



Securities Exchanges  
Guarantee Corporation

ANNUAL REPORT

2006



## CONTENTS

	Page
<b>Message from the Chairman</b>	<b>1</b>
<b>Overview of SEGC and the National Guarantee Fund</b>	<b>2</b>
What is the NGF?	2
What claims can be made on the NGF?	3
Claims which cannot be made on the NGF	3
Claims in relation to exchange traded derivatives	4
Reduction of claims	4
The 'minimum amount' of the NGF	4
Financial Industry Development Account (FIDA)	5
<b>Board of Directors</b>	<b>7</b>
<b>Directors' Attendance at Meetings</b>	<b>8</b>
<b>Corporate Governance</b>	<b>9</b>
<b>Administration and Structure of SEGC</b>	<b>10</b>
<b>Claims Report</b>	<b>11</b>
Claims processing procedure	11
Current claims environment	11
Claims processed in the current year	11
Appeals against disallowed claims	13
Claims history and trends	13
Claims payments and recoveries	15
Directors' report	16
Auditor Independence	19
<b>Financial Statements</b>	<b>20</b>
Notes to the financial statements	24
Directors' declaration	33
Independent auditors' report	34
<b>Further information</b>	<b>35</b>

## MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF or the Fund). The 2005-2006 financial year was SEGC's nineteenth year of operation. As at 30 June 2006 the net assets of the NGF were approximately \$96.8 million.

Eleven new claims were received during the year. For a discussion of those claims please refer to page 11.

The core function of the Fund is to provide investor protection by compensating investors in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act 2001 (Cth). Prior to 31 March 2005, the NGF provided investor protection, and extended to 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. As a result of the NGF split on 31 March 2005, the Fund's liability for clearing support claims ceased from 31 March 2005 onwards. However, transitional arrangements provided that a clearing support claim which a claimant was entitled to make before 31 March 2005 could still be made, provided it was served on SEGC before 30 September 2005. No clearing support claims were made on SEGC during the transitional period.

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 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 2006, the net assets of the NGF were \$96.8 million. This compares with \$93.9 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. The reduction in net assets of the NGF will affect the future earning capacity of the fund.

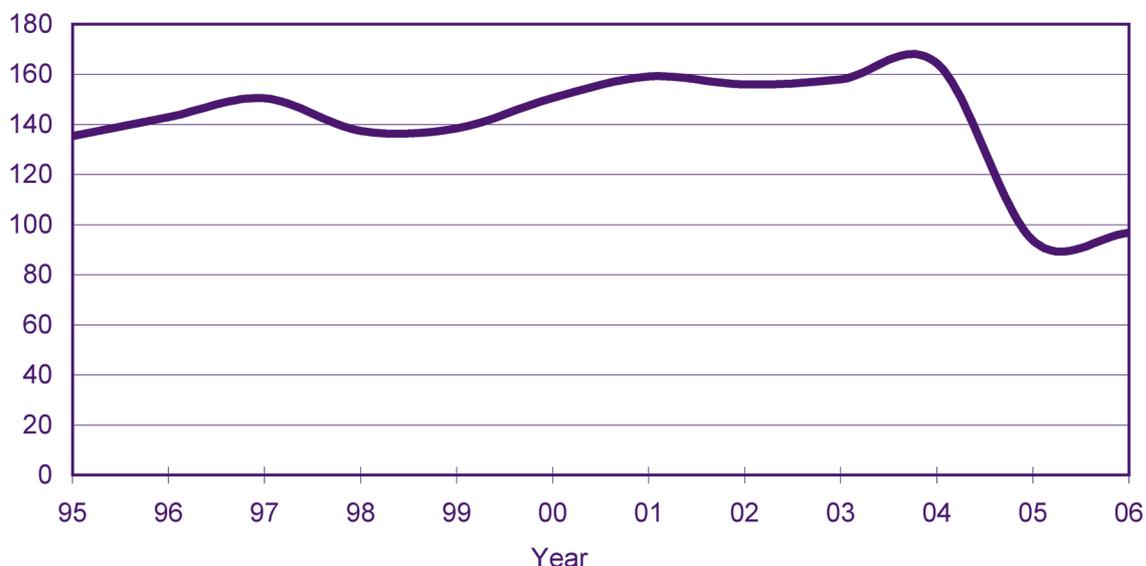


Figure 1: NGF net assets 1995 - 2006

### ***What claims can be made on the NGF?***

The claims provisions are set out in Division 4 of Part 7.5 of the Corporations Regulations. The protection provided by the NGF is only available in relation to the activities of Dealers (as defined above).

The NGF 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 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 page 5 for an explanation of the 'minimum amount').

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

Further information about claims made is provided in the Claims Report section (page 11).

