



*ANNUAL  
REPORT  
2005*



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## MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF or the Fund). The 2004 - 2005 financial year was SEGC's eighteenth year of operation. As at 30 June 2005, the net assets of the NGF were approximately \$93.9 million.

During the year, nine claims were made on the NGF. For a discussion of claims on the NGF please refer to pages 11 to 16.

The most significant development during the year was the restructure of the NGF clearing support arrangements, which occurred on 31 March 2005.

Prior to 31 March 2005, the NGF fulfilled two main functions under Division 4 of Part 7.5 of the Corporations Act:

- it provided investor protection by compensating investors in the circumstances set out in the legislation; and
- it provided clearing support by providing the financial backing for ASX related clearing houses.

ASX made an application for a direction by the Minister under section 891A of the Corporations Act that the NGF be 'split' by a payment to Australian Clearing House Pty Limited (ACH). Section 891A enables the Minister to direct that a payment be made from the NGF to a prescribed body, where that body has made adequate arrangements for clearing and settlement system support. That body corporate then becomes responsible for clearing support.

The Parliamentary Secretary to the Treasurer made a direction pursuant to section 891A that SEGC make a payment of \$71,488,687 from the NGF to ACH on 31 March 2005. At the same time the Corporations Regulations were amended to remove the NGF's liability for clearing support (subject to transitional arrangements). As a result, from 31 March 2005 onwards SEGC's main responsibility is to provide investor compensation, while ACH is responsible for clearing support. These arrangements are consistent with international practice and the Reserve Bank of Australia's Financial Stability Standards (which address, among other things, responsibility for clearing support).



Clive Batrouney  
Chairman

## 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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## 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 2005.

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.

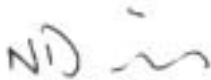
### Independence

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

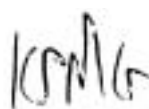
### Audit opinion

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 2005 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 financial reporting requirements in Australia.



N T Davis  
Partner



Sydney, 22nd day of August 2005

## 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 industry. The sole member of SEGC is Australian Stock Exchange Limited (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.

Investment earnings are the major source of income for the NGF. The earnings of the NGF are income tax exempt. In addition, in the past the Corporations legislation provided that SEGC receive interest on funds held by participants on trust. However, this

arrangement has been phased out and since March 2004 SEGC is no longer 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 is divided into two portions which are invested with two professional portfolio managers. Fluctuations in interest rates and price movements in markets have affected the NGF's earnings on investments.

At 30 June 2005, the net assets of the NGF were \$93.9 million. This compares with \$164.4 million at the end of the previous financial year. Reasons for this reduction were a result of the payment of \$71,488,687 from the NGF to ACH on 31 March 2005 (for further details refer to page 1 of this annual report).

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 (and recoveries) (see Figure 10) and changes in provisions for claims. The reduction in net assets of the NGF will affect the future earning capacity of the Fund.

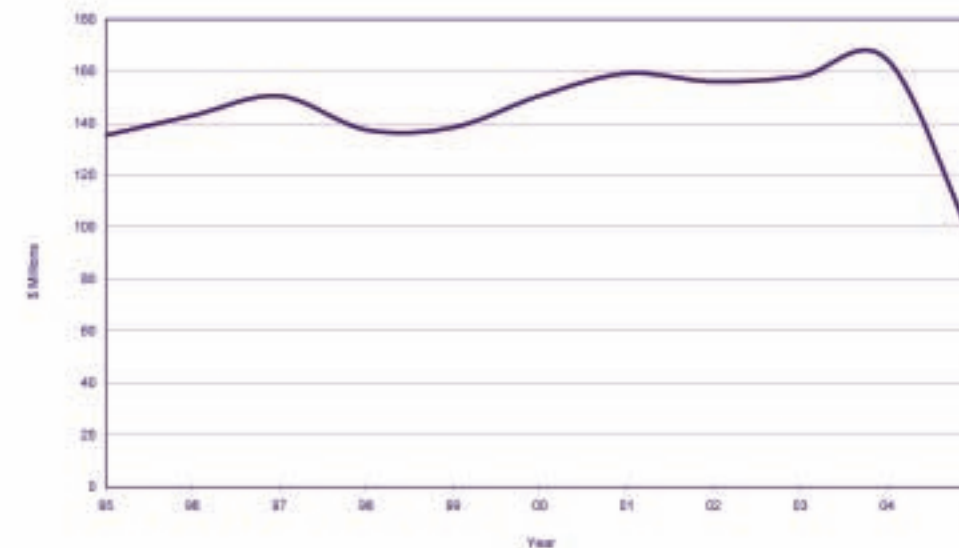


Figure 1: NGF net assets 1995 - 2005

**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).

As a result of the NGF split (see above), from 31 March 2005 the NGF will cover only 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 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 ASX Settlement and Transfer Corporation (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 15% of the 'minimum amount' of the NGF (Subdivision 4.9). Currently, the maximum is \$11.4 million (See below for an explanation of the 'minimum amount').

Prior to 31 March 2005, the following clearing support claims could also be made on the NGF:

- a Dealer could 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 was required to be reported to ASX and was 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 was owed by the other could make a claim if that obligation was not met (Subdivision 4.5); and
- ASX could make a claim if an obligation of a Dealer under a guaranteed securities loan was not met (Subdivision 4.4).

**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 SEGC and the Fund as at 30 June 2005 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 SEGC and the Fund will be able to pay their debts as and when they become due and payable.

Dated at Sydney this 22nd day of August 2005.

