydney), FCA**, age 66. Non Executive Director. Director since July 1998.

Director of Australian Stock Exchange Ltd. Former Partner of Coopers & Lybrand (1968-1998). Served as Chairman of Audit in Coopers & Lybrand International and was National Audit Partner and a member of the Executive Committee of the Australian Firm. Relevant experience was gained as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, Independent Auditor of the Australian National Audit Office and a member of the Takeover Panel. Served as a Director on many Boards in the last 12 years including having served as a trustee of State Super in NSW for many years.

## DIRECTORS’ ATTENDANCE AT MEETINGS

	Board Proceedings	
	Meetings A	Circulating Resolutions B
CM Batrouney	6(6)	1(1)
K De Lacy	6(6)	2(2)
FA McDonald	5(6)	2(2)
ML Newman	4(6)	1(1)
MJ Sharpe	6(6)	1(1)

A = Meetings attended (Meetings held)

B = Resolutions responded to (Resolutions circulated)

## CORPORATE GOVERNANCE

The Board of SEGC normally consists of six non-executive directors. ASX, as the sole member of SEGC, appoints three directors and those directors appoint three independent directors who:

- are not an affiliate of ASX or a professional adviser to ASX or a related body corporate;
- are not a partner, director, officer or employee of a participant of ASX;
- are not a director, officer or employee of ASX or a related body corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participant of ASX or a related body corporate which would enable the person to influence the management and policies of the participant's stockbroking business.

One of the independent directors, Mr Geoffrey Hone, resigned as of 1 December 2002. The decision to appoint a new director was temporarily deferred given that directors are appointed for a term of three years and given the uncertainty as to the future of SEGC in view of the proposed NGF split and the Government's compensation review (as discussed above). If the proposal to split the NGF is implemented, and SEGC's role is limited to providing investor compensation, consideration will be given to reducing the number of directors on the Board of SEGC to five.

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.

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

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge 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 appointment of the company secretary is approved by the Board.

Administration and accounting services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX and the same risk management framework and policies. The audit and risk committee of ASX notes the financial report of SEGC and confirms that nothing has come to the attention of the committee that would lead it to believe that the report has been prepared on a basis which is not consistent with the ASX Financial Report for the same period.

Note that 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 has a Manager, who is also company secretary and legal counsel to the Board and who is responsible for operational matters.



**Sally Palmer BA (Hons), LLB (Hons), ASIA**, Manager since July 2002.

Previously a solicitor in private practice with over 8 years experience in the areas of commercial litigation and dispute resolution, commercial law, insolvency and securities law.

The Manager is assisted by an administrative assistant and an accounts clerk. The organisational structure is shown below.



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.

## 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.
- **Investigation:** The facts surrounding the claim are ascertained or confirmed by SEGC from relevant sources. For example, SEGC may obtain information from Dealers, registries, liquidators, ASX and ACH, as well as from the claimant. Under the Corporations Act, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** If the claim has been made outside the time limit specified in the Corporations Regulations, the Board determines whether the circumstances are such that the time period for making the claim should be extended. If the Board does not extend the time for making the claim, the claim is barred. 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.
- **Determination:** The Board determines whether to allow or disallow claims made within the time limit and claims for which the Board has extended the time limit. If a claim is allowed, the claimant is provided with replacement 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 so that loss to the NGF is mitigated.

### *Current claims environment*

Over recent years, there has been an increase in the level of share ownership in Australia, in trading activity on ASX’s markets, and in new products. On-line trading and electronic communication generally have become prevalent.

Previous NGF claim trends suggest that dealers should focus on measures to reduce their exposure to fraudulent conduct which may result in an unauthorised transfer of securities. Such measures may relate to identification of the client, checking of holder details, and verification and recording of instructions, particularly where instructions are received from new clients or from referring intermediaries and other agents.

### *Claims processed in the current year*

One new claim was received during the year, which has not yet been determined. This claim is made under Division 4.7 (Unauthorised transfer of securities) of Part 7.5 of the Corporations Regulations.

SEGC’s claims processing activity in the period 1994-2004 is shown in Figure 5.

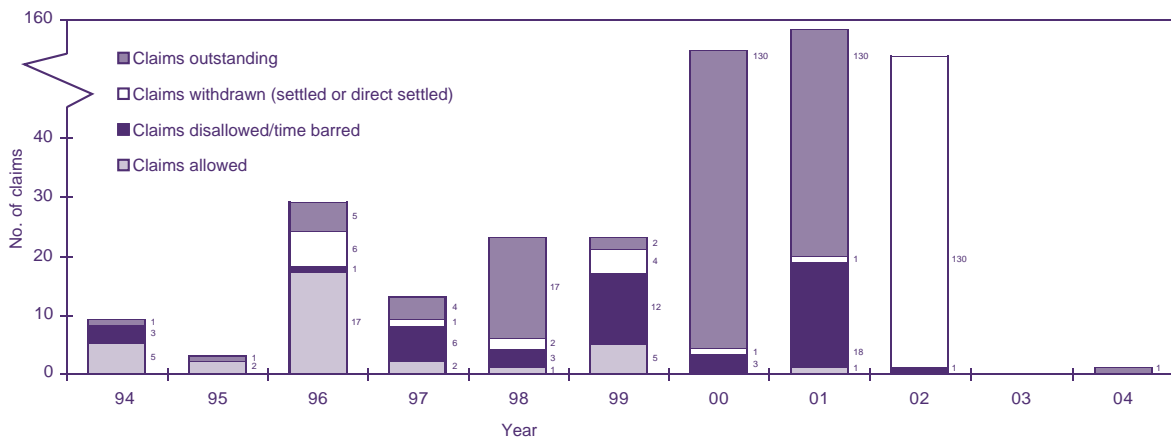


Figure 5: Claims processed 1994 - 2004



### 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 seeking an order directing the Board to allow the claim.

No proceedings were commenced against SEGC during the financial year in respect of any disallowed claims. Figure 6 shows the number of appeals made and concluded since 1988. All appeals since 1997 have been in respect of disallowed claims in relation to unauthorised transfer of securities (present Subdivision 4.7).

