



Securities Exchanges Guarantee Corporation

ANNUAL REPORT

2012

*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*

CONTENTS

	Page
Message from the Chairman	1
Overview of SEGC and the National Guarantee Fund	3
What is the NGF?	3
What claims can be made on the NGF?	3
Claims which cannot be made on the NGF	4
Claims in relation to exchange traded derivatives	4
Reduction of claims	5
The minimum amount of the NGF	5
Financial Industry Development Account (FIDA)	6
Multi-market environment	7
Board of Directors	8
Directors' Attendance at Meetings	9
Corporate Governance	10
Administration of SEGC	10
Claims Report	11
Claims processing procedure	11
Claims processed in the current year	11
Appeals against disallowed claims	12
Financial Statements	13
Securities Exchanges Guarantee Corporation Limited Financial Statements for the Year Ended 30 June 2012	13
National Guarantee Fund Financial Statements for the Year Ended 30 June 2012	24
Further information	47

MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF) which is a compensation scheme available to the operators of licensed financial markets who are members of SEGC. ASX Limited (ASX) has been the only member of SEGC since the NGF was created in 1987. As at 30 June 2012 the net assets of the NGF were \$103.4 million (compared to \$106.1 million as at 30 June 2011). Following the balance date, a payment of \$4,065,000 was made from the NGF in settlement of five outstanding claims.

The Board has commissioned KPMG to undertake a further actuarial review of the minimum amount of the NGF. The last actuarial review was conducted in 2010. The Board considered that an actuarial review was appropriate in light of the recent payments from the NGF and given the significant changes that have been introduced in the Australian market structure for cash equities trading with the commencement of Chi-X and the end to the best execution transitional period on 31 March 2013.

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

In the event that the amount of the NGF falls below the minimum amount set under s889I of the Corporations Act, SEGC has a number of measures at its disposal including discretion to levy any market operator of a financial market to which the NGF compensation scheme applies, or its market participants. The legislation provides a cap on the amount of any levy. The minimum amount of the NGF is currently set at \$76 million.

No levy has been required since the inception of the NGF.

The minimum amount and other measures available to SEGC to manage financial risk are explained in more detail in the report.

I would like to thank and acknowledge the significant and positive contributions of Clive Batrouney and Allan McDonald, who retired from the Board during the year. Clive was a director of SEGC for 14 years and Chairman for 13 years, and Allan was a director for 18 years and the Board's longest serving member at the time that he retired.

I joined the Board as a director in October 2011 and as Chairman from December 2011. The Board also welcomed Lynn Ralph as a director in December 2011. Lynn's experience in the public, private and not-for-profit sectors has added a new set of skills and experience to the Board. The experience and qualifications of all directors is set out later in the report.

Further commentary in relation to claims considered, determined and paid during the financial year is included later in the report.

During the year, SEGC provided a submission to the Council of Financial Regulators Review of Financial Market Infrastructure Regulation in relation to governance and other arrangements for the NGF. A copy of SEGC's submission is available on our website at <http://www.segc.com.au/submissions.html>. The Board is

engaged in ongoing discussions with Treasury and the regulatory agencies to inform and assist the development of future policy in relation to securities industry compensation funds.

It has been a great pleasure to have been given the opportunity to serve as Chairman of the SEGC Board at this interesting time of change and market developments. I thank the directors for all their efforts and support over this period.

A handwritten signature in cursive script, appearing to read 'N. Milne'.

Nancy Milne
Chairman

OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for administering the NGF and operates in accordance with Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. The assets of the NGF are the property of SEGC but are held on trust for the purposes set out in the legislation.

The SEGC Board is made up of directors experienced in matters involving the securities and financial services industries. The sole member of SEGC is ASX.

What is the NGF?

The NGF is a compensation fund available to meet certain types of claims arising from dealings with participants of ASX and, in limited circumstances, participants of ASX Clear. These participants are referred to in the legislation as “dealers”. The NGF was established by the *Australian Stock Exchange and National Guarantee Fund Act 1987*, which also created ASX as a national stock exchange. When the six state stock exchanges were merged under that Act, the assets of the fidelity funds of those state exchanges were merged to form the NGF.

Investment earnings are the major source of income for the NGF. The earnings of the NGF are income tax exempt.

At 30 June 2012, the net assets of the NGF were \$103.4 million. This compares with \$106.1 million at the end of the previous financial year.