Signed in accordance with a resolution of the directors:

CLIVE M BATROUNEY  
Chairman

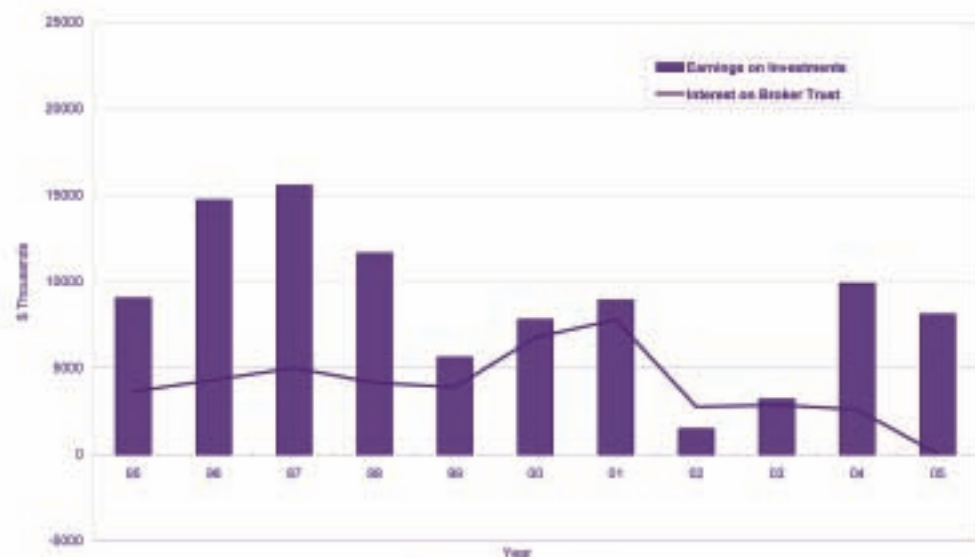


Figure 2: NGF earnings 1995 - 2005

## 17. 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 is invested in the UBS cash plus fund in cash or cash-like products. The other portion 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 Fund'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.

## 18. 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 SEGC or the Fund, the results of those operations or the state of affairs of SEGC or the Fund in future financial years.

As a result of the NGF split the Corporations Regulations were amended to remove the NGF's liability for clearing support claims from 31 March 2005 onwards. However, transitional arrangements provide that a clearing support claim which a claimant was entitled to make before 31 March 2005 may still be made provided it is served on SEGC before 30 September 2005.

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 the following protection to clients of Dealers who trade on the ASX derivatives market.

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 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. On 31 March 2005, at the time of the NGF split, the minimum amount was set at \$76 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 \$132.9 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 \$6.6 million was distributed to ASX's FIDA account.

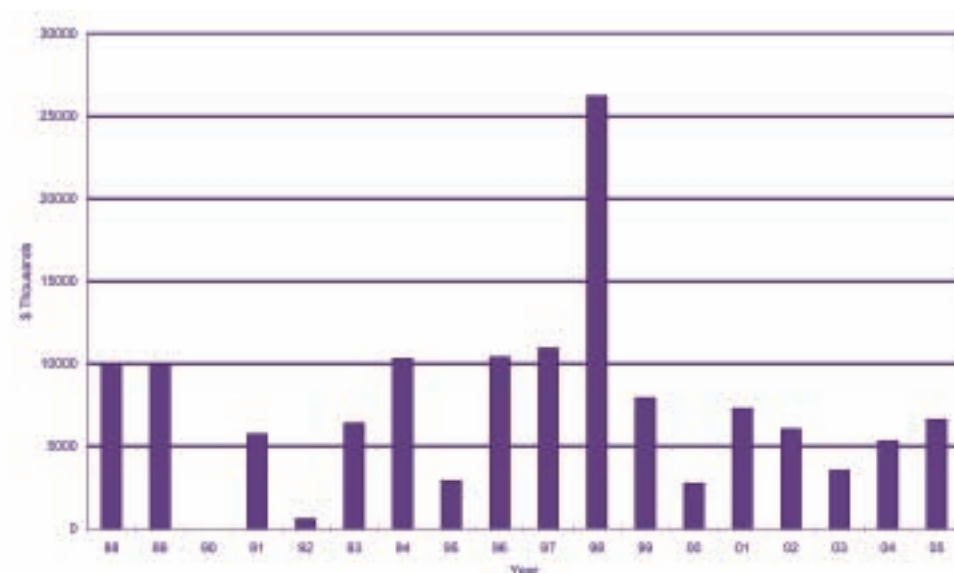


Figure 3: NGF payments to FIDA/SIDA 1988 - 2005

### 16. 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.

2005	2004
\$	\$
22,500	15,500

### 17. 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 is invested in the UBS cash plus fund in cash or cash-like products. The other portion 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 17(c).

	Interest bearing		Non-interest bearing		Total	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash assets	535	617	-	-	535	617
Receivables	-	-	3,196	3,111	3,196	3,111
Other financial assets – investments	-	-	93,889,058	164,625,526	93,889,058	164,625,526
	535	617	93,892,254	164,628,637	93,892,789	164,629,254
<b>Financial liabilities</b>						
Payables	-	-	30,300	77,154	30,300	77,154
Other	-	-	99,696	117,938	99,696	117,938
	-	-	129,996	195,092	129,996	195,092
<b>Net financial assets</b>	535	617	93,762,258	164,433,545	93,762,793	164,434,162

The weighted average interest rate for cash assets at year end was 4.9% (2004: 4.8%).