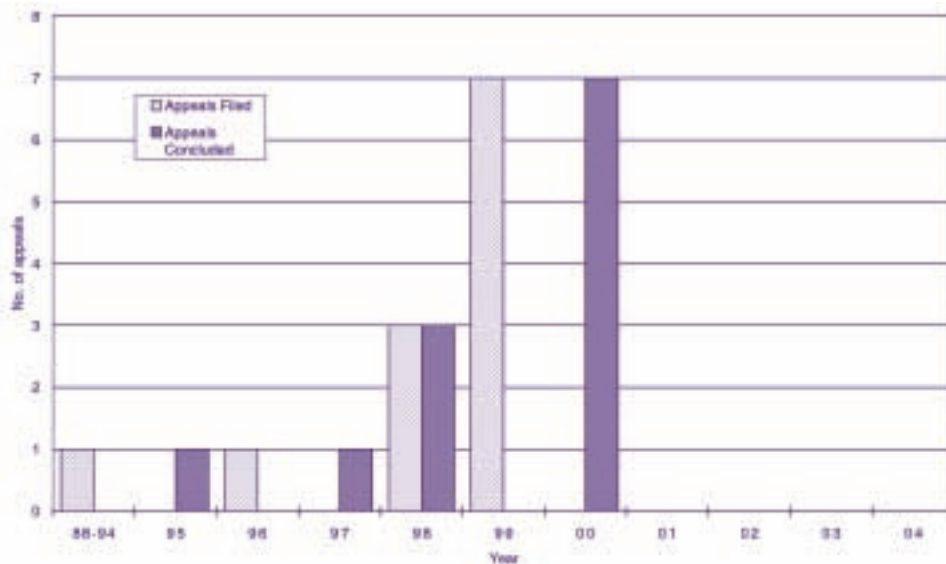


Figure 6: Appeals against disallowance 1988 - 2004

### Claims history and trends

Since formation of the NGF, SEGC has received a total of 5,556 claims. As shown in Figure 7, most claims were received in the first four years. The high number of claims in those years resulted from seven Dealers becoming insolvent during the first three years of the NGF’s operation.

Information in this annual report about claims received refers to formal claims. It does not include potential claims notified to SEGC which do not result in a formal claim. In relation to the Dealer insolvencies which have occurred, a large number of potential claims were notified to SEGC, some of which were later satisfied by the relevant liquidator without the need for a formal claim on the NGF.

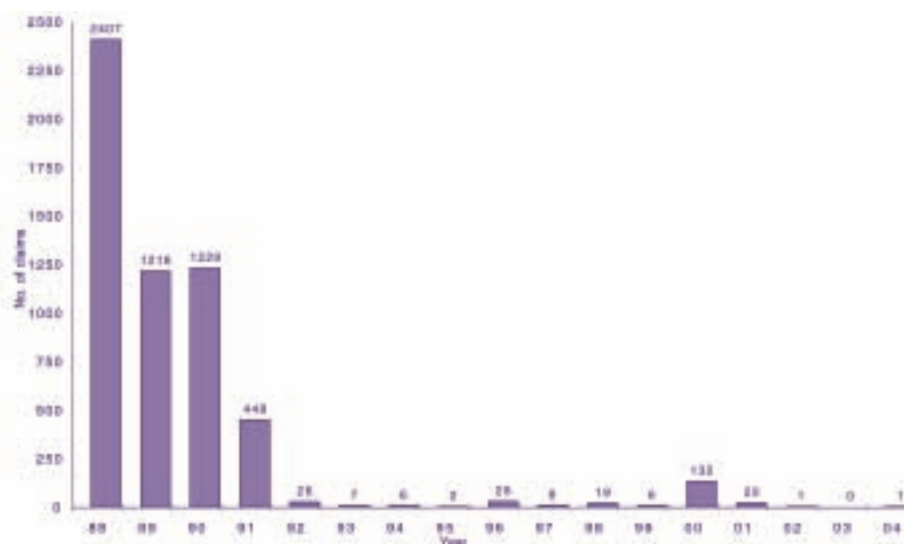


Figure 7: Number of claims received 1988 - 2004

Claims received since 1988 have been in respect of a total of 40 different Dealers. The number of different Dealers involved in claims received in any one year has ranged from one to nine. Some dealers have been involved in claims received in more than one year.

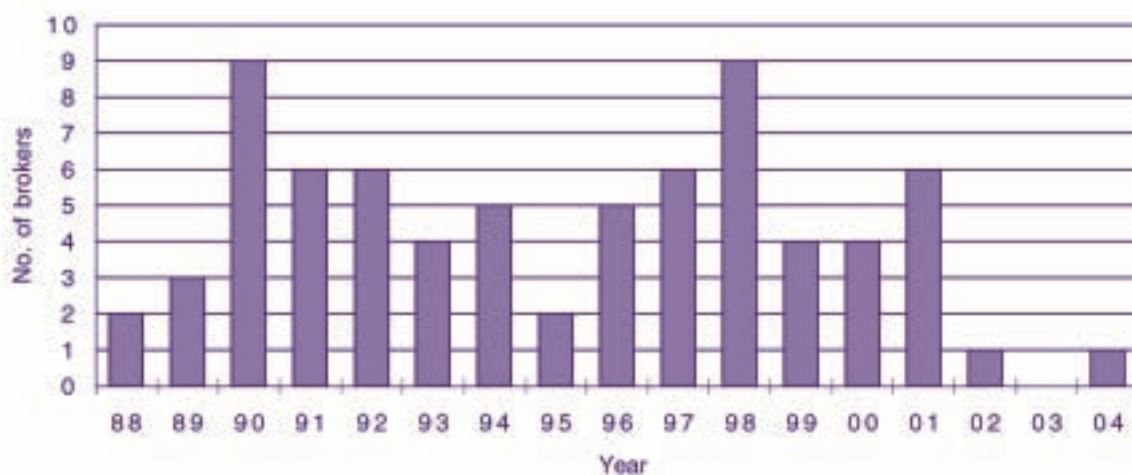


Figure 8: Number of brokers involved in claims received 1988 - 2004

The NGF claims history may be conveniently divided into two periods.