### ***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;

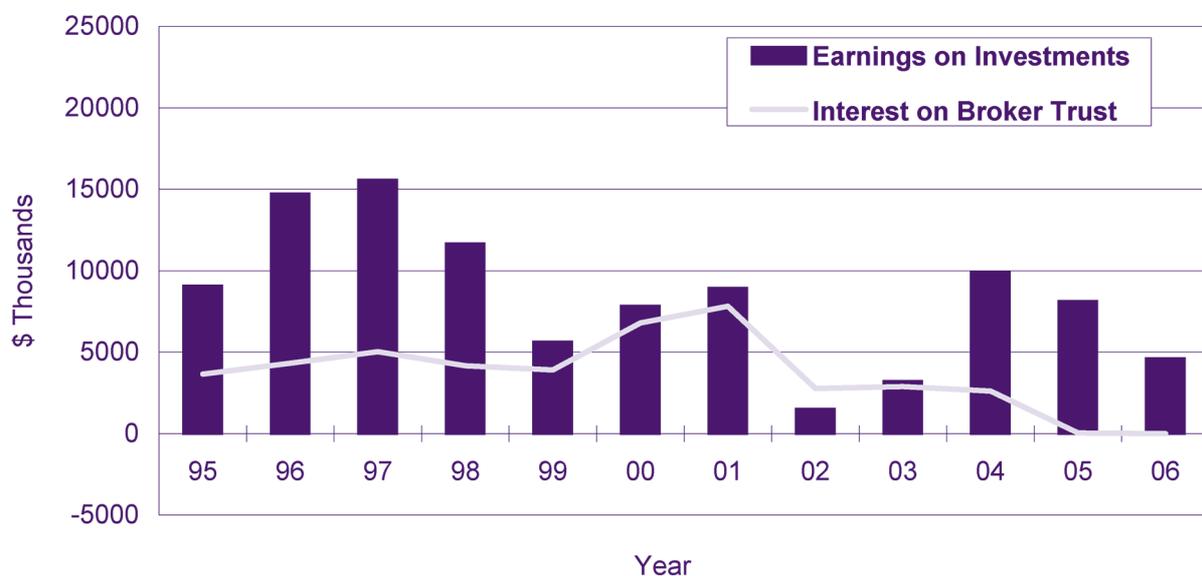


Figure 2: NGF earnings 1995 - 2006

- 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 and still remains 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 \$133.8 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 \$944,355 was distributed to ASX’s FIDA account.

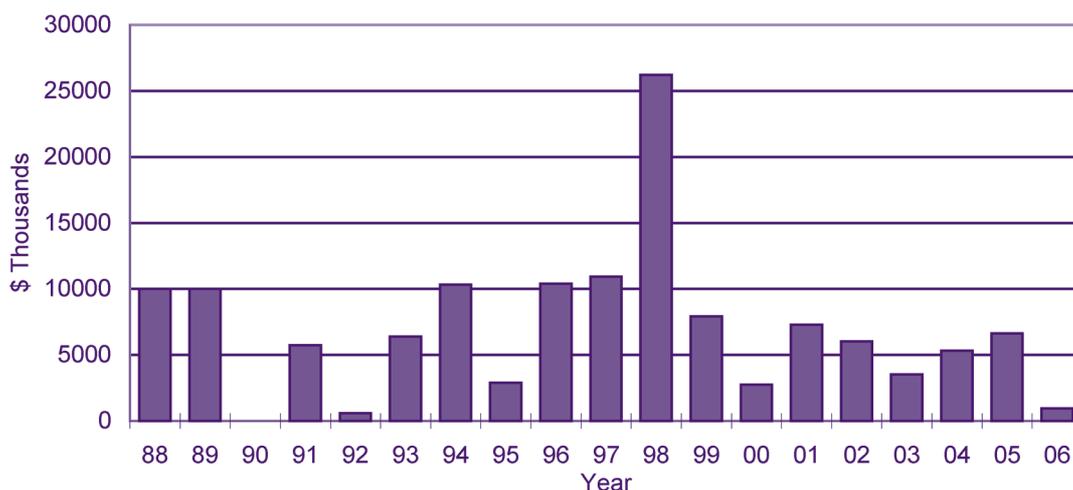


Figure 3: NGF payments to FIDA/SIDA 1988 - 2006

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 eighteen years.

