



Securities Exchanges
Guarantee Corporation

ANNUAL REPORT

2008

Securities Exchanges Guarantee Corporation Limited ABN 19 008 626 793
(a company limited by guarantee)
Trustee of the National Guarantee Fund ABN 69 546 559 493

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MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF) which is a compensation scheme available to the operators of licensed financial markets who apply to be members of the SEGC. The only licensed financial market operator which is a member of the SEGC is ASX Limited. The NGF has operated since 1987 and as at 30 June 2008 the net assets of the NGF were \$101.5 million (compared to \$99.6 million as at 30 June 2007).

The core function of the NGF is to provide compensation to meet certain types of claims arising from dealings with Participants of ASX and, in limited circumstances, Participants of ACH in the circumstances set out Division 4 of Part 7.5 of the Corporations Act 2001 (Cth).

In the event that the amount of the NGF falls below the "Minimum Amount" set under s889I of the Corporations Act (the Minimum Amount is currently set at \$76 million) SEGC has the discretion to levy the market operator, ASX, or its Market Participants. An important event during the year was the commencement of the Corporations (National Guarantee Fund Levies) Act 2001, with effect from 22 October 2007, to provide that if the SEGC does impose a levy, the amount is not to exceed 150% of the Minimum Amount in any financial year.

This change does not affect an investors' ability to claim from the NGF.

The Minimum Amount and other measures available to SEGC to manage financial risk are explained in detail in the report.

It should be noted that levies have not been imposed since the inception of the NGF.

The Board is closely monitoring developments regarding the collapse of the Opes Prime Stockbroking group in March 2008.



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 ASX 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.

Fluctuations in interest rates and price movements in markets have affected the NGF's earnings on investments.

At 30 June 2008, the net assets of the NGF were \$101.5 million. This compares with \$99.6 million at the end of the previous financial year.

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

What claims can be made on the NGF?

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

The NGF covers only investor protection claims.

There are four subdivisions of Division 4 of Part 7.5 of the Corporations Regulations which set out the types of investor protection claims that clients of Dealers may make on the NGF in certain circumstances. They are for:

- completion of sales and purchases of quoted securities entered into by a Dealer on ASX's equities and debt markets where the transaction is required to be reported to ASX (Subdivision 4.3). The Dealer may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have failed to complete a transaction because the Dealer was suspended by ASX or by 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). Based on the current Minimum Amount, this cap would be \$11.4 million. (See later for an explanation of the 'Minimum Amount'.)

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

Claims which cannot be made on the NGF

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

- for loss arising from investment decisions, or from relying on investment advice given by a Dealer;
- for loss if a Dealer fails to act on instructions to buy or to sell;
- for money lent to a Dealer which has not been repaid;
- in respect of conduct by an entity other than the specific entity which is the Dealer; and
- in respect of alleged unauthorised withdrawal or misappropriation by the Dealer of money in a client's account or held on a client's behalf, unless the circumstances are such that the loss may be claimed under one of the specific categories in the legislation.

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

Claims in relation to exchange traded derivatives

The contract completion provisions of Subdivision 4.3 referred to above in relation to ASX's securities markets do not apply to trading of individual derivatives contracts (other than 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 on actuarial advice. On 31 March 2005 the Minimum Amount was set at \$76 million and still remains at that amount.

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 adjust the 'Minimum Amount' of the NGF;
- it may take out insurance against liability in respect of claims on the NGF;
- it may pay claims in instalments and in the priority set out in the legislation;
- it may borrow (including from ASX) for the purpose of meeting a payment due out of the NGF; or
- it may raise funds for the NGF by imposing a levy on ASX or on all or a class of Participants of ASX.

If the NGF falls below the Minimum Amount, SEGC may determine in writing that ASX or all or a class of Participants of ASX must pay a levy. If a levy is imposed on the ASX then the ASX may determine in writing that Participants must pay a levy.