**14. 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 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, which renders consulting services in the ordinary course of business.

**Related party transactions**

During the year, SEGC incurred management fees of \$405,669 inclusive of GST (2004: \$427,614) 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 2005 was \$99,696 (2004: \$117,938). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

**15. DIRECTORS' REMUNERATION**

Directors' fees paid or payable, in respect of the financial year, to the directors of SEGC are as follows:

	2005	2004
	\$	\$
Mr C M Batrouney	54,500	54,500
Mr F A McDonald	27,250	27,250
Mr M L Newman	25,891	27,250
Mr M J Sharpe	26,655	27,250
Mr K De Lacy	27,250	27,250

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:

161,546	163,500
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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.

The number of directors of SEGC whose income (including superannuation contributions) falls within the following bands is:

	2005	2004
	No.	No.
\$0 - \$9,999	-	-
\$20,000 - \$29,999	4	4
\$30,000 - \$39,999	-	-
\$50,000 - \$59,999	1	1

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 seventeen years.



Figure 4: NGF payments to FIDA/SIDA by project 1988 - 2005

**Key to projects**

<b>A</b> CHES	ASX's Clearing House Electronic Sub-register System for electronic shareholdings and automated electronic clearing and settlement of equities
<b>B</b> SEATS 97	Upgrading of SEATS
<b>C</b> DTF	ASX's automated Derivatives Trading Facility for screen-based options trading
<b>D</b> SEATS	ASX's Stock Exchange Automated Trading System for screen-based trading of equities
<b>E</b> CORE	ASX's central electronic repository for market and trading data
<b>F</b> DATS	ASX's Derivatives Automated Trading System (forerunner to DTF)
<b>G</b> National Data Centre	ASX's Data Centre at Bondi, NSW
<b>H</b> CENSAS	ASX's Centralised Scrip & Accounting System (forerunner to CHES)
<b>I</b> SIRCA	Infrastructure support for the Securities Industry Research Centre of Asia-Pacific
<b>J</b> AGSM	Development of a securities markets teaching laboratory at the Australian Graduate School of Management
<b>K</b> Internet	ASX's Interactive Internet Site
<b>L</b> Others	Including ASX Share Ownership Study, Global Accreditation Project (Financial Associations Service Centre) and Corporate Governance Council
<b>M</b> Industry Research	Individual research projects commissioned or sponsored by ASX
<b>N</b> SIA	Securities Institute of Australia
<b>O</b> Education	ASX investor education projects
<b>P</b> 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, FAIM**, age 64.  
Independent Non Executive Director. Chairman since July 1998.  
Director since October 1997.

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



**Hon Keith De Lacy, BA, HonDLitt, DUniv, QDA, FAIM, FAICD**, age 64.  
Independent Non Executive Director. Director since December 1998.

Chairman of Macarthur Coal Limited, Trinity Consolidated Group and Queensland Sugar Limited. Director of Reef Casino Trust. Councillor of AICD, Queensland Division. Former Treasurer of Queensland (1989-1996).



**F. Allan McDonald, BEc, FCPA, FCIS, FAIM**, age 65.  
Independent Non Executive Director. Director since May 1993.

Non-Executive Chairman of Multiplex Group, Chairman of Ross Human Directions Limited and Babcock & Brown Japan Property Management Limited. Other directorships include Billabong International Limited, Brambles Industries Limited and DCA Group Limited. Director of a number of non-listed private companies.

## 10. 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.

	2005	2004
	\$	\$
Securities Institute of Australia (development of content management system)	254,612	1,093,879
Securities Industry Research Centre – Infrastructure (1 Jan 2003 – 31 Dec 2005)	250,000	1,000,000
Public investor education (leverage equities, warrants, education initiatives)	137,639	264,059
Interactive web based tools for leverage products	87,000	-
Industry research (1 Jan 2003 – 31 Dec 2005)	75,000	300,000
Interest rate securities education project	39,940	39,940
International share market education	14,935	17,935
ASX education project – fixed interest securities	5,782	5,782
Investor education initiatives (1 Jul 2002 – 30 Jun 2005)	-	975,000
Share ownership research (1 Jul 2002 – 30 Jun 2005)	-	450,000
Securities Markets History (1 Jul 2003 – 30 Jun 2005)	-	275,000
Delisted.com.au (1 Jul 2002 – 30 Jun 2004)	-	50,000
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	-	3,000,000
ASX market multiples research project	-	14,081
<b>Total commitments</b>	<b>864,908</b>	<b>7,485,676</b>

## 11. CONTINGENT LIABILITIES OF THE FUND

At 30 June 2005, contingent liabilities exist in respect of eight claims relating to two participants of ASX. At present it is not possible to ascertain whether there is any basis for the claims and management believes that the estimated total value of the claims would not be in excess of \$639,000.