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

What claims can be made on the NGF?

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

The NGF covers only certain investor protection claims.

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

- completion of sales and purchases of quoted securities entered into by a dealer on ASX's equities and debt markets where the transaction is required to be reported to ASX (Subdivision 4.3). The dealer may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have failed to complete a transaction because the dealer was suspended by ASX or by ASX Clear;
- loss that results if a dealer transfers marketable or certain other securities without authority (Subdivision 4.7);
- loss that results if a dealer cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the operating rules of ASX Settlement Pty Limited (Subdivision 4.8);
- loss that results if a dealer becomes insolvent and fails to meet its obligations in respect of property (usually money or securities) that had been entrusted to it in the course of, or in connection with, its business of dealing in securities, up to a statutory maximum per dealer of 15% of the minimum amount of the NGF (Subdivision 4.9). Based on the current minimum amount, this cap would be \$11.4 million. (See below for an explanation of the minimum amount.)

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

Claims which cannot be made on the NGF

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

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

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

Claims in relation to exchange traded derivatives

The contract completion provisions of Subdivision 4.3 referred to above in relation to ASX's securities markets do not 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 applies to 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 a right of set-off available to the claimant;
- by reference to the extent to which the claimant was responsible for causing the loss; and
- if a claimant has, without the written consent of SEGC, adversely affected SEGC's right to be subrogated to any of the claimant's rights and remedies and the claimant received a benefit for assigning its rights or remedies.

The minimum amount of the NGF

Under the Corporations Act the SEGC Board may, with the approval of the Government Minister responsible for the Corporations Act, determine that a particular amount (referred to in the legislation as the "minimum amount") is the amount needed to maintain the NGF at a viable level to meet claims and administration costs of SEGC and the NGF.

In 1987 when the NGF was formed, the initial minimum amount under the legislation was \$15 million. Because changes occur in the securities industry and new products and services are developed, the SEGC Board has periodically reviewed the minimum amount on actuarial advice. On 31 March 2005 the minimum amount was set at \$76 million. In 2010 an actuarial review was conducted as part of the SEGC Board's regular review of the minimum amount. Following that review, the SEGC Board concluded that the current minimum amount of \$76 million remained appropriate at that time and decided that for the purposes of prudential risk management a buffer of \$20 million should be maintained above the recommended minimum amount. The Board continues to monitor the minimum amount and has commissioned that a short actuarial review be conducted in 2012. The Board considered that this review would be appropriate in light of the recent payments from the NGF, the current low level of interest rates and given the significant changes that have been introduced in the Australian market structure for cash equities trading with the commencement of Chi-X and the end to the best execution transitional period on 31 March 2013.

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

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

- it may determine (with the Minister's approval) to adjust the minimum amount of the NGF;
- it may take out insurance against liability in respect of claims on the NGF;
- it may pay claims in instalments and in the priority set out in the legislation;
- it may borrow (including from ASX) for the purpose of meeting a payment due out of the NGF; or
- it may raise funds for the NGF by imposing a levy on ASX or on all or a class of participants of ASX.

If the amount in the NGF falls below the minimum amount, SEGC may determine in writing that the operators of all, or a class, of the financial markets to which the NGF compensation scheme applies or all, or a class, of the participants in any of those markets must pay a levy. If a levy is imposed on a market operator then the market operator may determine in writing that participants in that market must pay a levy. Since the NGF was created in 1987 ASX has been the only operator of a financial market to which the NGF compensation scheme applies.

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

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

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

Financial Industry Development Account (FIDA)

The legislation includes a mechanism allowing the Minister to approve a matter as an approved purpose for which excess funds in the NGF (that is, funds in excess of the minimum amount) may be used by ASX.

The matters that may be an approved purpose are limited by the legislation and include:

- the creation of, or participation in, a program for the development of the financial industry that is conducted primarily for the public benefit and not primarily to promote the profitability of the commercial operations of any market; and
- costs paid and other payments made to ASIC by ASX in relation to ASIC's responsibilities for market supervision.

The FIDA is an account maintained by ASX into which must be placed any funds that are paid to ASX from the NGF for an approved purpose. Funds in the FIDA can only be used by ASX for a purpose approved by the Minister.

During the financial year \$5,821,897.69 was paid to the FIDA. These funds were for the following approved purposes:

- the ASX Investor Education Program;
- the Australian Share Ownership Survey;
- transfer of market supervision responsibilities to ASIC;
- research activities to the Corporate Governance Research Centre;
- research program for the development of market quality to the Financial Markets Research Centre; and
- Industry Training and Education Program to the Stockbrokers Association.