### **1988-1993**

During the first six years, eight Dealers became insolvent: two in the 1987-1988 financial year; three in 1988-1989; two in 1989-1990; and one in 1992-1993. A total of 5,333 claims were received. Almost all the claims in this period arose out of the insolvency of one of those Dealers, and were made under the equivalent provisions to the present Subdivisions 4.3 and 4.9. Those insolvencies were largely attributable to poor management practices, back office and other inefficiencies, and losses from principal trading. The failures occurred in the aftermath of the October 1987 stockmarket fall. Very few claims were made for unauthorised transfer of securities.

### **1994-2004**

Since 1993, a number of significant improvements have occurred in ASX’s settlement and transfer systems and in Dealers’ practices. There has also been improved monitoring and reporting by Dealers of their capital adequacy, and more sophisticated risk management techniques have been adopted by Dealers and ASX clearing houses.

In this period, 223 claims have been received. There has been only one Dealer insolvency affecting the NGF, which occurred in May 1995 and was responsible for all but four of the claims received in 1996 and for several of the claims received in subsequent years. Whilst there were fewer insolvencies, there was a significant increase in claims for unauthorised transfer of securities. Although it is possible for an unauthorised transfer to occur without fraud, claims have typically involved allegations of fraudulent conduct, whether by a person internal or external to the Dealer which effected the transfer.

Figure 9 shows the categories of claims received in the 1994-2004 period. In the last five years, over 95% of the claims received have related to the unauthorised transfer of securities (present Subdivision 4.7).

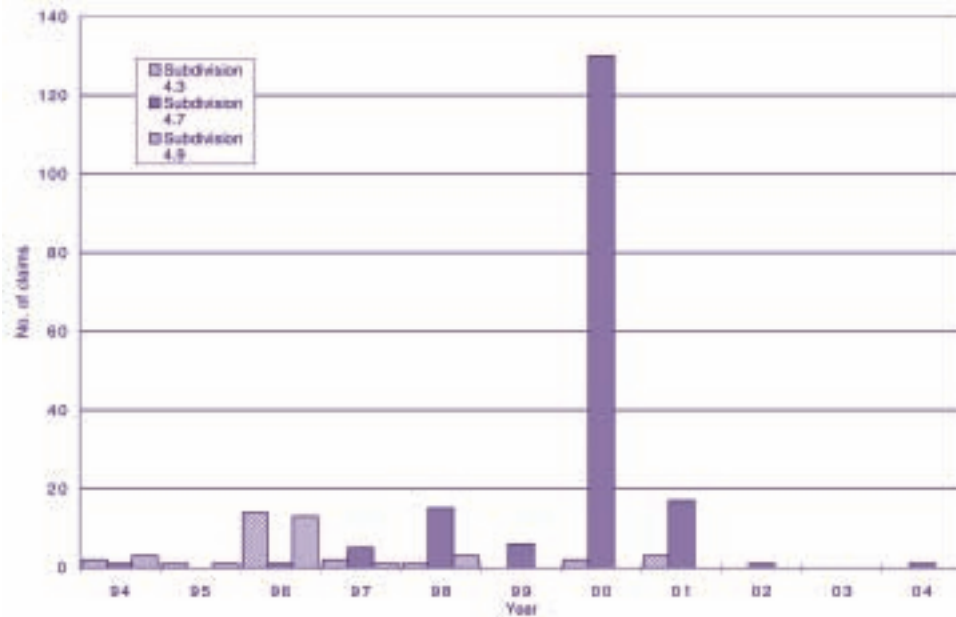


Figure 9: Category of claims received 1994 - 2004

### *Claim payments and recoveries*

Since the NGF was formed, \$21.65 million has been paid from the NGF in respect of claims, and \$13.43 million of that amount has been recovered. As may be expected, there is a variable lag between payment and recovery (see Figure 10).

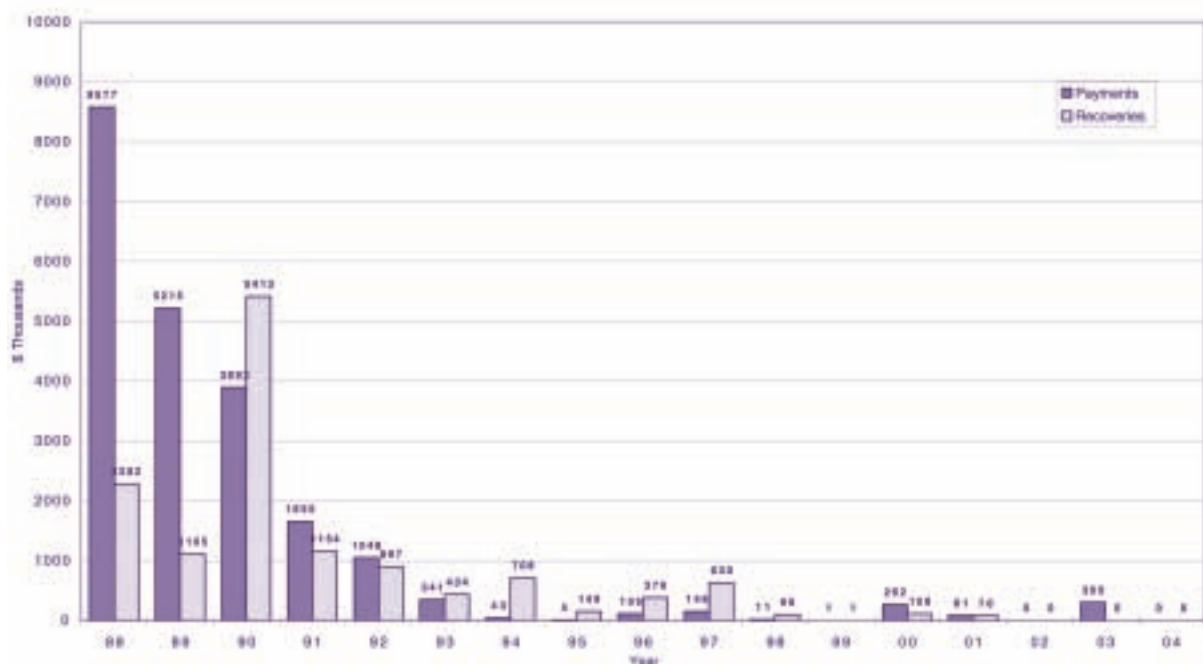


Figure 10: Claim payments and recoveries 1988 - 2004

In the 1994-2004 period, \$948,267 has been paid in respect of 170 claims. As Figures 11 and 12 show, although more than three quarters of the total number of claims paid involved amounts of less than \$20,000, payments of greater than \$20,000 per claim accounted for almost three quarters of the total amount paid in this period. Four claims, all relating to unauthorised transfer of securities (present Subdivision 4.7), involved payments of \$50,000 or more.