## 12. SEGMENT REPORTING

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

## 13. 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	(70,671,369)	6,447,999
(Increase)/decrease in investments	70,736,468	(6,843,033)
(Increase)/decrease in receivables	(85)	241,046
(Decrease)/increase in payables	(46,854)	67,154
(Decrease)/increase in other liabilities	(18,242)	12,354
<b>Net cash (used) by operating activities</b>	<b>(82)</b>	<b>(74,480)</b>

**6. 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:

	2005	2004
	\$	\$
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	3,000,000	2,000,000
Investor education initiatives (1 Jul 2002 – 30 Jun 2005)	975,000	650,000
Securities Institute of Australia (development of content management system)	839,267	50,603
Securities Industry Research Centre – Infrastructure (1 Jan 2003-31 Dec 2005)	750,000	500,000
Share ownership research (1 Jul 2002 – 30 Jun 2005)	450,000	300,000
Securities Markets History	275,000	-
Industry research (1 Jan 2003 – 31 Dec 2005)	225,000	150,000
Delisted.com.au (1 Jul 2002 – 30 Jun 2004)	50,000	50,000
Public investor education (leverage equities, warrants, education initiatives)	39,420	83,767
ASX market multiples research project	14,081	10,000
International share market education	3,000	19,465
International accounting standards (Financial Reporting Council)	-	1,000,000
ASX Corporate Governance Council	-	410,000
Global accreditation project (Financial Associations Service Centre)	-	90,078
<b>Total amounts paid</b>	<b>6,620,768</b>	<b>5,313,913</b>
<b>Total distributions to FIDA</b>	<b>6,620,768</b>	<b>5,313,913</b>

**7. RECEIVABLES**

Other receivables	3,196	3,111
	<u>3,196</u>	<u>3,111</u>

**8. OTHER FINANCIAL ASSETS - INVESTMENTS**

**Units in managed funds**

UBS cash plus fund	46,986,204	84,736,176
Schroder enhanced cash management fund	46,902,854	79,889,350
	<u>93,889,058</u>	<u>164,625,526</u>

**9. RETAINED FUNDS**

Balance at the beginning of the financial year	164,434,162	157,986,163
Net (loss)/profit after distributions to FIDA	(70,671,369)	6,447,999
<b>Balance at the end of the financial year</b>	<b>93,762,793</b>	<b>164,434,162</b>



**Maurice L. Newman, AC, FSIA, FSDIA**, age 67.

Non Executive Director. Director since January 1995.

Chairman of Australian Stock Exchange Limited, 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, Co Chairman of Singapore Australia Business Alliance Forum, Chancellor of Macquarie University, Director of the Queensland Investment Corporation, Advisor to the Marsh Group of Companies, Member of the Business Council of Australia's Chairmen's Panel and a Patron of CEDA.



**Michael J. Sharpe AO, BEc, Hon.DScEcon (Sydney), FCA**, age 67.

Non Executive Director. Director since July 1998.

Director of Australian Stock Exchange Limited, National Australian Trustees Limited, Military Superannuation and Benefits Board of Trustees and Babcock & Brown Limited.

**DIRECTORS' ATTENDANCE AT MEETINGS**

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

A = Meetings attended (Meetings held)

B = Resolutions responded to (Resolutions circulated)

## 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 who:

- are not a partner, director, officer or employee of a participant of ASX;
- are not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- are not professional advisers to ASX or a body corporate that operates another financial market, or their related bodies 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 another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

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

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 personal interest 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 (ASXO). 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 provides the results of its review of the financial report of SEGC to the directors of SEGC. In view of the size of the SEGC, the directors consider it is not necessary for it to have a separate audit and risk committee.

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.

### 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

The NGF is divided into two portions which are managed by two professional portfolio managers, UBS Asset Management (Australia) Limited and Schroder Investment Management Australia Limited. During the year the NGF has been invested in the UBS Cash Plus Fund and the Schroder Enhanced Cash Management Fund, in cash or cash-like products.

#### (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

SEGC and the Fund will be required to prepare financial statements using Australian equivalents to International Financial Reporting Standards ("AIFRS") for the first time for year ending 30 June 2006.

The impact of the transition to AIFRS on SEGC and the Fund has been reviewed as part of the ASX AIFRS project. The most significant accounting standard identified which may impact SEGC and NGF is AASB 139 "Financial instruments – recognition and measurement" and AASB 132 "Financial Instruments – disclosure and presentation" which requires all financial instruments to be recognised in the statement of financial position at fair value. However, since the current accounting policy regarding the units in managed funds is to measure them at market value with movements taken to the statement of financial performance, we expect the introduction of AASB 139 and AASB 132 to have little or no impact on the valuation of these units.

### 5. INDIVIDUALLY SIGNIFICANT ITEMS INCLUDED IN NET LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	2005	2004
	\$	\$
Payment to Australian Clearing House Pty Limited	71,488,687	-

As discussed in the Directors' Report, the NGF clearing support arrangements were restructured and a payment of \$71,488,687 was made from the NGF to ACH on 31 March 2005.

## 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.

On 31 March 2005 the NGF clearing support arrangements were restructured. As a result, from 31 March 2005 onwards SEGC's main responsibility is to provide investor compensation, while ACH is responsible for clearing support.

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

The liabilities of the Fund at 30 June 2005 of \$129,996 (2004: \$195,092) are liabilities of SEGC. 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 on 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, including the financial statements of SEGC and the NGF, 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 movements 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.

## 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.



**Lisa Hopkin Dip.Law (LPAB)**, Manager since June 2005.

Previously Corporate Lawyer, Australian Stock Exchange Limited (2000-2005)

## STRUCTURE

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 ASXO, 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. Online trading and electronic communication generally have become prevalent.

Previous NGF claim trends suggest that Dealers should focus on measures to reduce their exposure to 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

Nine new claims were received during the year. Eight claims were made under Subdivision 4.7 (unauthorised transfer of securities) of Part 7.5 of the Corporations Regulations and one claim was made under Subdivision 4.9 (claims in respect of insolvent participants) of Part 7.5 of the Corporations Regulations. The claim made under Subdivision 4.9 has been withdrawn by the claimant; the remaining eight have not yet been determined.