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

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

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

Financial Industry Development Account (FIDA)

The FIDA is a mechanism under the Corporations Act allowing the Minister to approve the use of excess funds in the NGF (funds in excess of the Minimum Amount') for the development of the financial industry. The Minister may approve in writing purposes which are primarily for the public benefit and not primarily to promote the profitability of the commercial operations of the market.

The FIDA is an account maintained by the market operator into which must be placed the approved funds. Funds in the FIDA can only be used by the market operator for the purposes approved under the Corporations Regulations by the Minister and SEGC.

During the financial year \$2,508,115.55 was distributed to ASX's FIDA account. These funds were used by ASX for:

- (i) Share Ownership Survey
- (ii) Investor Education Program
- (iii) Securities & Derivatives Industry Association Training and Education Program.

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, 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. Chairman of Power House Youth Leadership Foundation. Former Joint 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).

Susan Doyle, BA, Appointed 1 January 2007. Chairman of Australian Reward Investment Alliance (ARIA), Director of Aircruising Australia Ltd and a Member of the Future Fund Board of Guardians.

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

Non-Executive Chairman of Brookfield Multiplex Funds Management Limited RE of the Multiplex Property Trust and the Multiplex SITES trust, Chairman of Ross Human Directions Limited and Babcock & Brown Japan Property Management Limited. Director of Billabong International Limited. Chairman of General Reinsurance Australia Limited.

Michael J. Sharpe, AO, BEc, Hon.DSc Econ (Sydney), FCA, Non Executive Director. Director since July 1998.

Director of ASX Limited. He is the Chairman of the Audit and Risk Committee and was a Director of ASX Markets Supervision Pty Limited until he stepped down from that board at the end of July 2008.

Director of Babcock and Brown Limited, and National Australia Trustees Limited. He is also in the position of trusteeship for the International Valuation Council. Mr Sharpe's 40-year career in the accounting profession culminated in his retirement as a partner of Coopers and Lybrand (now PricewaterhouseCoopers) in 1998. He has served as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, independent auditor of the Australian National Audit Office and as a member of the Takeovers Panel.

Peter Warne, BA, Appointed Director of ASX in July 2006. Prior to this he was a Director of SFE Corporation Limited from 2000. He is a Director of Australia Clearing House Pty Limited, SFE Clearing Corporation Pty Limited, ASX Clearing Corporation Limited, Austraclear Limited, and ASX Settlement and Transfer Corporation Pty Limited. He is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.

Chairman of Next Financial Limited and Australian Leisure and Entertainment Property Management Limited, and Deputy Chairman of Capital markets CRC Limited. He is a Director of WHK Group Limited, Securities Industry Research Centre of Asia Pacific (SIRCA), Teys Limited, Macquarie Group Limited and Macquarie Bank Limited. He is also a member of the advisory board of the Australian Office of Financial Management.

Previously, Mr Warne was a director of Macquarie Capital Alliance group and a former Executive Vice-President of Bankers Trust Australia Limited.

DIRECTORS' ATTENDANCE AT MEETINGS

Director	Meetings attended
CM Batrouney	5/5
S Doyle	4/5
FA McDonald	5/5
MJ Sharpe	5/5
P Warne	5/5

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 business.

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

The directors provide details of their current outside interests on appointment and advise 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.

In view of the size of the SEGC, the directors consider it is not necessary for it to have an audit and risk committee.

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

ADMINISTRATION OF SEGC

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

Paul Baranov (LLB, Grad Dip Fin Mgt, FCIS) is the Company Secretary and Legal Counsel.

The appointment of the Company Secretary is approved by the SEGC board.

CLAIMS REPORT

Claims processing procedure

The types of claims which can be made on the NGF are set out in the Overview section.

In general, SEGC processes claims by clients of Dealers in the following way:

- **Notification:** The Dealer whose alleged conduct or default has prompted the claim is notified of the claim, so that it may consider action to settle the claim (either directly with the claimant or via SEGC) and where appropriate, notify its insurer. During the processing of the claim, SEGC attempts as far as possible to facilitate settlement between the claimant and the Dealer.
- **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.