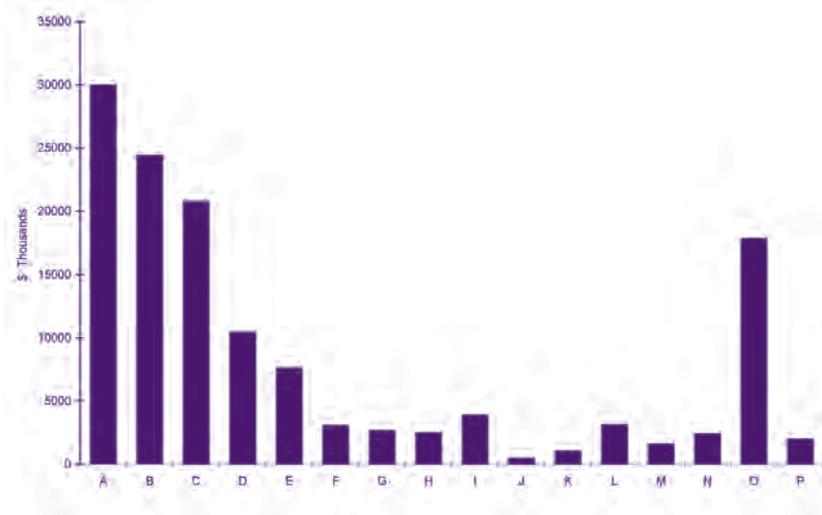


Figure 4: NGF payments to FIDA/SIDA by project 1988 - 2006

**Key to projects**

<b>A</b>	<b>CHES</b>	ASX's Clearing House Electronic Sub-register System for electronic shareholdings and automated electronic clearing and settlement of equities
<b>B</b>	<b>SEATS 97</b>	Upgrading of SEATS
<b>C</b>	<b>DTF</b>	ASX's automated Derivatives Trading Facility for screen-based options trading
<b>D</b>	<b>SEATS</b>	ASX's Stock Exchange Automated Trading System for screen-based trading of equities
<b>E</b>	<b>CORE</b>	ASX's central electronic repository for market and trading data
<b>F</b>	<b>DATS</b>	ASX's Derivatives Automated Trading System (forerunner to DTF)
<b>G</b>	<b>National Data Centre</b>	ASX's Data Centre at Bondi, NSW
<b>H</b>	<b>CENSAS</b>	ASX's Centralised Scrip & Accounting System (forerunner to CHES)
<b>I</b>	<b>SIRCA</b>	Infrastructure support for the Securities Industry Research Centre of Asia-Pacific
<b>J</b>	<b>AGSM</b>	Development of a securities markets teaching laboratory at the Australian Graduate School of Management
<b>K</b>	<b>Internet</b>	ASX's Interactive Internet Site
<b>L</b>	<b>Others</b>	Including ASX Share Ownership Study, Global Accreditation Project (Financial Associations Service Centre) and Corporate Governance Council
<b>M</b>	<b>Industry Research</b>	Individual research projects commissioned or sponsored by ASX
<b>N</b>	<b>SIA</b>	Securities Institute of Australia
<b>O</b>	<b>Education</b>	ASX investor education projects
<b>P</b>	<b>IAS</b>	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 65. 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, AM**, age 65. Independent Non Executive Director. Director since December 1998.

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



**F. Allan McDonald, BEc, FCPA, FCIS, FAIM**, age 66. 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.



**Maurice L. Newman, AC, FSIA, FSDIA**, age 68. 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 68. 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	5(5)	2(2)
K De Lacy	5(5)	2(2)
FA McDonald	5(5)	2(2)
ML Newman	5(5)	2(2)
MJ Sharpe	5(5)	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. 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.

## ADMINISTRATION AND STRUCTURE OF SEGC

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



**Lisa Hopkin Dip.Law (LPAB)**

Manager, Legal Counsel and Company Secretary.

Lisa Hopkin was appointed as Manager, Legal Counsel and Company Secretary in June 2005. Lisa is a lawyer admitted to practise in NSW; and is currently completing a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia. Previously a corporate lawyer at the Australian Stock Exchange Ltd.

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 Limited, 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*

Eleven new claims were received during the year. Those eleven claims were made under Subdivision 4.7 (unauthorised transfer of securities) of Part 7.5 of the Corporations Regulations. The eleven claims did not fall within the protection of the NGF. There were eight outstanding claims (from the 2004-2005 financial year) which were made under Subdivision 4.7; seven of those eight claims have been withdrawn by the claimants; the remaining claim was determined by SEGC and disallowed.

SEGC's claims processing activity in the period 1995-2006 is shown in Figure 5.