SEGC's claims processing activity in the period 1995-2005 is shown in Figure 5.

## NATIONAL GUARANTEE FUND

### STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from the disposal of investments	78,899,985	68,471,898
Payments for the purchase of investments	-	(69,028,616)
Distributions received in cash from Schroder balanced fund	-	3,672,281
Interest received – broker trust accounts	32,289	2,605,729
Interest received – other	17,492	3,208
Refund of imputation credits	-	241,038
Payments to suppliers	(840,393)	(726,105)
Payments to FIDA	6 (6,620,768)	(5,313,913)
Payment to Australian Clearing House Pty Limited	5 (71,488,687)	-
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>13 (82)</b>	<b>(74,480)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	-	-
<b>NET (DECREASE) IN CASH HELD</b>	<b>(82)</b>	<b>(74,480)</b>
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<b>617</b>	<b>75,097</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>535</b>	<b>617</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	535	617
<b>CLOSING CASH BALANCE</b>	<b>535</b>	<b>617</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.

NATIONAL GUARANTEE FUND

STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2005

	Note	2005 \$	2004 \$
<b>CURRENT ASSETS</b>			
Cash assets		535	617
Receivables	7	3,196	3,111
Other financial assets – investments	8	93,889,058	164,625,526
<b>Total current assets</b>		<b>93,892,789</b>	164,629,254
<b>TOTAL ASSETS</b>			
		<b>93,892,789</b>	164,629,254
<b>CURRENT LIABILITIES</b>			
Payables		30,300	77,154
Related party payable	14	99,696	117,938
<b>Total current liabilities</b>		<b>129,996</b>	195,092
<b>TOTAL LIABILITIES</b>			
		<b>129,996</b>	195,092
<b>Net assets</b>		<b>93,762,793</b>	164,434,162
<b>Funds</b>			
Retained funds	9	93,762,793	164,434,162
<b>Total funds</b>		<b>93,762,793</b>	164,434,162