Claims processed in the current year

One claim was received during the year. The claim is unable to be substantiated and the Directors do not believe that any provision needs to be made in relation to it.

Subsequent to year end one other claim was received. At the date of the report it is not possible to estimate whether the claim will be substantiated so no provision has been made at this time.

Appeals against disallowed claims

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

No proceedings were commenced against SEGC during the financial year in respect of any disallowed claims.

FINANCIAL STATEMENTS

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2008

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED AND THE NATIONAL GUARANTEE FUND

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 2008, including the financial report of the National Guarantee Fund ("the NGF" or "the Fund") and the auditor's report thereon.

Directors

The following persons were directors of SEGC during the financial year and up until the date of this report, unless otherwise stated:

Clive Michael Batrouney (Chairman);
Susan Doyle (appointed 1 January 2007);
Fergus Allan McDonald;
Michael John Sharpe AO;
Peter Warne (appointed 19 October 2006)

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 \$4,362,883 (2007: \$4,953,697), before distributions of \$2,508,115 (2007: \$2,074,000) to the Financial Industry Development Account ("FIDA") held by ASX Limited ("ASX") under Corporations Regulation 7.5.89.

During the financial year, one claim was made on the NGF and another claim was received subsequent to balance date. There were no claims brought forward from prior year. Payments in respect of claims totalled \$Nil (2007: \$Nil). Total recoveries were \$Nil (2007: \$Nil).

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 company secretaries Rohan Purdy, Lisa Hopkin, Kristy Chambers and Paul Baranov.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED AND THE NATIONAL GUARANTEE FUND

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.

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 13.

Auditor Independence

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included on page 5.

Dated at Sydney this 20th of August 2008.

Signed in accordance with a resolution of the directors:



F A McDonald
Director



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 2008 there have been:

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

KPMG

John F Teer
Partner

Sydney

20 August 2008

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

	Note	2008 \$	2007 \$
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Income Statement
for the year ended 30 June 2008

Total profit		-	-
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Balance Sheet
at 30 June 2008

Net assets		-	-
Total equity	1, 2	-	-

Statement of Changes in Equity
for the year ended 30 June 2008

Opening balance		-	-
Closing balance		-	-

Cash Flow Statement
for the year ended 30 June 2008

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

NATIONAL GUARANTEE FUND
Income Statement
for the year ended 30 June 2008

	Note	2008 \$	2007 \$
Revenues			
Movements in market valuation of investment units			
– UBS Cash Plus Fund		-	489,811
Distributions – UBS Cash Plus Fund		3,973,139	2,598,658
Distributions – Schroder Fixed Income Fund		3,163,558	3,530,522
Interest revenue – other		1,785	774
Refund of imputation credits		24,355	54,037
Total revenues		7,162,837	6,673,802
Expenses			
Movements in market valuation of investment units			
– Schroder Fixed Income Fund		1,090,608	1,143,751
– UBS Cash Plus Fund		1,115,691	-
Audit fees		21,000	20,800
Support staff and administration		572,655	555,554
Total expenses		2,799,954	1,720,105
Net profit before distributions		4,362,883	4,953,697
Distributions to Financial Industry Development Account (FIDA) held by ASX Limited	4	2,508,115	2,074,000
Net profit after distributions		1,854,768	2,879,697

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

NATIONAL GUARANTEE FUND

Balance Sheet

as at 30 June 2008

	Note	2008 \$	2007 \$
Current assets			
Cash		752	53,360
Receivables	5	30,145	56,163
Other financial assets – investments	6	101,693,950	99,684,069
Total current assets		101,724,847	99,793,592
Total assets			
		101,724,847	99,793,592
Current liabilities			
Payables		25,500	20,000
Related party payable	11	162,666	91,679
Total current liabilities		188,166	111,679
Total liabilities			
		188,166	111,679
Net assets			
		101,536,681	99,681,913
Funds			
Retained funds		101,536,681	99,681,913
Total funds		101,536,681	99,681,913