Multi-market environment

Trading on the market operated by Chi-X Australia Pty Ltd (Chi-X) commenced in 2011.

Chi-X has its own compensation fund separate and distinct from the NGF. However, it is expected that there will be dealers who will be participants of both ASX and Chi-X. It may therefore be necessary to determine which compensation fund may apply, in the particular circumstances of any claim.

There may be circumstances where loss resulting from the actions of a participant of both ASX and Chi-X is not covered by the Chi-X compensation fund, due to the operation of the Corporations Act. In this case, the NGF may apply to the loss, provided the loss is connected to the ASX market and it is covered by the NGF claims provisions set out above.

If a loss relates to a dealer that is a Chi-X participant but not an ASX participant, the NGF will not apply.

BOARD OF DIRECTORS

The SEGC Board is responsible for overseeing the general operation of SEGC including determining claims and deciding upon the investment strategy for the management and investment of the NGF's assets. The experience and qualifications of each director is set out below.

Nancy Milne LLB, OAM Non-Executive Director. Director since October 2011, Chairman since December 2012.

Consultant to Clayton Utz. Director of Australand Holdings Limited. Director of Commonwealth Managed Investments Limited, responsible entity for the Commonwealth Property Office Fund and the CFS Retail Property Trust and other unlisted trusts. Director of The Colonial Mutual Life Assurance Society Limited. Director of Commonwealth Insurance Limited (and a member of the Audit and Risk Committee). Director of Australian International Disputes Centre.

Susan Doyle, BA, Independent Non-Executive Director. Director since 1 January 2007.

Member of the Future Fund Board of Guardians. Chairman of State Library of NSW Audit Committee. Director of Lawcover Pty Limited and Lawcover Insurance Pty Limited. Director of Barbara May Foundation. Former Chairman of Commonwealth Superannuation Corporation. Former Director of Aircruising Australia Ltd.

Ian McGaw, Non-Executive Director. Appointed as a Director on 1 July 2010.

Chairman of ASX Clear Pty Limited and ASX Settlement Pty Limited. Director of ASX Clear (Futures) Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Corporation Limited and Austraclear Limited. Previously, Mr McGaw was the Group Managing Director at the London Clearing House (now known as LCH Clearnet Group).

Lynn Ralph, BA, MBA, FAICD, SF Fin, Non-Executive Director. Director since December 2011.

Chairman of BT Funds Management Ltd group of companies within BT Financial Services Group, Westpac. Commissioner of the Private Health Insurance Administration Council. A Director of Bangarra Dance Theatre Australia Ltd., Sydney Swans Ltd., and Sydney Institute Ltd. Former Chief Executive Officer, Investment and Financial Services Association. Former Deputy Chairman of Australian Securities Commission.

Peter Warne, BA, FAICD Non-Executive Director. Director since October 2006.

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

Chairman of ASX Clear (Futures) Pty Limited, Director of ASX Clear Pty Limited, ASX Clearing Corporation Limited, Austraclear Limited and ASX Settlement Pty Limited. Member of the ASX Audit and Risk Committee and the Nomination and Remuneration Committee.

Chairman of Australian Leisure and Entertainment Property Management Limited. Deputy Chairman of WHK Group Limited and Capital Markets CRC Limited. Director of Macquarie Group Limited, Macquarie Bank Limited, Securities Industry Research Centre of Asia Pacific (SIRCA) and New South Wales Treasury Corporation. Chairman of St. Andrews Cathedral School Foundation. Member of the advisory boards of the Australian Office of Financial Management and Macquarie University Faculty of Business and Economics Advisory Board. Adjunct Professor of University of Sydney Business School. Patron of Macquarie University Foundation. Former Member of the Compliance Committee of Wilson HTM.

Previously, Mr Warne was a director of Macquarie Capital Alliance Group and an Executive Vice-President of Bankers Trust Australia Limited. Appointed Director of ASX in July 2006. Prior to this he was a Director of SFE Corporation Limited from 2000.

Clive Batrouney, FAIM, Independent Non-Executive Director. Chairman since July 1998. Director since October 1997. Retired as a Director on 5 December 2011.

Director of Hansen Yuncken Pty Limited. Former Chairman of Telstra Super Pty Limited and Telstra Super Financial Planning Pty Limited. 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).