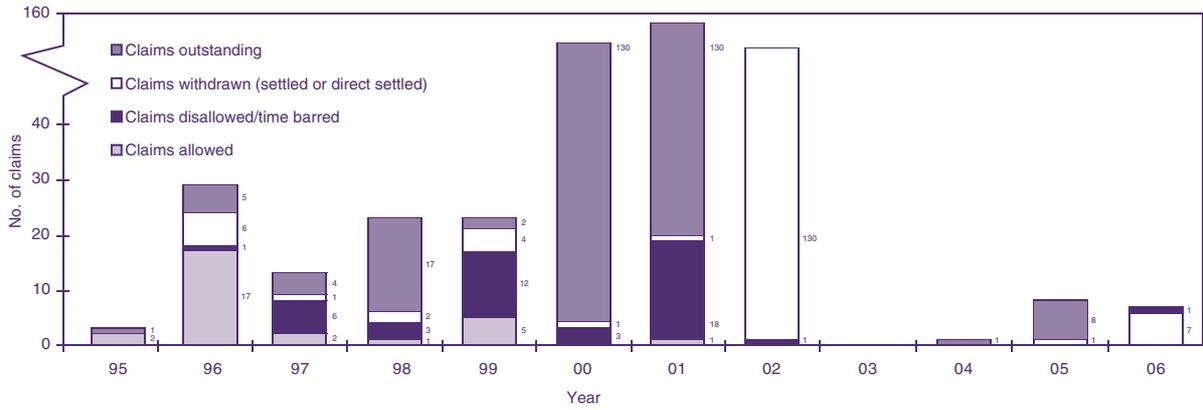


Figure 5: Claims processed 1995 - 2006

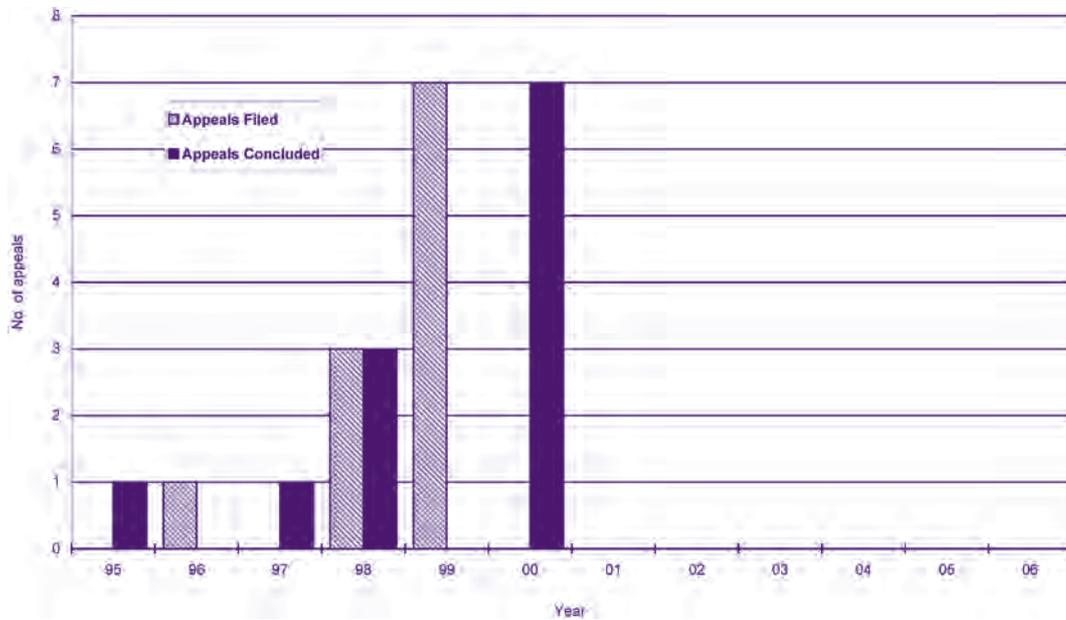


Figure 6: Appeals against disallowance 1995 - 2006

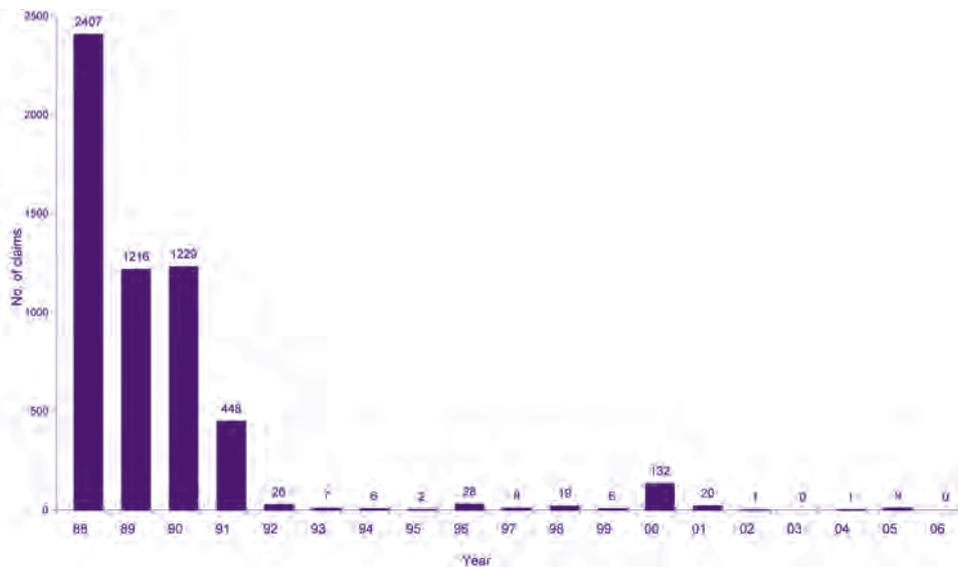


Figure 7: Number of claims received 1988 - 2006

### *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 5,576 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.

### *1994-2006*

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, 243 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 1995-2006 period. In the last few years, over 95% of the claims received have related to the unauthorised transfer of securities (present Subdivision 4.7).