Note that during the 2002-2003 financial year a payment of \$300,000 was made as a global settlement of 129 individual claims. As this payment was not apportioned to the individual claims it has not been included in Figures 11 and 12.

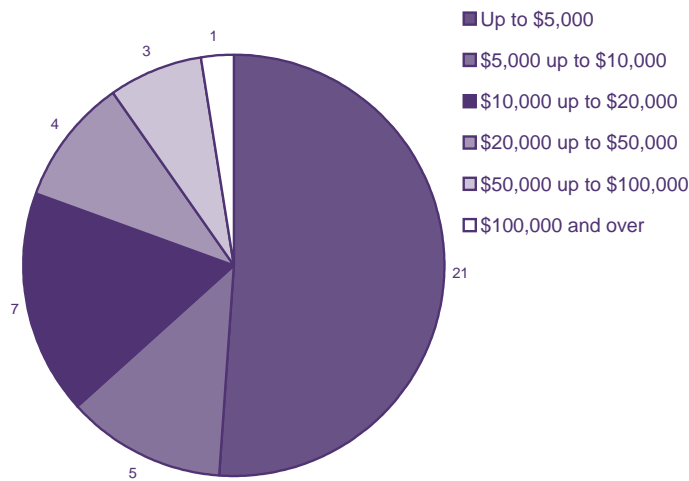


Figure 11: Claim payments 1994 - 2004 by number

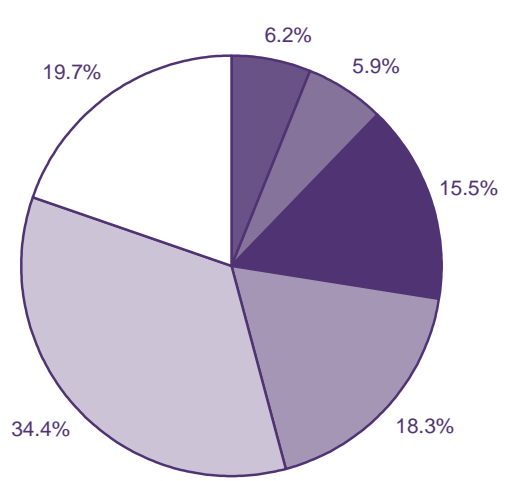


Figure 12: Claim payments 1994 - 2004 by size

Figure 13 shows claim payments in the 1994-2004 period by category of claim. Over three quarters of the total amount paid has been in respect of claims in relation to unauthorised transfer of securities (present Subdivision 4.7).

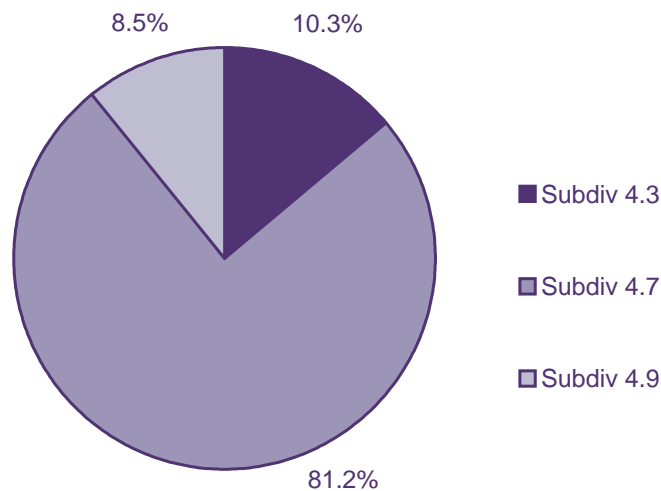


Figure 13: Claim payments 1994 - 2004 by category

## FINANCIAL STATEMENTS

### *DIRECTORS' REPORT*

The directors present their report together with the financial report of Securities Exchanges Guarantee Corporation Limited ("SEGC") for the year ended 30 June 2004, including the financial report of the National Guarantee Fund ("the NGF") and the auditor's report thereon.

### DIRECTORS

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

Clive Michael Batrouney (Chairman);  
Fergus Allan McDonald;  
Maurice Lionel Newman AC;  
Michael John Sharpe AO; and  
Hon Keith De Lacy

Mr Batrouney and Mr Newman were reappointed directors as from 19 October 2003. Mr Sharpe was reappointed director as from 1 July 2004.

For details of the directors' qualifications, experience and special responsibilities, refer to pages 7 to 8, which are to be read as part of this report. Directors' meetings and their attendance at those meetings are detailed on page 8. Those details are to be read as part of this report.

### PRINCIPAL ACTIVITY

SEGC is a statutory trustee and holds the assets of the NGF in trust for the purposes set out in the provisions of Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. It administers the NGF in accordance with those provisions.

The NGF presently fulfils two important functions under the Corporations Act:

- It provides investor protection by compensating investors in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act and Regulations 2001; and
- It provides clearing and settlement support by supporting the integrity of ASX's clearing and settlement facilities and providing the financial backing for ASX related clearing houses.

There were no significant changes in the nature of the company's or the Fund's activities during the year.

### REVIEW AND RESULTS OF OPERATIONS

SEGC did not trade in its own right during the financial year. The net profit from ordinary activities before distributions of the NGF for the year was \$11,761,912 (2003: \$3,033,890) before distributions of \$5,313,913 (2003: \$3,528,353) to the Financial Industry Development Account (FIDA) held by Australian Stock Exchange Limited ("ASX") under Corporations Regulation 7.5.89.

During the financial year, one claim was made on SEGC. This claim has not yet been determined. Payments in respect of claims totalled \$Nil (2003: \$300,000). Total recoveries were \$Nil (2003: \$Nil). For further details about claims, refer to pages 11 to 16.