F. Allan McDonald, BEc, FCPA, FCIS, FAIM, Independent Non-Executive Director. Director since May 1993. Retired as a Director on 18 October 2011.

Non-Executive Chairman of Brookfield Funds Management Limited (RE of the Multiplex Property Trust and the Multiplex SITES trust), Brookfield Capital Management Limited (including its subsidiaries), Multiplex Acumen Vale Syndicate Limited, Brookfield Australia Funds Management Limited, Brookfield Capital Securities Limited, Brookfield Capital Investments Limited. Director of Brookfield Office Properties Inc. Chairman of Astro Japan Property Management Limited (RE of the Astro Japan Property Trust). Director of Billabong International Limited. Chairman of General Reinsurance Australia Limited. Former Chairman of Ross Human Directions Limited.

Directors' Attendance at Meetings

Director	Meetings attended
CM Batrouney	3/3
S Doyle	6/6
FA McDonald	3/3
P Warne	6/6
IWT McGaw	5/6
Nancy Milne	3/3
Lynn Ralph	3/3

CORPORATE GOVERNANCE

The Board of SEGC consists of five non-executive directors. ASX, as the sole member of SEGC, appoints two directors and those directors appoint three independent directors each of whom:

- is not a director, officer or employee of or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's business.

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

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

In view of the small size of the SEGC Board, and the critical importance to the organisation of its investments and finances, the Board has resolved that it will not have a separate audit and risk committee, but that the entire Board will oversee these aspects of the Company's operations.

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

ADMINISTRATION OF SEGC

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

ASX staff on secondment 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.

Gitanjali Singh (LLB) and **Paul Baranov (LLB, Grad Dip Fin Mgt, FCIS)** are the Company Secretaries and Legal Counsel of SEGC.

The appointment of the Company Secretaries is approved by the SEGC Board.

CLAIMS REPORT

Claims processing procedure

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

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

- **Notification:** The dealer whose alleged conduct or default has prompted the claim is notified of the claim, so that it may consider action to settle the claim (either directly with the claimant or via SEGC) and where appropriate, notify its insurer. During the processing of the claim, SEGC attempts as far as possible to facilitate settlement between the claimant and the dealer.
- **Further information:** The claimant must establish their claim. SEGC will check that the claim meets the relevant criteria. This may involve SEGC seeking information from the claimant or from other relevant persons such as dealers, registries, liquidators, ASX and ASX Clear. Under the Corporations Act, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** Claims on the NGF are subject to time limits under the Corporations Regulations. In general, the time limit for claims is six months commencing from the time of the relevant event or from the time the claimant became aware of the loss, depending on the category of claim. In some cases, SEGC may publish a notice specifying another time limit. A claim made outside the relevant time limit is barred unless the Board otherwise determines.
- **Determination:** If the claim is not time barred, the Board will determine whether to allow or disallow the claim. Claims may be allowed or disallowed in whole or in part. If a claim is allowed, the claimant is provided with an amount of compensation determined in accordance with the legislation and consisting of securities and/or money.
- **Recovery:** The Corporations Act provides that if a claim is allowed, SEGC is subrogated to all the claimant's rights and remedies in relation to the conduct the subject of the claim. SEGC stands in the claimant's shoes and can seek recovery from the dealer, and in appropriate cases other parties. Potential recoveries are pursued where appropriate to mitigate loss to the NGF.

Claims processed in the current year

SEGC received two new claims during the financial year, under Subdivision 4.3 and Subdivision 4.9. SEGC also considered a number of other claims that were received before the commencement of the financial year.

During the financial year, no claims were allowed by SEGC and one claim was disallowed. The disallowed claim was made under Subdivision 4.7. As at the end of the financial year, seven claims were outstanding. The outstanding claims were the two claims received during the financial year and five claims relating to Hogan & Partners Stockbrokers and made under Subdivision 4.9.

The five Hogan & Partners claims related to payments of money that were made by five overseas clients to Hogan & Partners for the purpose of options trading. In criminal proceedings that are still underway in Western Australia, it has been alleged that an employee of Hogan & Partners intentionally concealed trading losses incurred on three client accounts operated on behalf of the five overseas clients. As a consequence of the alleged activities in relation to these clients, Hogan & Partners ceased operations in 2008.