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

Statement of Changes in Funds for the year ended 30 June 2008

Opening balance	99,681,913	96,802,216
Profit for the year	1,854,768	2,879,697
Closing balance	101,536,681	99,681,913

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

NATIONAL GUARANTEE FUND
Cash Flow Statement
for the year ended 30 June 2008

	Note	2008 \$	2007 \$
Cash flows from operating activities			
Proceeds from the disposal of investments		2,920,517	2,660,110
Imputation credits/BAS refunds		50,373	52,926
Interest received – other		1,785	774
Payments to suppliers		(517,168)	(587,103)
Payments to FIDA	4	(2,508,115)	(2,074,000)
Net cash (used)/provided by operating activities	10	(52,608)	52,707
Cash flows from investing activities			
		-	-
Cash flows from financing activities			
		-	-
Net (decrease)/increase in cash held		(52,608)	52,707
Cash at the beginning of the financial year		53,360	653
Cash at the end of the financial year		752	53,360

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash assets	752	53,360
Closing cash balance	752	53,360

Definition of cash

For the purposes of the statement 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.

The Cash Flow Statement should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

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 20 August 2008.

ASX 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 2008 of \$188,166 (2007: \$111,679) 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

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Standards Board (AASB) pronouncements including Australian Interpretations, and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

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

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. Also, AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* must be adopted in conjunction with AASB 8. Both AASB 8 and AASB 2007-3 are applicable to SEGC for the annual reporting period beginning 1 July 2009 and are not expected to impact the financial report.
- Revised AASB 101 *Presentation of Financial Statements* introduces "statement of comprehensive income". It is applicable to SEGC for the Group's 30 June 2010 financial statements and is expected to impact disclosures within financial report.
- Revised AASB 123 *Borrowing Costs* become applicable for 30 June 2010 financial statements. This would not have affected SEGC in the current financial year.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

(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 earned.

Interest revenue

Interest revenue is recognised as it is received.

Refund of imputation credits

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

(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 Fixed Income Fund in cash or cash-like products.

(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 balance sheet.

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.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

4. Financial Industry Development Account (FIDA)

Sub-regulation 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 sub-regulation 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:

	2008	2007
	\$	\$
Investor education initiatives (1 Jul 2005 – 30 Jun 2008)	1,797,735	2,000,000
Share ownership survey	117,194	74,000
Surplus funds returned to NGF	(6,814)	-
SDIA Industry training and education program	600,000	-
	<u>2,508,115</u>	<u>2,074,000</u>

	2008	2007
	\$	\$
5. Receivables		
Imputation credits receivable	24,355	54,037
Other receivables – GST	<u>5,790</u>	<u>2,126</u>
	<u>30,145</u>	<u>56,163</u>

	2008	2007
	\$	\$
6. Other financial assets - investments		
Units in managed funds		
UBS Cash Plus Fund	51,919,901	50,630,813
Schroder Fixed Income Fund	<u>49,774,049</u>	<u>49,053,256</u>
	<u>101,693,950</u>	<u>99,684,069</u>

7. Commitments

The following table outlines all projects approved for FIDA funding by the Minister and not yet claimed. Sub-regulation 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.

	2008	2007
	\$	\$
Due:		
Not later than one year	2,519,167	2,000,000
Later than one year but not later than five years	4,685,833	-
	<u>7,205,000</u>	<u>2,000,000</u>
Total commitments	<u>7,205,000</u>	<u>2,000,000</u>

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

8. Contingent liabilities of the fund

As at 30 June 2008 and up to the date of this report there are no material contingent liabilities.