### 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 or the NGF during the financial year under review.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The main developments which occurred during the year and which may have a significant impact on the future operations of SEGC and the NGF are as follows.

Firstly, in July 2003 ASX made an application under section 891A of the Corporations Act 2001 that the NGF be "split". The proposal to split the NGF involves the payment of monies out of the NGF to Australian Clearing House Pty Ltd (ACH), which will assume sole responsibility for clearing counterparty risk. In the event that the NGF is split, the NGF's sole function would be to provide investor compensation.

Section 891A provides that if the Minister is satisfied that a body corporate specified in the regulations has made adequate arrangements covering all or part of the clearing and settlement system support that Division 4 of Part 7.5 of the Act provides for, the Minister may, in writing, direct SEGC to pay a specified amount to that body corporate out of the NGF. SEGC and the body corporate must comply with the direction and with any applicable conditions to which the direction is subject. However, before the Minister can direct SEGC to make a payment out of the NGF the Minister must be satisfied that, after the payment is made, the NGF will still have an adequate amount of assets to meet claims.

SEGC has made a submission to Treasury that there is justification for the proposal to split the NGF as it will facilitate risk monitoring and management and the administration of any default and is consistent with overseas arrangements for clearing support and investor compensation. The Board contracted PricewaterhouseCoopers to provide assistance in considering the amount to be retained by the NGF if the proposal is implemented. Ultimately, any decision to make a payment out of the NGF rests with the responsible Minister. SEGC understands that the proposal is now well advanced and is awaiting Government decision.

If the Minister determines that a payment should be made out of the NGF to ACH amending regulations to the Corporations Regulations will be introduced, which would have the effect of transferring the liability for clearing and settlement support to ACH. As regulation changes are subject to a non-disallowance process in both Houses of Parliament there is some uncertainty as to when the regulation changes will become effective. It is therefore difficult to predict when, or if, a payment will be made out of the NGF. It is also possible that a further payment may be made out of the NGF to ACH if regulation changes occur to cap investor protection claims which remain the responsibility of the NGF after the split (see below).

Secondly, in December 2003 the Government released a position paper on arrangements for compensation for loss in the financial services sector. This paper states that the basic requirements in the Corporations Act 2001 that markets have compensation arrangements, such as the NGF, should be retained. The paper also recommends further consideration as to restricting access to the NGF to retail clients and/or capping payments from the NGF, and capping levies on participants to fund the NGF. SEGC has made a submission to Treasury in response to the position paper.

SEGC's submission to Treasury included a submission that payments from the NGF be capped. SEGC has made a number of submissions in relation to this issue over the years as it considers that capping payments would ensure the structural soundness of the NGF without any significant reduction in investor protection. Further, capping payments from the NGF is consistent with the practice of other domestic and international investor compensation schemes.

Finally, in accordance with a Regulation which came into effect on 14 June 2002, participants of ASX were required to deposit two-thirds of their trust account balances into a special purpose trust account and pay interest on this account to SEGC as trustee for the NGF. However, these arrangements only continued until such time as participating organisations transitioned to the new Financial Services Reform regime, which was, at the latest, March 2004. Hence, from March 2004 SEGC is not entitled to receive interest on brokers trust accounts.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The directors of SEGC are not aware of any significant material environmental incidents arising from the operations of SEGC or the NGF during the financial year.

## EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of SEGC, to affect significantly the operations of SEGC or the NGF, the results of those operations, or the state of affairs of SEGC or the NGF, in subsequent financial years.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

Since the end of the previous financial year, the entity has paid an insurance premium in respect of directors' and officers' liability insurance for current and former officers of SEGC.

The officers of SEGC covered by the insurance include the directors referred to earlier in this report and the company secretary, Sally Palmer.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The constitution of SEGC provides that, to the extent permitted by law, the 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 involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Act 2001.

## CORPORATE GOVERNANCE

The Board of SEGC normally consists of six non-executive directors. ASX, as the sole member of SEGC, appoints three directors and those directors appoint three independent directors who:

- are not an affiliate of ASX or a professional adviser to ASX or a related body corporate;
- are not a partner, director, officer or employee of a participating organisation of ASX;
- are not a director, officer or employee of ASX or a related body corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participating organisation of ASX or a related body corporate which would enable the person to influence the management and policies of the participating organisation's stockbroking business.

One of the independent directors, Mr Geoffrey Hone, resigned as of 1 December 2002. The decision to appoint a new Director was temporarily deferred given that directors are appointed for a term of three years and given the uncertainty as to the future of SEGC in view of the proposed NGF split and the Government's compensation review. If the proposal to split the NGF is implemented, and SEGC's role is limited to providing investor compensation, consideration will be given to reducing the number of directors on the Board of SEGC.



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.

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge 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.

Administration and accounting services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX. The audit and risk committee of ASX notes the financial report of SEGC and confirms that nothing has come to the attention of the committee that would lead it to believe that the report has been prepared on a basis which is not consistent with the ASX Financial Report for the same period.

Dated at Melbourne this 26th day of July 2004.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Clive M Batrouney', written over a horizontal line.

Clive M Batrouney  
Chairman

**SECURITIES EXCHANGE GUARANTEE CORPORATION LIMITED**

**STATEMENTS OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004**

	2004	2003
	\$	\$
Profit from ordinary activities	-	-

**STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2004**

	Note	2004	2003
		\$	\$
Total Equity	2	-	-

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

	2004	2003
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE/(DECREASE) IN CASH HELD	-	-
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	-	-
CASH AT THE END OF THE FINANCIAL YEAR	-	-