The former employee of Hogan & Partners was permanently banned by ASIC from providing financial services and was charged in Western Australia with fraud and dishonestly using his position as an employee of Hogan & Partners. The five overseas clients brought legal proceedings in Western Australia against Hogan & Partners and the former employee, and made claims on the NGF. Subsequently, the claimants joined SEGC to the Western Australian legal proceedings.

Following the end of the financial year, the five claims and the Western Australian legal proceedings relating to Hogan & Partners were resolved by SEGC by way of settlement with the claimants and Hogan & Partners.

Claims in relation to other dealers are being considered by SEGC. The Directors do not believe that any provision needs to be made in relation to them 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.

During the 2011 financial year an appeal from a decision of the Board to disallow a claim was upheld in the Supreme Court of Queensland. SEGC appealed this decision to the Queensland Court of Appeal, which upheld the decision of the Supreme Court of Queensland.

No further appeals against disallowed claims are outstanding.

FINANCIAL STATEMENTS

*Securities Exchanges Guarantee Corporation Limited Financial Statements
for the Year Ended 30 June 2012*

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2012

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**Table of Contents**

Directors' Report

Auditor's Independence Declaration

Statement of Comprehensive Income

Balance Sheet

Statement of Changes in Equity

Statement of Cash Flows

Notes to the Financial Statements

Directors' Declaration

Independent Audit Report

These financial statements are prepared for the Securities Exchanges Guarantee Corporation Limited (SEGC) as an individual entity. The financial statements are presented in Australian dollars.

SEGC is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the National Guarantee Fund (Fund). SEGC's registered office is:

Level 6
16-20 Bridge Street
Sydney NSW 2000 Australia

A description of the nature of SEGC's operations and its principal activities is included in the Trustee's Report on page 3.

These financial statements were authorised for issue by SEGC on 21 August 2012.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Directors' Report

The directors present their report together with the financial statements of Securities Exchanges Guarantee Corporation Limited (SEGC) for the year ended 30 June 2012 and the auditor's report thereon.

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy Jane Milne (Chairperson)*
 Ms Susan Doyle
 Mr Ian William Thoburn McGaw
 Ms Lynn Susan Ralph**
 Mr Peter Hastings Warne

* Ms Nancy Jane Milne was appointed as a director on 19 October 2011 and as Chairperson on 6 December 2011.

** Ms Lynn Susan Ralph was appointed as a director on 6 December 2011.

Mr Clive Michael Batrouney was the Chairman of SEGC until his retirement on 5 December 2011.

Mr Fergus Allan McDonald was a director of SEGC until his retirement on 18 October 2011.

Mr Ian William Thoburn McGaw was appointed by ASX Limited (ASX). Mr McGaw was also a director of certain controlled entities of ASX, during the financial year ending 30 June 2012.

Principal activity

SEGC administers the National Guarantee Fund (the Fund) and holds the assets of the Fund on trust for the purposes of Division 4 of Part 7.5 of the Corporations Act 2001.

Review and results of operations

SEGC did not trade in its own right during the financial year, other than to undertake its principal activity noted above.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of SEGC during the financial year.

Environmental regulation and performance

No significant environmental regulations apply to SEGC and the directors are not aware of any significant material environmental incidents arising from the operations of SEGC during the financial year.

Events subsequent to balance date

Subsequent to the balance date, SEGC determined 5 claims by way of settlement with the claimants for the amount of \$4,065,000. These claims have yet to be paid and have been recognised as a liability in the Fund's financial statements for the year ended 30 June 2012.

There were no other items, transactions or events of a material and unusual nature which are likely to significantly affect the operations, the results of those operations, or the state of affairs of SEGC.

Indemnification and insurance of officers

SEGC paid an insurance premium in respect of directors' and officers' liability insurance for current and former directors and officers of SEGC out of the fund.

The directors and officers of SEGC covered by the insurance include the directors referred to earlier in this report and company secretaries, Gitanjali Singh and Paul Leslie Baranov.

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 arises out of a lack of good faith or conduct contrary to SEGC's express instructions. The constitution also provides that the officers of SEGC are indemnified against any liability for costs or expenses incurred in that capacity in defending any proceedings,

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Directors' Report

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 each of whom:

- is not a director, officer or employee of, or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

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

Employees of ASX Operations Pty Limited (ASXO), a controlled entity of ASX, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the course of their secondment in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

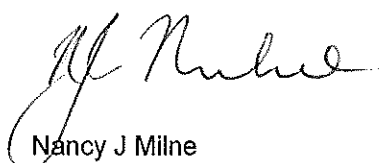
Administration and accounting services are provided by ASXO and associated costs are reimbursed by the Fund to ASXO as set out in note 4. The performance of these services is subject to the same internal and external audit reviews as are performed within ASX and its controlled entities.