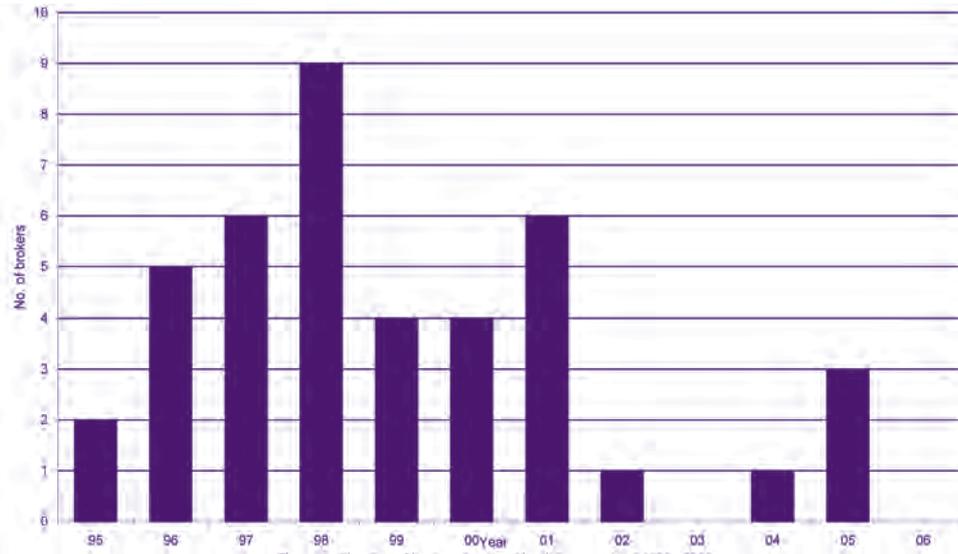


Figure 8: Number of brokers involved in claims received 1995 - 2006

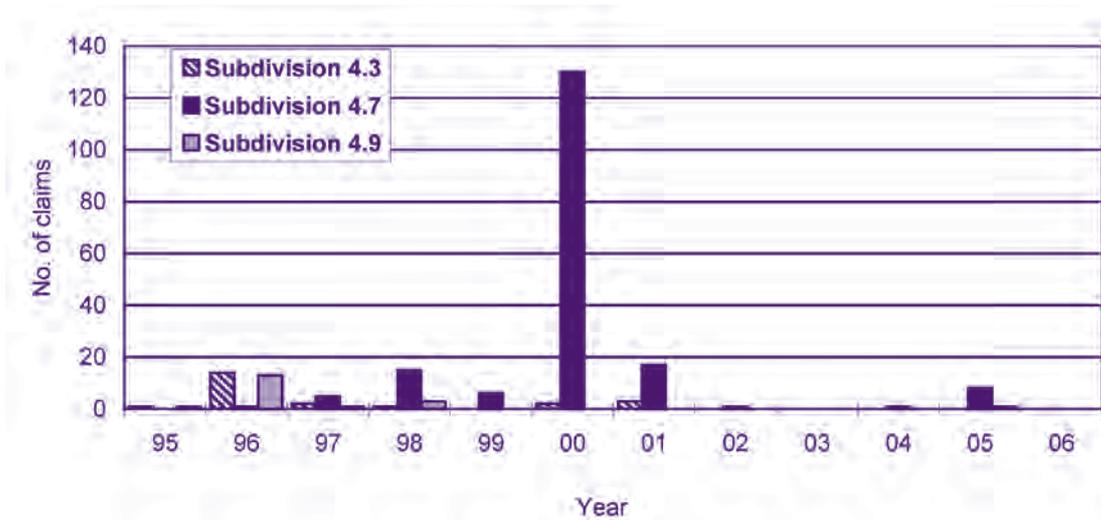


Figure 9: Category of claims received 1995 - 2006

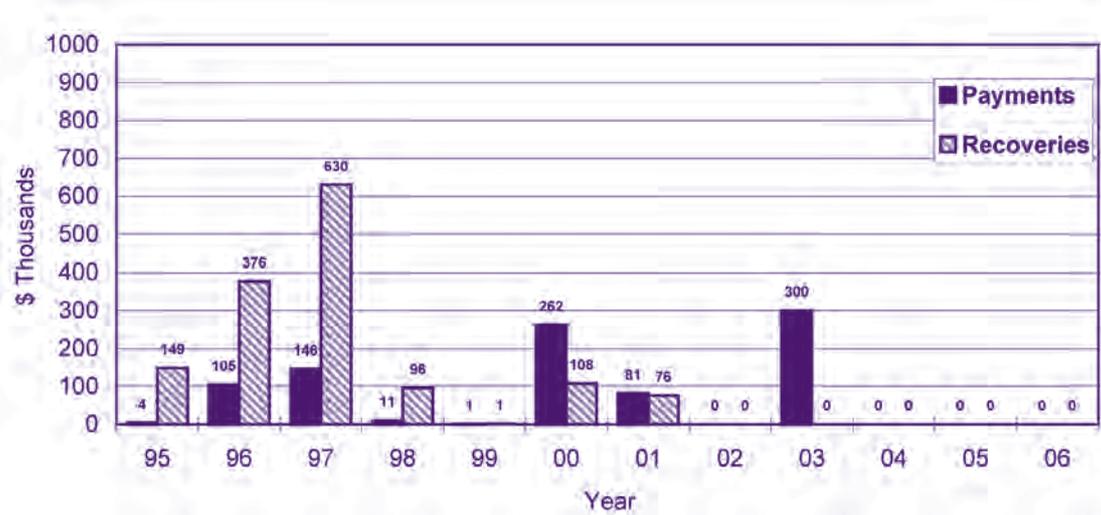


Figure 10: Claim payments and recoveries 1995 - 2006

### 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 1995-2006 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.

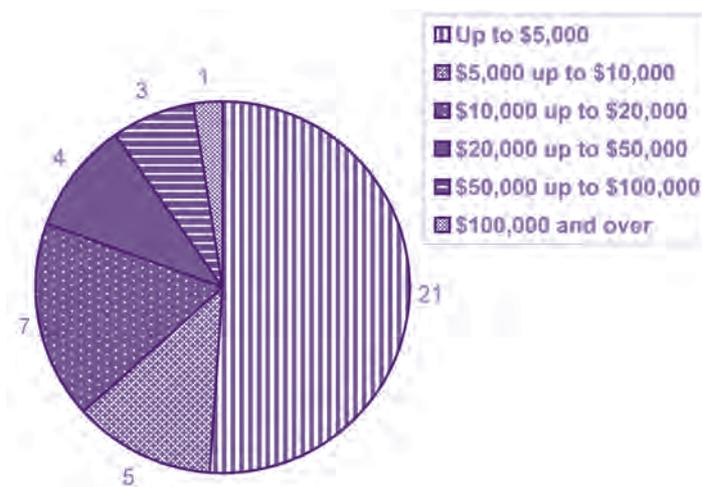


Figure 11: Claim payments 1995 - 2006 by number

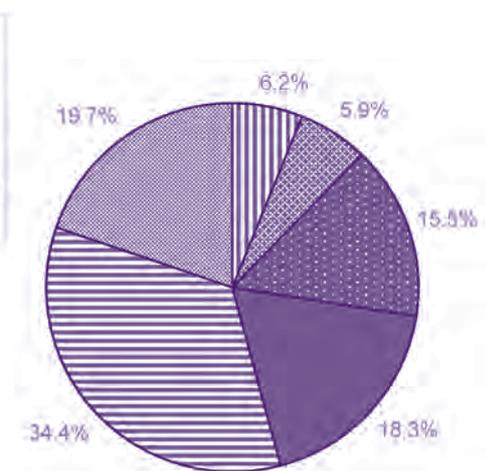


Figure 12: Claim payments 1995 - 2006 by size

Figure 13 shows claim payments in the 1995-2006 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).

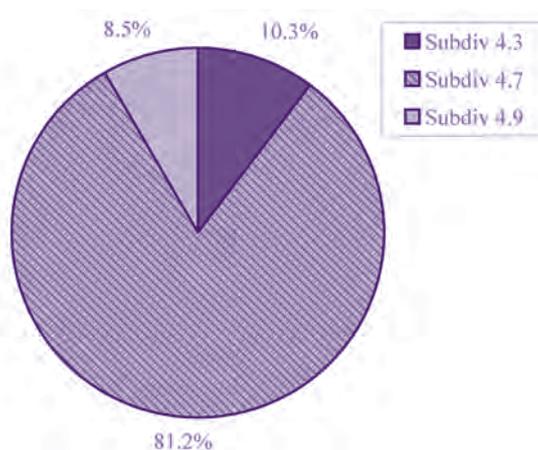


Figure 13: Claim payments 1995 - 2006 by category

## 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 2006, 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 AM

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.