The statements of financial performance, the statements of financial position and the statements of cash flows are to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004	2003
		\$	\$
<b>Revenues from ordinary activities</b>			
Movements in market valuation of investment units – UBS cash plus fund		249,125	616,913
Movements in market valuation of investment units – Schroder enhanced cash management fund		1,327,058	6,738
Distributions – UBS cash plus fund		4,278,638	3,559,342
Distributions – Schroder enhanced cash management fund		1,789,945	-
Distributions – Schroder balanced fund		3,672,281	2,776,876
Correction of fundamental error		-	(2,398,280)
Interest revenue – broker trust accounts		2,605,729	2,870,772
Interest revenue – other		3,208	2,041
Refund of imputation credits		-	241,038
<b>Total revenues from ordinary activities</b>		<b>13,925,984</b>	<b>7,675,440</b>
<b>Expenses from ordinary activities</b>			
Movements in market valuation of investment units – Schroder balanced fund		1,358,451	4,006,017
Audit fees		15,500	20,000
Management fees – Schroder enhanced cash management fund		66,120	-
Support staff and administration		724,001	615,533
<b>Total expenses from ordinary activities</b>		<b>2,164,072</b>	<b>4,641,550</b>
<b>Net profit from ordinary activities before distributions</b>		<b>11,761,912</b>	<b>3,033,890</b>
Distributions to Financial Industry development Account (FIDA) held by Australian Stock Exchange Limited	5	5,313,913	3,528,353
<b>Net profit/(loss) from ordinary activities after distributions</b>		<b>6,447,999</b>	<b>(494,463)</b>

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Note	2004	2003
		\$	\$
<b>CURRENT ASSETS</b>			
Cash assets		617	75,097
Receivables	6	3,111	244,157
Other financial assets – investments	7	164,625,526	157,782,493
<b>Total current assets</b>		<b>164,629,254</b>	158,101,747
<b>TOTAL ASSETS</b>		<b>164,629,254</b>	158,101,747
<b>CURRENT LIABILITIES</b>			
Payables		77,154	10,000
Loan from ASX Operations Pty Limited	13	117,938	105,584
<b>Total current liabilities</b>		<b>195,092</b>	115,584
<b>TOTAL LIABILITIES</b>		<b>195,092</b>	115,584
<b>Net assets</b>		<b>164,434,162</b>	157,986,163
<b>Funds</b>			
Retained funds	8	164,434,162	157,986,163
<b>Total funds</b>		<b>164,434,162</b>	157,986,163

The statements of financial position are to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from the disposal of other investments	68,471,898	16,085,384
Payments for the purchase of other investments	(69,028,616)	(12,234,000)
Distributions received in cash from Schroder balanced fund	3,672,281	-
Interest received – broker trust accounts	2,605,729	2,870,772
Interest received – other	3,208	2,041
Refund of imputation credits	241,038	278,105
Payments to suppliers	(726,105)	(1,084,595)
Claims paid	-	(300,000)
Payments to FIDA	(5,313,913)	(5,567,382)
<b>NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES</b>	<b>12 (74,480)</b>	<b>50,325</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>NET (DECREASE)/INCREASE IN CASH HELD</b>	<b>(74,480)</b>	<b>50,325</b>
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<b>75,097</b>	<b>24,772</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>617</b>	<b>75,097</b>
<b>RECONCILIATION OF CASH</b>		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash assets	617	75,097
<b>CLOSING CASH BALANCE</b>	<b>617</b>	<b>75,097</b>

#### DEFINITION OF CASH

For the purposes of the statements of cash flows, cash includes cash at bank. The cash balance at year-end reflects the balance in the day to day bank account. However, the UBS cash plus fund is used to fund working capital requirements as required.

All investment units held are in cash based funds.

#### NON-CASH TRANSACTIONS

Distributions received from investments are normally automatically reinvested in additional investment units. Therefore, they are considered as non-cash transactions for cash flow purposes.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Securities Exchanges Guarantee Corporation Limited ("SEGC") is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the National Guarantee Fund ("the Fund"). SEGC does not trade in its own right.

Australian Stock Exchange Limited ("ASX"), as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the assets of SEGC in the event of SEGC being wound up while ASX is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC contracted before it ceases to be a member for payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

### 2. LIABILITIES OF SEGC AND RIGHT OF INDEMNITY

The liabilities of the Fund at 30 June 2004 of \$195,092 are liabilities of SEGC (2003: \$115,584). As set out in section 889C(2) of the Corporations Act 2001, the assets of the Fund are the property of SEGC but are held in trust for the purposes set out in Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. SEGC has a right of indemnity from the assets of the Fund in respect of liabilities properly incurred by SEGC on behalf of the Fund.

### 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies that have been adopted by SEGC and the Fund in the preparation of this financial report are:

#### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs and, except for investments, which have been recorded at their current market values as advised by the investment managers, does not take into account changing money values. The accounting policies have been consistently applied and are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

#### (b) Revenue recognition

##### *Movements in market valuation of investment units*

The net movement in the fair value of investment units in managed funds are recognised as revenues or expenses, as appropriate.

##### *Distributions revenue*

Distribution revenue from investments is recognised as it is received.

##### *Interest revenue*

Interest revenue is recognised as it is received.

##### *Imputation credit refunded*

Imputation credits attaching to distributions from investments are refundable from the taxation authority. As a result, imputation credits arising from distributions are recognised as revenue on an accruals basis.

### 3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Claims

Claims are recognised on an accruals basis.

If SEGC allows a claim, SEGC is subrogated to the claimant's rights and remedies (section 892F of the Corporations Act 2001). No allowance has been made for potential recoveries by SEGC upon the exercise of its rights of subrogation.

#### (d) Income tax

No provision is made for income tax as SEGC/the Fund have received notification from the Australian Taxation Office (ATO) of endorsement as an income tax exempt charitable entity.

#### (e) Units in managed funds

SEGC's investments are divided into two pools which have been invested with two professional portfolio managers. One, the 'reserve pool', is invested with UBS Asset Management (Australia) Limited in cash or cash like products (UBS cash plus fund). The amount allocated to the reserve pool is no less than \$80 million, the minimum amount as determined under the Corporations Act 2001. The remainder is invested with Schroder Investment Management Australia Limited. In anticipation of the proposed Fund split, SEGC has transferred its long-term pool previously invested in a diversified balanced fund (Schroder balanced fund) to a cash fund (Schroder enhanced cash management fund). Accordingly, the Schroder balanced fund was closed on 16 December 2003.

Units in managed funds at balance date are stated at market value. Increases or decreases in the market value are recognised in the statement of financial performance.

#### (f) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Payments to FIDA are not subject to GST.

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 statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

### 4. IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ending 30 June 2006, SEGC and the Fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP).