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

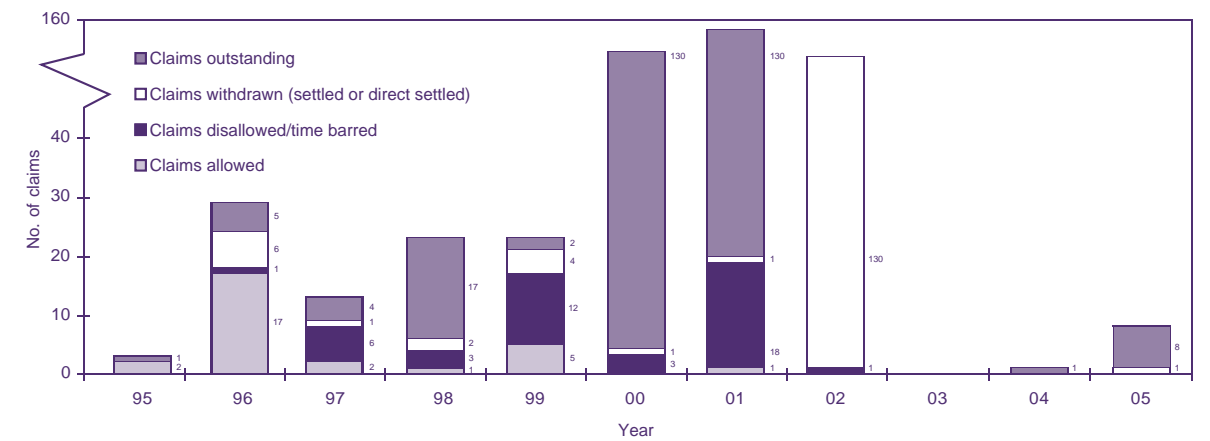


Figure 5: Claims processed 1995 - 2005

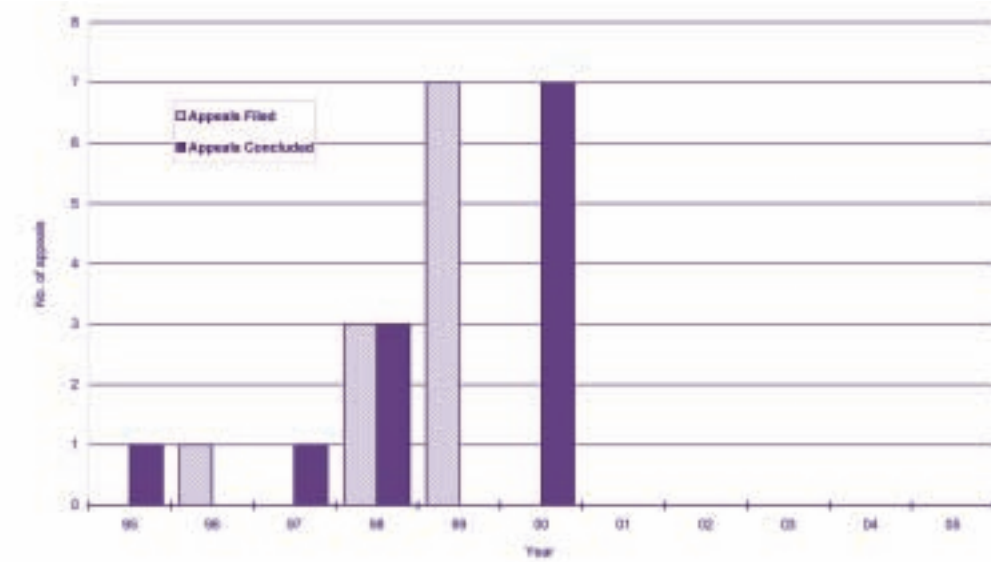


Figure 6: Appeals against disallowance 1995 - 2005

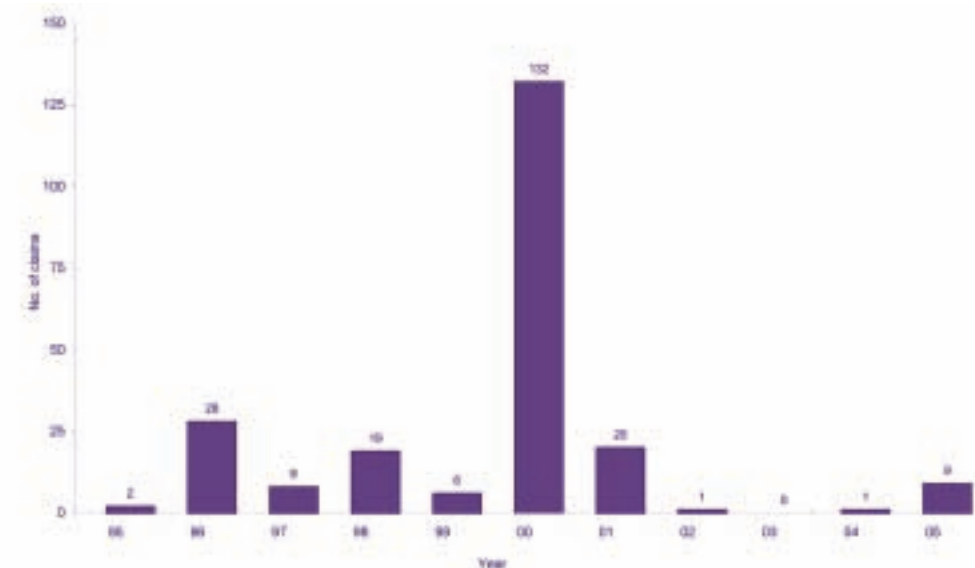


Figure 7: Number of claims received 1995 - 2005

### 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 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 1995. All appeals since 1997 have been in respect of disallowed claims in relation to unauthorised transfer of securities (present Subdivision 4.7 of the Corporations Regulations).

### Claims history and trends

Since formation of the NGF (1988), SEGC has received a total of 5,574 claims. Most of those claims were received in the first four years. The high number of claims in those early 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.

Claims received since 1988 have been in respect of a total of 42 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.

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 of the Corporations Regulations. 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.

### 1994-2005

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, 232 claims have been received. There has been only one Dealer insolvency affecting the NGF, which occurred in May 1995. This 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 often 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 1995-2005 period. In the last five years, over 95% of the claims received have related to the unauthorised transfer of securities (present Subdivision 4.7).

## NATIONAL GUARANTEE FUND

### STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

Note	2005 \$	2004 \$
<b>Revenues from ordinary activities</b>		
Movements in market valuation of investment units – UBS cash plus fund	-	249,125
Movements in market valuation of investment units – Schroder enhanced cash management fund	1,239,599	1,327,058
Distributions – UBS cash plus fund	4,233,149	4,278,638
Distributions – Schroder enhanced cash management fund	2,693,786	1,789,945
Distributions – Schroder balanced fund	-	3,672,281
Interest revenue – broker trust accounts	32,289	2,605,729
Interest revenue – other	17,492	3,208
<b>Total revenues from ordinary activities</b>	<b>8,216,315</b>	13,925,984
<b>Expenses from ordinary activities</b>		
Movements in market valuation of investment units – UBS cash plus fund	3,017	-
Movements in market valuation of investment units – Schroder balanced fund	-	1,358,451
Audit fees	22,500	15,500
Management fees – Schroder enhanced cash management fund	72,914	66,120
Support staff and administration	679,798	724,001
Payment from NGF to Australian Clearing House Pty Limited (ACH)	5 71,488,687	-
<b>Total expenses from ordinary activities</b>	<b>72,266,916</b>	2,164,072
<b>Net (loss)/ profit from ordinary activities before distributions</b>	<b>(64,050,601)</b>	11,761,912
Distributions to Financial Industry Development Account (FIDA) held by Australian Stock Exchange Limited	6 6,620,768	5,313,913
<b>Net profit/(loss) from ordinary activities after distributions</b>	<b>(70,671,369)</b>	6,447,999

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



**SECURITIES EXCHANGE GUARANTEE CORPORATION LIMITED**

**STATEMENTS OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2005**

	2005	2004
	\$	\$
Profit from ordinary activities	-	-

**STATEMENTS OF FINANCIAL POSITION  
AT 30 JUNE 2005**

	Note	2005	2004
		\$	\$
Total Equity	2	-	-

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2005**

	2005	2004
	\$	\$
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.