The NGF's main function is to provide investor compensation in the circumstances set out in Part 7.5 of the Corporations Act 2001.

### REVIEW AND RESULTS OF OPERATIONS

SEGC did not trade in its own right during the financial year. The net profit from ordinary activities of the NGF for the year was \$3,983,778 (2005: loss \$64,050,601 which includes payment of \$71,488,687 to Australian Clearing House Pty Limited ("ACH")), before distributions of \$944,355 (2005: \$6,620,768) to the Financial Industry Development Account ("FIDA") held by Australian Stock Exchange Limited ("ASX") under Corporations Regulation 7.5.89.

During the financial year, eleven potential claims were made on the NGF, of which none progressed to Board determination level. There were eight claims brought forward from the prior year, of which one was disallowed by the Board, and seven were withdrawn. Payments in respect of claims totalled \$Nil (2005: \$Nil). Total recoveries were \$Nil (2005: \$Nil). For further details about claims, refer to pages 11 to 15.

## **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 in review.

## **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 Lisa Hopkin.

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 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.

Details of the audit and review of amounts paid to the auditor of SEGC and the Fund, KPMG, during the year are set out in Note 14.

## AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included on page 4.

Dated at Sydney this 25th day of August 2006.

Signed in accordance with a resolution of the directors:



Clive M Batrouney  
Chairman

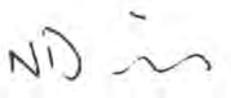
## AUDITOR'S INDEPENDENCE DECLARATION

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

### 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 2006 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, 25th day of August 2006

**SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**

**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006	2005
		\$	\$
Total profit		-	-

**BALANCE SHEET AT 30 JUNE 2006**

		2006	2005
		\$	\$
Net assets		-	-
Total equity	2	-	-

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2006**

		2006	2005
		\$	\$
Opening balance		-	-
Closing balance		-	-

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

		2006	2005
		\$	\$
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 Income Statement, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement are to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
<b>Revenues</b>			
Movements in market valuation of investment units – UBS Cash Plus Fund		155,117	-
Movements in market valuation of investment units – Schroder Enhanced Cash Management Fund		-	1,239,599
Movements in market valuation of investment units – Schroder Fixed Income Fund		399,625	-
Distributions – UBS Cash Plus Fund		2,572,476	4,233,149
Distributions – Schroder Enhanced Cash Management Fund		1,432,451	2,693,786
Distributions – Schroder Fixed Income Fund		1,201,697	-
Interest revenue – broker trust accounts		-	32,289
Interest revenue – other		291	17,492
Refund of imputation credits		51,779	-
<b>Total revenues</b>		<b>5,813,436</b>	<b>8,216,315</b>
<b>Expenses</b>			
Movements in market valuation of investment units – UBS Cash Plus Fund		-	3,017
Movements in market valuation of investment units – Schroder Enhanced Cash Management Fund*	3(f)	1,234,204	-
Audit fees		17,000	22,500
Management fees – Schroder Enhanced Cash Management Fund		2,921	72,914
Support staff and administration		575,533	679,798
Payment from NGF to Australian Clearing House Pty Limited (ACH)	4	-	71,488,687
<b>Total expenses</b>		<b>1,829,658</b>	<b>72,266,916</b>
<b>Net profit / (loss) before distributions</b>		<b>3,983,778</b>	<b>(64,050,601)</b>
Distributions to Financial Industry Development Account (FIDA) held by Australian Stock Exchange Limited	5	944,355	6,620,768
<b>Net profit / (loss) after distributions</b>		<b>3,039,423</b>	<b>(70,671,369)</b>

\*The Schroder Enhanced Cash Management Fund was liquidated at an ex-dividend price on 29 July 2005. A distribution of \$1,432,451 was received in July 2005. On sale of the units, the consequential adjustment to the unit price resulted in a loss on sale of the units of \$1,234,204.

The Income Statement is to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006	2005
		\$	\$
<b>CURRENT ASSETS</b>			
Cash assets		653	535
Receivables	6	55,053	3,196
Other financial assets – investments	7	96,868,940	93,889,058
<b>Total current assets</b>		<b>96,924,646</b>	93,892,789
<b>TOTAL ASSETS</b>		<b>96,924,646</b>	93,892,789
<b>CURRENT LIABILITIES</b>			
Payables		16,201	30,300
Related party payable	12	106,229	99,696
<b>Total current liabilities</b>		<b>122,430</b>	129,996
<b>TOTAL LIABILITIES</b>		<b>122,430</b>	129,996
<b>Net assets</b>		<b>96,802,216</b>	93,762,793
<b>Funds</b>			
Retained funds		96,802,216	93,762,793
<b>Total funds</b>		<b>96,802,216</b>	93,762,793

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

### STATEMENT OF CHANGES IN FUNDS FOR THE YEAR ENDED 30 JUNE 2006

		2006	2005
		\$	\$
<b>Opening balance</b>		<b>93,762,793</b>	164,434,162
Profit / (loss) for the year		<b>3,039,423</b>	(70,671,369)
<b>Closing balance</b>		<b>96,802,216</b>	93,762,793

The Statement of Changes in Funds is to be read in conjunction with the notes to the financial statements.