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that may change the current assessment of the impact of IFRS on SEGC and the Fund. The impact of IFRS on future financial years will depend on the particular circumstances prevailing in those years. Accordingly, there can be no assurances that the financial performance and financial position of SEGC and the Fund, as disclosed in this financial report, would not be significantly different if determined in accordance with IFRS.

The impact of the transition to IFRS on SEGC and the Fund is being reviewed as part of the ASX IFRS project. The most significant accounting standard identified which may impact SEGC and NGF is AASB 139 "Financial instruments – recognition and measurement" which requires all financial instruments to be recognised in the statement of financial position at fair value. We expect the current accounting treatment of the units in managed funds to be consistent with the proposed treatment under IFRS.



## 5. FINANCIAL INDUSTRY DEVELOPMENT ACCOUNT (FIDA)

Subregulation 7.5.89(1) of the Corporations Regulations 2001 confers on the Board of SEGC a discretion to pay amounts in excess of the minimum amount to ASX to be held in FIDA under subregulation 7.5.89(3). Money in FIDA may only be used for purposes approved by the Minister under regulation 7.5.88 of the Corporations Regulations. The amounts paid to FIDA during the financial year and the purposes with which those payments were connected are:

	2004	2003
	\$	\$
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	2,000,000	1,000,000
International accounting standards (Financial Reporting Council)	1,000,000	1,000,000
Securities Industry Research Centre - Infrastructure	500,000	625,000
Investor education initiatives (1 Jul 2002 – 30 Jun 2005)	650,000	325,000
ASX Corporate Governance Council	410,000	-
Share ownership research (1 Jul 2002 – 30 Jun 2005)	300,000	150,000
Industry research (1 Jan 2003 – 31 Dec 2005)	150,000	-
Industry research (1 Jan 2000 – 31 Dec 2002)	-	234,090
Global accreditation project (Financial Associations Service Centre)	90,078	404,923
Public investor education (leverage equities, warrants, education initiatives)	83,767	90,174
Securities Institute of Australia (development of content management system)	50,603	5,518
Delisted.com.au (1 Jul 2002 – 30 Jun 2004)	50,000	-
International share market education	19,465	-
ASX market multiples research project	10,000	82,523
Face to face education (1 Jul 1999 – 30 Jun 2002)	-	1,378,000
ASX investor education projects	-	192,755
Education campaign	-	53,499
Interest rate securities education project	-	25,900
Total amounts paid	5,313,913	5,567,382
Reversal of amounts accrued at 30 June 2002	-	(2,039,029)
Total distributions to FIDA	5,313,913	3,528,353

## 6. RECEIVABLES

Imputation credits refundable	-	241,038
Other receivables	3,111	3,119
	3,111	244,157

## 7. OTHER FINANCIAL ASSETS - INVESTMENTS

### Units in managed funds

UBS cash plus fund	84,736,176	83,323,976
Schroder enhanced cash management fund	79,889,350	10,006,738
Schroder balanced fund (closed 16 December 2003)	-	64,451,779
	164,625,526	157,782,493

## 8. RETAINED FUNDS

Balance at the beginning of the financial year	157,986,163	158,480,626
Net profit/(loss) after distributions to FIDA	6,447,999	(494,463)
Balance at the end of the financial year	164,434,162	157,986,163

## 9. COMMITMENTS

The following table outlines all projects approved for FIDA funding by the Minister and not yet claimed. Subregulation 7.5.89(1) of the Corporations Regulations 2001 confers on the Board of SEGC a discretion to pay amounts in excess of the minimum amount to ASX's FIDA account to be used for purposes approved by the Minister.

	2004 \$	2003 \$
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	3,000,000	5,000,000
Securities Institute of Australia (development of content management system)	1,093,879	1,144,482
Securities Industry Research Centre – Infrastructure (1 Jan 2003 – 31 Dec 2005)	1,000,000	1,500,000
Investor education initiatives (1 Jul 2002 – 30 Jun 2005)	975,000	1,625,000
Share ownership research (1 Jul 2002 – 30 Jun 2005)	450,000	750,000
Industry research (1 Jan 2003 – 31 Dec 2005)	300,000	450,000
Public investor education (leverage equities, warrants, education initiatives)	264,059	347,826
Securities Markets History (1 Jul 2003 – 30 Jun 2005)	275,000	-
Delisted.com.au (1 Jul 2002 – 30 Jun 2004)	50,000	-
Interest rate securities education project	39,940	39,940
International share market education	17,935	37,400
ASX market multiples research project	14,081	24,081
ASX education project – fixed interest securities	5,782	5,782
International accounting standards (Financial Reporting Council)	-	1,000,000
Global accreditation project (Financial Associations Service Centre)	-	90,078
<b>Total commitments</b>	<b>7,485,676</b>	<b>12,014,589</b>

## 10. CONTINGENT LIABILITIES OF THE FUND

At 30 June 2004, one contingent liability exists in respect of a claim relating to one participant of ASX. At present it is not possible to ascertain whether there is any basis for the claim and management believes that the total value of the claim would not be in excess of \$110,000.

## 11. SEGMENT REPORTING

SEGC and the Fund operate wholly in the Australian securities industry.

## 12. NOTES TO THE STATEMENTS OF CASH FLOWS OF THE FUND

### Reconciliation of the net profit/(loss) from ordinary activities to the net cash flows from operating activities:

Net profit/(loss) from ordinary activities after distributions	6,447,999	(494,463)
(Increase)/decrease in investments	(6,843,033)	3,295,812
Decrease in receivables	241,046	42,229
Increase/(decrease) in payables	67,154	(52,396)
Decrease in provisions	-	(400,000)
Decrease in amounts owing to FIDA	-	(2,039,029)
Increase/(decrease) in other liabilities	12,354	(301,828)
<b>Net cash (used)/provided by operating activities</b>	<b>(74,480)</b>	<b>50,325</b>

### 13. RELATED PARTY DISCLOSURES

#### Directors

The directors of SEGC during the financial year were:

Clive Michael Batrouney (Chairman);

Fergus Allan McDonald;

Maurice Lionel Newman AC;

Michael John Sharpe AO; and

Keith De Lacy

All directors were in office for the full financial year unless otherwise stated.