9. Segment reporting

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

10. Notes to the statements of cash flows of the fund

	2008	2007
	\$	\$
Reconciliation of the net profit / (loss) to the net cash flows from operating activities:		
Net profit after distributions	1,854,768	2,879,697
(Increase) in investments	(2,009,881)	(2,815,129)
Decrease/(increase) in receivables	26,018	(1,110)
Increase/(decrease) in payables	5,500	3,799
Increase/(decrease) in related party payables	<u>70,987</u>	<u>(14,550)</u>
Net cash provided by operating activities	<u>(52,608)</u>	<u>52,707</u>

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

11. Related party disclosures

Directors

The directors of SEGC during the financial year were:

Clive Michael Batrouney (Chairman);
Susan Doyle (appointed 1 January 2007);
Fergus Allan McDonald;
Michael John Sharpe AO;
Peter Warne (appointed 19 October 2006)

All directors were in office for the full financial year.

Mr Sharpe and Mr Warne were appointed by ASX. They are also directors of ASX Limited.

Related party transactions

During the year, SEGC incurred management fees of \$317,234 inclusive of GST (2007: \$325,869) 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 2008 was \$162,666 (2007: \$91,679). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

12. Key Management Personnel compensation

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

	2008	2007
	\$	\$
Short-term employee benefits	150,000	148,711
Post-employment benefits (Superannuation)	10,350	11,999
Total	160,350	160,710

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

The Company Secretary and Legal Counsel of SEGC, Paul Baranov (Lisa Hopkin prior to her resignation in August 2007 and Rohan Purdy prior to his resignation in December 2007), and Company Secretary, Kristy Chambers, are employees of ASX Operations Pty Ltd. They are seconded to SEGC and their remunerations are incurred by ASX Operations Pty Ltd.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

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 \$	
C M Batrouney	2008	50,000	4,500	54,500
	2007	50,000	4,500	54,500
F A McDonald	2008	25,000	2,250	27,250
	2007	25,000	2,250	27,250
M L Newman	2008	-	-	-
	2007	7,541	183	7,724
M J Sharpe	2008	25,000	283	25,283
	2007	25,000	1,271	26,271
K De Lacy	2008	-	-	-
	2007	12,500	1,125	13,625
P H Warne	2008	25,000	1,067	26,067
	2007	16,170	1,545	17,715
S M Doyle	2008	25,000	2,250	27,250
	2007	12,500	1,125	13,625
Total	2008	150,000	10,350	160,350
	2007	148,711	11,999	160,710

In accordance with section 889H of the Corporations Act 2001, directors' fees have been paid out of the NGF.

	2008	2007
13. Auditor's remuneration		
Audit services:		
Audit and review of the financial reports	<u>21,000</u>	<u>20,800</u>

All the amounts shown above are exclusive of GST.

In accordance with section 889H of the Corporations Act 2001, auditor's remuneration has been paid out of the NGF.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

14. Financial instruments

Determination of fair values

Fair values of the following financial assets have been determined on the following basis:

Financial Assets	Fair value (FV) determination
Cash	FV of cash equates to the book value
Receivables	FV of receivables is estimated as the expected realisable value
Other financial assets – Investment units in managed funds	FV of investment is based on their quoted unit price on reporting date

(a) Market risk is the risk of loss arising from movements in observable market variables such as interest rate, foreign exchange rates and other market prices. Interest rate risk, liquidity risk and foreign currency risk are covered below:

(i) Interest rate risk

The Fund has exposure to interest rate risk. Interest rate risk arises in relation to 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 of 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 based on unit price and not interest income. The interest rate risk is part of the overall market risk as it affects the investment valuations of these financial assets. The risk is 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.

	Interest bearing		Non-interest bearing		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash	752	53,360	-	-	752	53,360
Receivables	-	-	30,145	56,163	30,145	56,163
Other financial assets – Investments	-	-	101,693,950	99,684,069	101,693,950	99,684,069
	752	53,360	101,724,095	99,740,232	101,724,847	99,793,592
Financial liabilities						
Payables	-	-	25,500	20,000	25,500	20,000
Related party payables	-	-	162,666	91,679	162,666	91,679
	-	-	188,166	111,679	188,166	111,679
Net financial assets	752	53,360	101,535,929	99,628,553	101,536,681	99,681,913

The weighted average interest rate for cash assets at year end was 6.33% (2007: 5.65%).