The amounts paid to the auditor of SEGC and the Fund, PricewaterhouseCoopers, for auditing the financial statements are set out in note 5.

Auditor Independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 5.

Signed in accordance with a resolution of the directors:



Nancy J Milne
Chairperson

Sydney, 21 August 2012



Auditor's Independence Declaration

As lead auditor for the audit of Securities Exchanges Guarantee Corporation Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Securities Exchanges Guarantee Corporation Limited.

A handwritten signature in black ink, appearing to read 'M J Codling'.

M J Codling
Partner
PricewaterhouseCoopers

Sydney
21 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

	2012 \$	2011 \$
Statement of Comprehensive Income		
For the year ended 30 June 2012		
Total Comprehensive Income	-	-
Balance Sheet		
As at 30 June 2012		
Net assets	-	-
Total equity	-	-
Statement of Changes in Equity		
For the year ended 30 June 2012		
Opening balance	-	-
Closing balance	-	-
Statement of Cash Flows		
For the year ended 30 June 2012		
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net increase in cash held	-	-
Cash at the beginning of the financial year	-	-
Cash at the end of the financial year	-	-

The Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

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 acting as trustee to administer the National Guarantee Fund (the Fund). SEGC does not trade in its own right.

The financial statements were authorised for issue by the directors on 21 August 2012.

ASX Limited (ASX), as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the property of SEGC as may be required in the event of SEGC being wound up. This undertaking is provided whilst ASX is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC that are contracted before ASX's membership ceases, for the payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

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 of Division 4 of Part 7.5 of the Corporations Act 2001.

2. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of SEGC also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). SEGC is a not-for-profit entity for the purpose of preparing the financial statements.

The financial statements have been prepared on a historical cost basis except for investments, which have been recognised at fair value. Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

The new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 do not affect any of the amounts recognised in the current period or any prior period and is not likely to affect future periods.

SEGC has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

SEGC's assessment of the impact of the accounting standards and amendments that have been published, but are not yet effective and have not been adopted for the financial year ended 30 June 2012 is shown below.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective from 1 July 2013) removes the individual key management personnel requirements from AASB 124 *Related Party Disclosures*. The adoption of this amendment will not have any impact on the financial statements of SEGC.

The amendment is not available for early adoption and will be mandatory for SEGC's 30 June 2014 financial statements.

3. Related party disclosures

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy Jane Milne (Chairperson)*
 Ms Susan Doyle
 Mr Ian William Thoburn McGaw
 Ms Lynn Susan Ralph**
 Mr Peter Hastings Warne

* Ms Nancy Jane Milne was appointed as a director on 19 October 2011 and as Chairperson on 6 December 2011.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Notes to the Financial Statements

** Ms Lynn Susan Ralph was appointed as a director on 6 December 2011.

Mr Clive Michael Batrouney was the Chairman of SEGC until his retirement on 5 December 2011.

Mr Fergus Allan McDonald was a director of SEGC until his retirement on 18 October 2011.

Mr Ian William Thoburn McGaw was appointed by ASX Limited (ASX). Mr McGaw was also a director of certain controlled entities of ASX, during the full financial year ending 30 June 2012.

Related party transactions

During the year, SEGC incurred expenses of \$308,710 exclusive of GST (2011: \$388,156) in respect of staff, administration, occupancy and accounting services provided by ASX Operations Pty Limited (ASXO) for the administration of SEGC and the Fund. As SEGC is the administrator of the Fund, the expenses were paid from the assets held by the Fund in accordance with section 889H of the Corporations Act 2001.

4. Key Management Personnel compensation

The Key Management Personnel comprise the five directors of SEGC.

The Key Management Personnel compensation included in administration costs in the Fund's Statement of Comprehensive Income are as follows:

	2012	2011
	\$	\$
Short-term employee benefits	180,000	180,000
Post-employment benefits (superannuation)	15,132	15,072
Total	195,132	195,072

Key Management Personnel compensation set out above comprises directors' fees and superannuation paid to the five directors of SEGC. The amounts were paid by ASXO and in accordance with section 889H of the Corporations Act 2001, the above has been reimbursed from the Fund to ASXO.