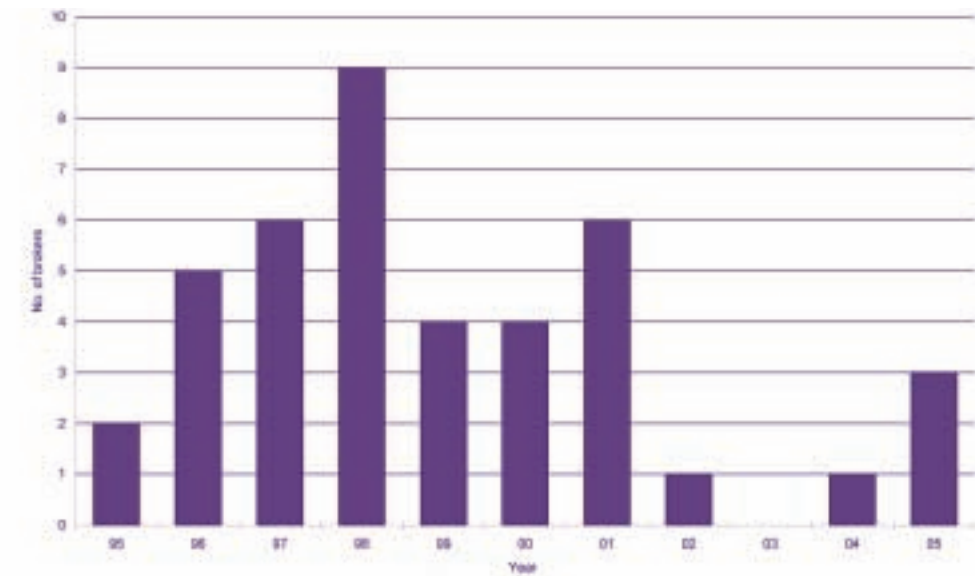


Figure 8: Number of brokers involved in claims received 1995 - 2005

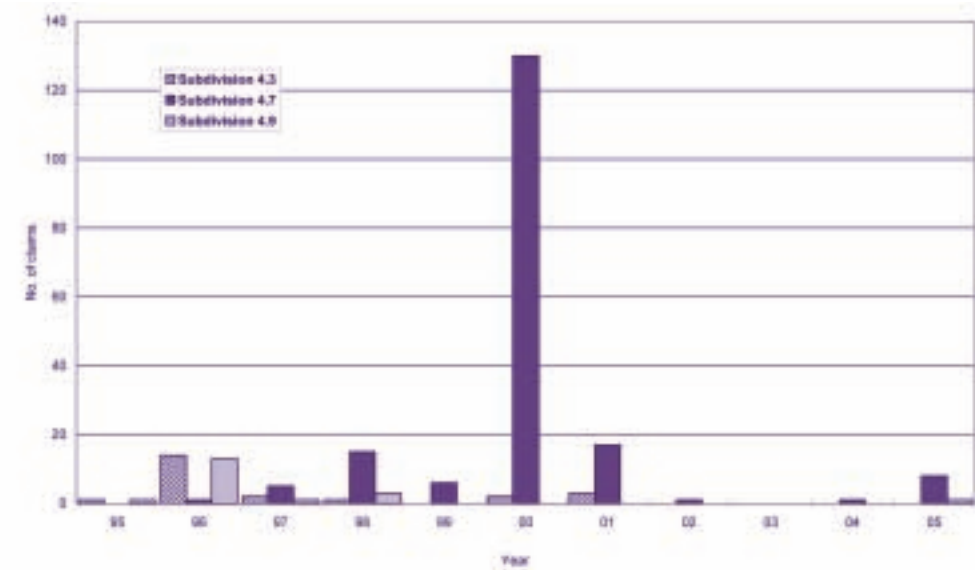


Figure 9: Category of claims received 1995 - 2005

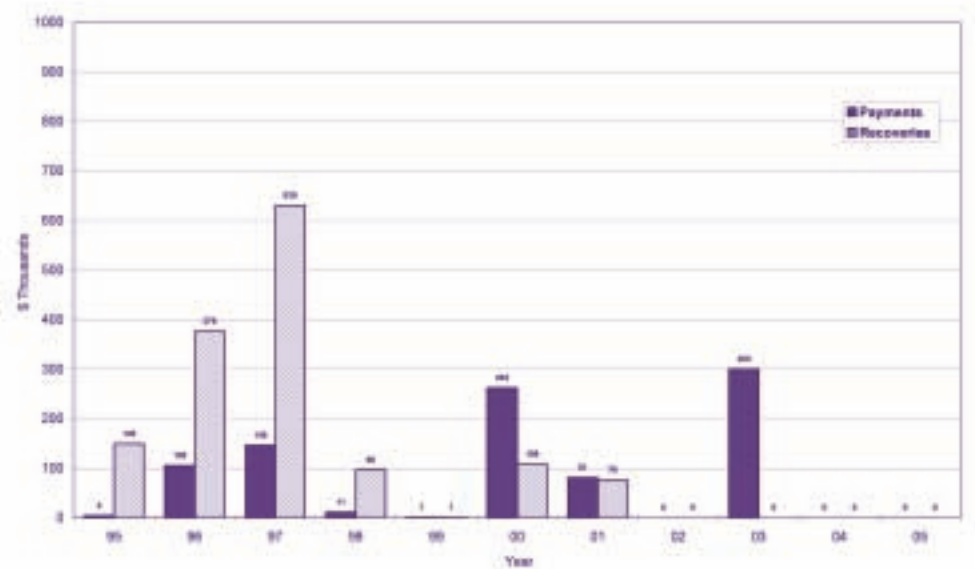


Figure 10: Claim payments and recoveries 1995 - 2005

### ***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).

In the 1995-2005 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 13 shows claim payments in the 1995-2005 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).

### **AUDITOR INDEPENDENCE**

The directors received the following declaration from the auditor of Securities Exchanges Guarantee Corporation Limited and the National Guarantee Fund:

#### **LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED.**

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.