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

(ii) Liquidity risk

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

The following are the maturities of financial assets and liabilities with relevant maturity periods as at 30 June:

	30 June 2008				
	Up to 1 mth \$	>1 mth to 3 mths \$	>3 mths To 1 year \$	>1 Year \$	Total \$
Current assets:					
Cash	752	-	-	-	752
Receivables	-	30,145	-	-	30,145
Other financial assets - investment	101,693,950	-	-	-	101,693,950
Current Liabilities:					
Payables	-	25,500	-	-	25,500
Related party payables	-	162,666	-	-	162,666
Net assets / (liabilities):	101,694,702	(158,021)	-	-	101,536,681

	30 June 2007				
	Up to 1 mth \$	>1 mth to 3 mths \$	>3 mths To 1 year \$	>1 Year \$	Total \$
Current assets:					
Cash	53,360	-	-	-	53,360
Receivables	-	56,163	-	-	56,163
Other financial assets - investment	99,684,069	-	-	-	99,684,069
Current Liabilities:					
Payables	-	20,000	-	-	20,000
Related party payables	-	91,679	-	-	91,679
Net assets / (liabilities):	99,737,429	(55,516)	-	-	99,681,913

(iii) Foreign currency risk

The Fund has no exposure to foreign currency risk for the year ended 30 June 2008 (2007 : \$nil).

(b) Credit risk

SEGC is exposed to credit risk, which represents the potential loss that may arise from the failure of a counterparty to meet its obligations to SEGC.

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk as at 30 June was:

	Note	Company	
		2008	2007
Cash		752	53,360
Receivables	5	30,145	56,163
Other financial assets - investments	6	101,693,950	99,684,069

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

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.

(c) 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.

(d) Financial futures contract

There were no futures contracts entered into at 30 June 2008 (2007: \$nil).

(e) Capital management

The SEGC Board's policy is to maintain the NGF at a level at least equal to the 'minimum amount' needed to maintain the NGF at a viable level, with the approval of the Minister responsible for the Corporations Act (the Minister for Superannuation and Corporate Law), to meet claims and administration costs of the SEGC and NGF. The current minimum amount, as determined by the Minister, is \$76 million. As such the Board has an investment strategy in place to invest available financial assets, amounting to \$101.7 million, into two cash and fixed income funds managed by two professional portfolio managers respectively in order to preserve the minimum fund requirement as prescribed above.

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

If the amount of NGF falls below the 'minimum amount' of the NGF, the Board has measures in place to manage the financial position, including taking insurance against claim liability, paying claims in instalment, external borrowing or imposing levies on ASX or Participants of ASX.

If the amount of the NGF exceeds the 'minimum amount', the Board has discretion to pay the excess or part of the excess to ASX under a separate account designated as Financial Industry Development Account (FIDA).

There were no changes to SEGC's approach in managing the 'minimum amount' of NGF during the year.

15. 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 the operations of SEGC or the Fund, the results of those operations or the state of affairs of SEGC or the Fund.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

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") set out on pages 6 to 18 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 2008 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 Australian Accounting Standards (including the Australian Accounting Interpretations) 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.

Signed in accordance with a resolution of the directors:



F A McDonald
Director

Sydney, 20th day of August 2008



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

Report on the financial report

We have audited the accompanying financial report of Securities Exchanges Guarantee Corporation (the Company) and the National Guarantee Fund (the Fund), which comprises the balance sheets as at 30 June 2008, and the income statements, statement of changes in equity/funds and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration set out on pages 6 to 19.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 3(a) the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with



our understanding of the Company's financial position and of its performance.

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

Auditor's opinion

In our opinion:

(a) the financial report of Securities Exchanges Guarantee Corporation Limited, including the financial report of the National Guarantee Fund, is in accordance with 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 2008 and of their performances for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 3(a).

KPMG

John F Teer
Partner

Sydney

20 August 2008

FURTHER INFORMATION

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

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

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