5. Auditor's remuneration

Audit services:

Audit of the financial statements of SEGC	2,500	2,100
Total	2,500	2,100

All the amounts shown above are exclusive of GST.

In accordance with section 889H of the Corporations Act 2001, audit services provided to SEGC are paid by the Fund.

There were no non-audit services provided by the auditor to SEGC in the current year (2011: nil).

6. Subsequent events

Subsequent to the balance date, SEGC determined 5 claims by way of settlement with the claimants for the amount of \$4,065,000. These claims have yet to be paid and have been recognised as a liability in the Fund's financial statements for the year ended 30 June 2012.

There were no other items, transactions or events of a material and unusual nature which are likely to significantly affect the operations, the results of those operations, or the state of affairs of SEGC.

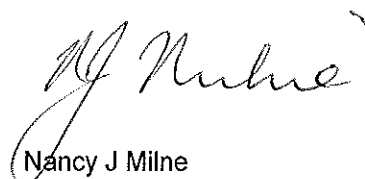
SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Directors' Declaration

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

- a) the financial statements and notes of SEGC set out on pages 6 to 8 are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the financial position of SEGC as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- b) there are reasonable grounds to believe that SEGC will be able to pay its debts as and when they become due and payable.
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in note 2.

Signed in accordance with a resolution of the directors:



Nancy J Milne
Chairperson

Sydney, 21 August 2012



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 Limited (the company), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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**Independent auditor's report to the members of
Securities Exchanges Guarantee Corporation Limited (continued)**

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Securities Exchanges Guarantee Corporation Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complies with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'M J Codling'.

M J Codling
Partner

Sydney
21 August 2012

FINANCIAL STATEMENTS

*National Guarantee Fund Financial Statements
for the Year Ended 30 June 2012*

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2012

NATIONAL GUARANTEE FUND

Table of Contents

Trustee's Report

Auditor's Independence Declaration

Statement of Comprehensive Income

Balance Sheet

Statement of Changes in Equity

Statement of Cash Flows

Notes to the Financial Statements

Directors' Declaration

Independent Auditor's Report

These financial statements are prepared for the National Guarantee Fund (the Fund) as an individual entity. The financial statements are presented in Australian dollars.

The Fund is administered by its trustee, Securities Exchanges Guarantee Corporation Limited (SEGC). SEGC is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the Fund. SEGC's registered office is:

Level 6
16-20 Bridge Street
Sydney NSW 2000 Australia

A description of the nature of the Fund's operations and its principal activities is included in the Trustee's Report on page 3.

These financial statements were authorised for issue by SEGC on 21 August 2012.

NATIONAL GUARANTEE FUND

Trustee's Report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), being the trustee of the National Guarantee Fund (the Fund), present their report together with the financial statements and the auditor's report thereon for the year ended 30 June 2012.

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy Jane Milne (Chairperson)*
 Ms Susan Doyle
 Mr Ian William Thoburn McGaw
 Ms Lynn Susan Ralph**
 Mr Peter Hastings Warne

* Ms Nancy Jane Milne was appointed as a director on 19 October 2011 and as Chairperson on 6 December 2011.

** Ms Lynn Susan Ralph was appointed as a director on 6 December 2011.

Mr Clive Michael Batrouney was the Chairman of SEGC until his retirement on 5 December 2011.

Mr Fergus Allan McDonald was a director of SEGC until his retirement on 18 October 2011.

Mr Ian William Thoburn McGaw was appointed by ASX Limited (ASX). Mr McGaw was also a director of certain controlled entities of ASX, during the financial year ended 30 June 2012.

Principal activity

SEGC administers the Fund and holds the assets of the Fund on trust for the purposes of Division 4 of Part 7.5 of the Corporations Act 2001.

The Fund's primary function is to provide investor compensation in the circumstances set out in Part 7.5 of the Corporations Act 2001 and Part 7.5 of the Corporations Regulations 2001.

Review and results of operations

Net profit from ordinary activities of the Fund for the year was \$3,113,194 (2011: \$6,055,792) before payments of \$5,821,898 (2011: \$10,941,286) to the Financial Industry Development Account (FIDA) administered by ASX Limited (ASX) under Corporations Regulation 7.5.89 (see note 4).