Mr CL Batrouney, Mr ML Newman and Mr MJ Sharpe were each appointed by ASX. Mr ML Newman and Mr MJ Sharpe are also directors of ASX and Mr CL Batrouney is a former director of ASX (retired 31 July 2002).

Mr MJ Sharpe was, from 1968 to 1998, a partner in Coopers & Lybrand. He receives retirement benefits including an office and secretarial services, negotiated at the time of his retirement, from PricewaterhouseCoopers, who render consulting services in the ordinary course of business.

#### Related party transactions

During the year, SEGC incurred management fees of \$427,614 inclusive of GST (2003: \$425,367) in respect of staff, administration and accounting services provided by ASX Operations Pty Limited.

The balance owing to ASX Operations Pty Limited by SEGC at 30 June 2004 was \$117,938 (2003: \$105,584). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

### 14. DIRECTORS' REMUNERATION

	2004	2003
	\$	\$
Directors' fees paid or payable, in respect of the financial year, to the directors of SEGC are as follows:		
Mr C M Batrouney	54,500	35,970
Mr F A McDonald	27,250	23,817
Mr M L Newman	27,250	22,537
Mr M J Sharpe	27,250	23,783
Mr K De Lacy	27,250	23,817
Mr G W Hone (resigned 1 December 2002)	-	9,923
Total income paid or payable, or otherwise made available, in respect of the financial year, to all directors of SEGC, directly or indirectly, from the entity or any related party:	163,500	139,847

Apart from the directors fees referred to above, which are paid out of the NGF in accordance with section 889H of the Corporations Act 2001, no amount has been paid by any related party of SEGC to directors in respect of their duties as directors of SEGC.

	2004	2003
	No.	No.
The number of directors of SEGC whose income (including superannuation contributions) falls within the following bands is:		
\$0 - \$9,999	-	1
\$20,000 - \$29,999	4	4
\$30,000 - \$39,999	-	1
\$50,000 - \$59,999	1	-

## 15. AUDITORS' REMUNERATION

### Audit services:

Auditors of the company – KPMG

Audit and review of the financial reports

All the amounts shown above are exclusive of GST.

2004	2003
\$	\$
15,500	20,000

## 16. FINANCIAL INSTRUMENTS

### (a) Credit risk

The credit risk on financial assets of the Fund, which has been recognised on the statement of financial position, is generally the carrying amount.

Credit risk relating to units in managed funds is managed by segregating the Fund into two portions in accordance with an investment strategy approved by the Board. One portion, the "reserve pool", is invested in the UBS cash plus fund in cash or cash-like products. The amount allocated to the reserve pool is the "minimum amount", as described under the Corporations Act 2001 (currently \$80 million). The remainder, the "long term pool", is invested in the Schroder enhanced cash management fund. Refer note 3(e) for further details.

### (b) Interest rate risk

The fund has exposure to interest rate risk. Interest rate risk arises in relation to trading securities comprising short-term deposits, and cash at bank. The Fund's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below. 'Other financial assets – investments' comprise investment units in cash based managed funds. Although they have significant exposure to interest rate risk, they are classified as non-interest bearing since the investments derive distribution income and not interest income. The interest rate risk translates to market risk as it affects the investment valuations of these financial assets, as discussed below at note 16(c).

	Interest bearing		Non-interest bearing		Total	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash assets	617	75,097	-	-	617	75,097
Receivables	-	-	3,111	244,157	3,111	244,157
Other financial assets – investments	-	-	164,625,526	157,782,493	164,625,526	157,782,493
	617	75,097	164,628,637	158,026,650	164,629,254	158,101,747
<b>Financial liabilities</b>						
Payables	-	-	77,154	10,000	77,154	10,000
Other	-	-	117,938	105,584	117,938	105,584
	-	-	195,092	115,584	195,092	115,584
<b>Net financial assets</b>	617	75,097	164,433,545	157,911,066	164,434,162	157,986,163

The weighted average interest rate for cash assets during the year was 4.8% (2003: 4.1%).

## 16. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Market risk

The Fund is exposed particularly through its managed fund portfolio, to market risks influencing investment valuations. In general, market risks are minimised through segregating the Fund into two portions in accordance with an investment strategy approved by the Board. Each portion is managed by a professional portfolio manager. One portion, the "reserve pool", is invested in the UBS cash plus fund in cash or cash-like products. The amount allocated to the reserve pool is the "minimum amount", as described under the Corporations Act 2001 (currently \$80 million). The remainder, the "long term pool", is invested in the Schroder enhanced cash management fund. Refer note 3(e) for further details.

### (d) Liquidity risk

The liquidity risks associated with the need to pay any claims, as determined by SEGC, are mitigated by investing in cash based funds

### (e) Net fair values of financial assets and liabilities

The entity's financial assets and liabilities carried in the statement of financial position are carried at amounts that approximate net fair value. Units in managed funds are valued at market value.

## 17. SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the financial year to the date of this report which has significantly affected, or may significantly affect, the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years.

## DIRECTORS' DECLARATION

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

(a) the financial statements and notes of SEGC and the National Guarantee Fund ("the Fund") are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the company and the Fund as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company and the Fund will be able to pay their debts as and when they become due and payable.

Dated at Melbourne this 26th day of July 2004.

Signed in accordance with a resolution of the directors:



CLIVE M BATROUNEY

Chairman

## INDEPENDENT AUDIT REPORT TO THE MEMBER OF SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

### *Scope*

#### **The financial report and directors' responsibility**

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for Securities Exchanges Guarantee Corporation Limited (the "Company") and the National Guarantee Fund (the "Fund"), for the year ended 30 June 2004.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### **Audit approach**

We conducted an independent audit in order to express an opinion to the member of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Fund's financial positions, and of their performances as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.


### *Independence*

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### *Audit opinion*

In our opinion, the financial report of Securities Exchanges Guarantee Corporation Limited, including the financial statements of the National Guarantee Fund, is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and the Fund's financial positions as at 30 June 2004 and of their performances for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



N T Davis  
*Partner*



Sydney, 26th July 2004

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## FURTHER INFORMATION

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

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

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