## NATIONAL GUARANTEE FUND

### CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from the disposal of investments		48,648,382	78,899,985
Payments for the purchase of investments		(47,101,102)	-
Interest received – broker trust accounts		-	32,289
Interest received – other		291	17,492
Payments to suppliers		(603,098)	(840,393)
Payments to FIDA	5	(944,355)	(6,620,768)
Payment to Australian Clearing House Pty Limited	4	-	(71,488,687)
<b>NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES</b>	11	<b>118</b>	<b>(82)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
		-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
		-	-
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		<b>118</b>	<b>(82)</b>
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<b>535</b>	<b>617</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>		<b>653</b>	<b>535</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		<b>653</b>	535
<b>CLOSING CASH BALANCE</b>		<b>653</b>	535

#### 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, both the UBS Cash Plus Fund and Schroder Fixed Income Fund are used to fund working capital requirements as required.

#### 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.

## 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.

The financial report was authorised for issue by the directors on 25 August 2006.

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 Australian Clearing House Pty Limited ("ACH") is responsible for clearing support.

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

The liabilities of the Fund at 30 June 2006 of \$122,430 (2005: \$129,996) 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) Statement of compliance

The financial report, including the financial statements of SEGC and the Fund, is a general purpose financial report and complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

This is the first annual financial report prepared based on AIFRS. An analysis of how the transition to AIFRS has affected the reported Income Statement, Balance Sheet and Cash Flows of SEGC and the NGF was carried out as part of the wider ASX Group review. It was found that the transition to AIFRS has no financial impact on the Fund, therefore no reconciliations from AGAAP to AIFRS have been provided as there is no change from numbers previously reported.

The financial report has been prepared in Australian dollars on the basis of historical costs except for investments, which are stated at their fair value. The accounting policies have been consistently applied and are consistent with those of the previous year.

#### (b) Basis of preparation

The following standards and amendments applicable to SEGC and the Fund were available for early adoption but have not been applied by SEGC and the Fund in these financial statements:

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

#### (b) Basis of preparation (continued)

- UIG 4 *Determining whether an Arrangement contains a Lease*;
- AASB 2005-5 *Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), and AASB 139 Financial Instruments: Recognition and Measurement*. This standard is a consequence of UIG 4, and allows transitional relief to first time adopters should any arrangement existing at the time of relief contain a lease. An 'arrangement' includes a transaction which does not take the legal form of a lease but in substance could be considered a lease.
- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007;
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006;
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of SEGC and the Fund as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the Balance Sheet of SEGC and the Fund as the amendment could result in liabilities being recognised for financial guarantee contracts (excluding novated balances) that have been provided by SEGC and the Fund. The anticipated impact on the Income Statement is not expected to be material. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by SEGC and the Fund to date.

The initial application of UIG 4 and AASB 2005-5 are not expected to have an impact on the financial results of SEGC and the Fund, but nevertheless, further analysis is required to verify this expectation.

#### (c) Revenue recognition

##### *Movements in fair value of investment units*

Investments in units are classified as held for trading and are stated at fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Movements in the fair value of investment units in managed funds are included as revenue or expenses in the Income Statement as appropriate.

##### *Distributions revenue*

Distribution revenue from investments is recognised as it is received.

##### *Interest revenue*

Interest revenue is recognised as it is received.

##### *Refund of imputation credits*

At year-end imputation credits are receivable from the Australian Tax Office (ATO).

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

#### (d) 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). Since no claims have been paid, no allowance has been made for potential recoveries by SEGC upon the exercise of its rights of subrogation.

#### (e) Income tax

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

#### (f) 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. A review of the NGF investment policy was completed by the Board in June 2005 and on 29 July 2005, the balance in the Schroder Enhanced Cash Management Fund was transferred to the Schroder Fixed Income Fund. As a result, a loss of \$1,234,204 (2005:nil) was incurred when investments in the Schroder Enhanced Cash Management Fund was liquidated at an ex-dividend price, which was lower than the valuation price at 30 June 2005.

Investments in units are classified as held for trading and are stated at fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

#### (g) 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.

#### (h) Imputation credits

Imputation credits attaching to distributions from investments are refundable. As a result, imputation credits arising from distributions received during the year have been recognised as revenue.

#### (i) Distributions to Financial Industry Development Account (FIDA)

Claims in relation to projects approved for FIDA funding are recognised as a liability of the Fund once the claim for payment has been submitted to and approved by the Board of SEGC.

#### 4. INDIVIDUALLY SIGNIFICANT ITEMS INCLUDED IN NET LOSS BEFORE INCOME TAX EXPENSE

	2006	2005
	\$	\$
Payment to Australian Clearing House Pty Limited	-	71,488,687

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.

#### 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:

	2006	2005
	\$	\$
Financial Services Institute of Australasia (FINSIA) (formerly Securities Institute of Australia) (development of content management system)	254,575	839,267
Securities Industry Research Centre – Infrastructure (1 Jan 2003-31 Dec 2005)	250,000	750,000
Public investor education (leverage equities (warrants) education initiatives)	137,639	39,420
Interactive web based tools for leverage products	87,000	-
Investor education initiatives (1 Jul 2005 – 30 Jun 2008)	79,484	-
Industry research (1 Jan 2003 – 31 Dec 2005)	75,000	225,000
Interest rate securities education project	39,940	-
International share market education	14,935	3,000
ASX education project fixed interest securities	5,782	-
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	-	3,000,000
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	-	275,000
Delisted.com.au (1 Jul 2002 – 30 Jun 2004)	-	50,000
ASX market multiples research project	-	14,081
<b>Total distributions to FIDA</b>	<b>944,355</b>	<b>6,620,768</b>
<b>6. RECEIVABLES</b>		
Imputation credits receivable	51,779	-
Other receivables - GST	3,274	3,196
	<b>55,053</b>	<b>3,196</b>
<b>7. OTHER FINANCIAL ASSETS - INVESTMENTS</b>		
<b>Units in managed funds</b>		
UBS Cash Plus Fund	48,846,359	46,986,204
Schroder Enhanced Cash Management Fund	-	46,902,854
Schroder Fixed Income Fund	48,022,581	-
	<b>96,868,940</b>	<b>93,889,058</b>