NT Davis

Partner



KPMG

Sydney, 22nd day of August 2005

## 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 who:

- are not a partner, director, officer or employee of a participant of ASX;
- are not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- are not professional advisers to ASX or a body corporate that operates another financial market, or their related bodies 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 another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

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

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.

## AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included in the Directors' Report.

Details of the audit and review of amounts paid to the auditor of the Company and the Fund, KPMG, provided during the year are set out in Note 16.

Dated at Sydney this 22nd day of August 2005.

Signed in accordance with a resolution of the directors:



Clive M Batrouney  
Chairman

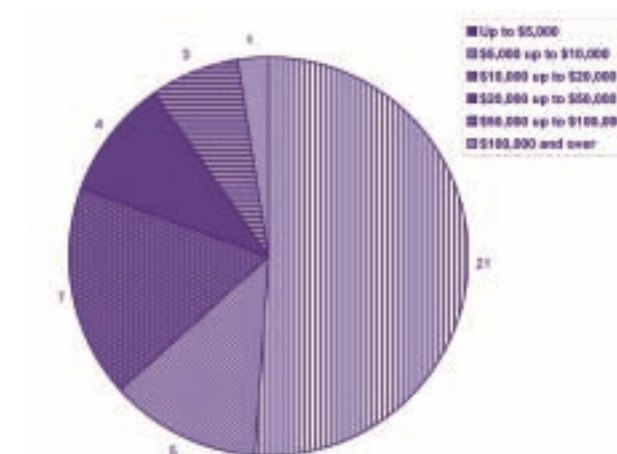


Figure 11: Claim payments 1995 - 2005 by number

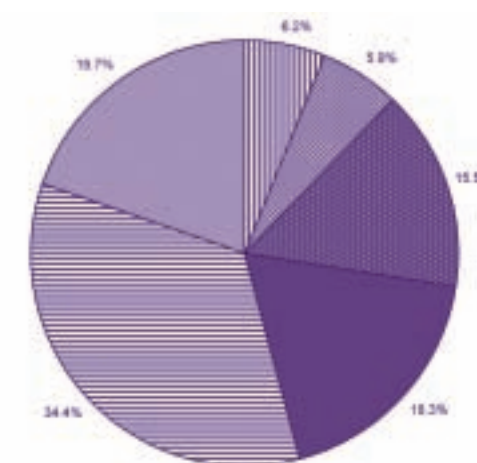


Figure 12: Claim payments 1995 - 2005 by size

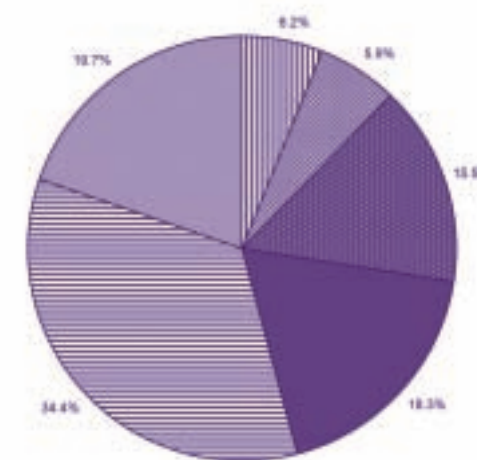


Figure 13: Claim payments 1995 - 2005 by category

## 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 2005, including the financial report of the National Guarantee Fund ("the NGF" or "the Fund") 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 Sharpe was reappointed director on 1 July 2004. Mr Batrouney and Mr De Lacy were reappointed directors on 1 December 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 on 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.

Up until 31 March 2005, the NGF fulfilled two main functions under Division 4 of Part 7.5 of the Corporations Act:

- it provided investor protection by compensating investors in the circumstances set out in the legislation; and
- it provided clearing support by providing the financial backing for ASX related clearing houses.

As a result of the NGF split, which is discussed below, from 31 March 2005 onwards the NGF is no longer responsible for clearing support and its main function is to provide investor compensation.

### REVIEW AND RESULTS OF OPERATIONS

SEGC did not trade in its own right during the financial year. The net loss from ordinary activities of the NGF for the year was \$64,050,601 (2004: profit \$11,761,912) before distributions of \$6,620,768 (2004: \$5,313,913) to the Financial Industry Development Account (FIDA) held by Australian Stock Exchange Limited ("ASX") under Corporations Regulation 7.5.89.

During the financial year, nine claims were made on SEGC. One claim has been withdrawn by the claimant; the other eight claims have not yet been determined. Payments in respect of claims totalled \$Nil (2004: \$Nil). Total recoveries were \$Nil (2004: \$Nil). For further details about claims, refer to pages 11 to 16.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 31 March 2005, the NGF clearing support arrangements were restructured.

ASX made an application for a direction by the Minister under section 891A of the Corporations Act that the NGF be 'split' by a payment to Australian Clearing House Pty Limited (ACH). Section 891A enables the Minister to direct that a payment be made from the NGF to a prescribed body, where that body has made adequate arrangements for clearing and settlement system support. That body corporate then becomes responsible for clearing support. The Parliamentary Secretary to the Treasurer made a direction pursuant to section 891A that SEGC make a payment of \$71,488,687 from the NGF to ACH on 31 March 2005. At the same time the Corporations Regulations were amended to remove the NGF's liability for clearing support (subject to transitional arrangements). As a result, from 31 March 2005 onwards SEGC's main responsibility is to provide investor compensation, while ACH is responsible for clearing support.

## 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 fulfilled the responsibilities of company secretary up until 16 June 2005. After which Lisa Hopkin assumed the role. (Appointed company secretary on 15 June 2005.)

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.