## 8. 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.

	2006 \$	2005 \$
Investor education initiatives (1 Jul 2005 – 30 Jun 2008)	2,000,000	-
Financial Services Institute of Australasia (FINSIA) (development of content management system)	-	254,612
Securities Industry Research Centre – Infrastructure (1 Jan 2003 – 31 Dec 2005)	-	250,000
Public investor education (leverage equities, warrants, education initiatives)	-	137,639
Interactive web based tools for leverage products	-	87,000
Industry research (1 Jan 2003 – 31 Dec 2005)	-	75,000
Interest rate securities education project	-	39,940
International share market education	-	14,935
ASX education project – fixed interest securities	-	5,782
<b>Total commitments</b>	<b>2,000,000</b>	<b>864,908</b>

## 9. CONTINGENT LIABILITIES OF THE FUND

At 30 June 2006, there are no contingent liabilities in respect of claims relating to participants of ASX.

## 10. SEGMENT REPORTING

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

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

	2006 \$	2005 \$
<b>Reconciliation of the net profit / (loss) to the net cash flows from operating activities:</b>		
Net profit / (loss) after distributions	3,039,423	(70,671,369)
(Increase) / decrease in investments	(2,979,882)	70,736,468
(Increase) in receivables	(51,857)	(85)
(Decrease) in payables	(14,099)	(46,854)
Increase / (decrease) in other liabilities	6,533	(18,242)
<b>Net cash provided / (used) by operating activities</b>	<b>118</b>	<b>(82)</b>

## 12. 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  
 Hon Keith De Lacy AM

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 \$331,082 inclusive of GST (2005: \$405,669) 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 2006 was \$106,229 (2005: \$99,696). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

## 13. KEY MANAGEMENT PERSONNEL COMPENSATION

The Key Management Personnel compensation included in Support staff and administration in the Income Statement are as follows:

	2006	2005
	\$	\$
Short-term employee benefits	150,000	150,000
Post-employment benefits (Superannuation)	11,294	11,546
<b>Total</b>	<b>161,294</b>	<b>161,546</b>

Key management personnel compensation set out above include directors' fees and superannuation paid to the five directors of SEGC.

The manager of SEGC, Lisa Hopkin, is an employee of ASX and is seconded to SEGC. The manager's remuneration is incurred by ASX.

Details of the remuneration of the directors of SEGC are set out in the table below:

Name		Short-term employee benefits	Post-employment benefits	Total \$
		Fees \$	Superannuation \$	
<b>C M Batrouney</b>	2006	50,000	4,500	<b>54,500</b>
	2005	50,000	4,500	54,500
<b>F A McDonald</b>	2006	25,000	2,250	<b>27,250</b>
	2005	25,000	2,250	27,250
<b>M L Newman</b>	2006	25,000	802	<b>25,802</b>
	2005	25,000	891	25,891
<b>M J Sharpe</b>	2006	25,000	1,492	<b>26,492</b>
	2005	25,000	1,655	26,655
<b>K De Lacy</b>	2006	25,000	2,250	<b>27,250</b>
	2005	25,000	2,250	27,250
<b>Total</b>	<b>2006</b>	<b>150,000</b>	<b>11,294</b>	<b>161,294</b>
	2005	150,000	11,546	161,546

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.

#### 14. AUDITOR'S REMUNERATION

	2006 \$	2005 \$
<b>Audit services:</b>		
Auditors of the company – KPMG		
Audit and review of the financial reports	17,000	22,500

All the amounts shown above are exclusive of GST.

## 15. 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 Fixed Income Fund. Refer note 3(f) 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 15(c).

	Interest bearing		Non-interest bearing		Total	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash assets	653	535	-	-	653	535
Receivables	-	-	55,053	3,196	55,053	3,196
Other financial assets – investments	-	-	96,868,940	93,889,058	96,868,940	93,889,058
	<b>653</b>	<b>535</b>	<b>96,923,993</b>	<b>93,892,254</b>	<b>96,924,646</b>	<b>93,892,789</b>
<b>Financial liabilities</b>						
Payables	-	-	16,201	30,300	16,201	30,300
Other	-	-	106,229	99,696	106,229	99,696
	-	-	122,430	129,996	122,430	129,996
<b>Net financial assets</b>	<b>653</b>	<b>535</b>	<b>96,801,563</b>	<b>93,762,258</b>	<b>96,802,216</b>	<b>93,762,793</b>

The weighted average interest rate for cash assets at year end was 5.0% (2005: 4.9%).

**(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 Fixed Income Fund. Refer note 3(f) 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.

**(f) Financial futures contract**

There were no futures contracts entered into at 30 June 2006 (2005: \$nil).

**(g) Foreign currency risk**

The Fund has no significant exposure to foreign currency risk for the year ended 30 June 2006 (2005 : \$nil).

**16. 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.

## 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 2006 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 25th day of August 2006.

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 balance sheet, income statement, statement of changes in equity / funds, statement 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 2006.

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. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards.

#### *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.

#### **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 2006 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, 25th August 2006

## 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.

### **Securities Exchanges Guarantee Corporation Limited**

Address: Level 9  
20 Bridge Street  
Sydney NSW 2000

Postal Address: PO Box H224  
Australia Square  
Sydney NSW 1215

Phone: 61 2 9227 0424

Fax: 61 2 9227 0436

Email: [segc@asx.com.au](mailto:segc@asx.com.au)

Web: [www.segc.com.au](http://www.segc.com.au)