In accordance with the approval of the Parliamentary Secretary to the Treasurer, \$1,912,500 (2011: \$8,612,493) of the above payments to FIDA were in respect of costs incurred by the Australian Securities and Investments Commission (ASIC) and ASX in relation to the transfer of certain market supervision responsibilities from ASX to ASIC.

Prior to the date of this report, SEGC determined to pay five compensation claims for the amount of \$4,065,000. These claims have been recognised as an expense and provided for in these financial statements.

During the year, the Court dismissed an appeal by SEGC and the claims held on trust of \$52,872, plus an additional amount for interest, was paid to the claimant. As a result of the Court decision, an amount in respect of legal fees has been recognised as an expense and provided for in these financial statements.

Significant changes in the state of affairs

In the opinion of the directors of SEGC, there were no significant changes in the state of affairs of the Fund during the financial year in review.

Environmental regulation and performance

No significant environmental regulations apply to the Fund and the directors of SEGC are not aware of any significant material environmental incidents arising from the operations of the Fund during the financial year.

NATIONAL GUARANTEE FUND

Trustee's Report

Events subsequent to balance date

Subsequent to the balance date, SEGC determined 5 claims by way of settlement with the claimants for the amount of \$4,065,000. These claims have yet to be paid and have been recognised as a liability in the Fund's financial statements for the year ended 30 June 2012.

There were no other items, transactions or events of a material and unusual nature which are likely to significantly affect the operations, the results of those operations, or the state of affairs of the Fund.

Likely developments and expected results of operations

The directors of SEGC have not determined to make any material changes to the nature of operations or management of the Fund in any period subsequent to the financial year.

Indemnification and insurance of officers

The Fund has paid an insurance premium in respect of directors' and officers' liability insurance for current and former directors and officers of SEGC.

The directors and officers of SEGC covered by the insurance include the directors referred to earlier in this report as well as the company secretaries, Gitanjali Singh and Paul Leslie Baranov.

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 arises out of a lack of good faith or conduct contrary to SEGC's express instructions. The constitution also provides that the officers of SEGC are indemnified against any liability for costs or expenses incurred in that capacity 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 each of whom:

- is not a director, officer or employee of or a partner in a participant of ASX;
- is not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

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

Employees of ASX Operations Pty Limited (ASXO), a wholly owned subsidiary of ASX, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the course of their secondment in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Administration and accounting services are provided by ASXO and associated costs are reimbursed by the Fund to ASXO. The performance of these services is subject to the same internal and external audits as are performed within ASX and its controlled entities.

The amounts paid to the auditor of the Fund, PricewaterhouseCoopers, for auditing the financial statements are set out in note 12.

NATIONAL GUARANTEE FUND

Trustee's Report

Auditor independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 6.

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

A handwritten signature in black ink, appearing to read 'Nancy J Milne', written in a cursive style.

Nancy J Milne
Chairperson

Sydney, 21 August 2012



Auditor's Independence Declaration

As lead auditor for the audit of the National Guarantee Fund for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the National Guarantee Fund.

A handwritten signature in black ink, appearing to read 'M J Codling'.

M J Codling
Partner
PricewaterhouseCoopers

Sydney
21 August 2012

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NATIONAL GUARANTEE FUND
Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Revenue			
Net gains on financial instruments held at fair value	13	2,108	1,970
Distribution income	13	6,143	5,547
Interest income		1	1
Refund of imputation credits		8	11
Total revenue		8,260	7,529
Expenses			
Claims	14	4,263	292
Operating expenses	15	884	1,181
Total expenses		5,147	1,473
Net profit for the year		3,113	6,056
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		3,113	6,056

The statement of comprehensive income should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND
Balance Sheet
As at 30 June 2012

	Note	2012 \$'000	2011 \$'000
Current assets			
Cash		1	1
Receivables	5	11	67
Prepayments	6	16	16
Other financial assets – investments	7	107,863	106,642
Total current assets		107,891	106,726
Total assets			
		107,891	106,726
Current liabilities			
Related party payables	10	221	320
Provisions	16	4,265	292
Total current liabilities		4,486	612
Total liabilities			
		4,486	612
Net assets			
		103,405	106,114
Equity			
Retained earnings		103,405	106,114
Total funds		103,405	106,114

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

NATIONAL GUARANTEE FUND
Statement of Changes in Equity
For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Opening balance		106,114	110,999
Profit for the year		3,113	6,056
Other comprehensive income for the year		-	-
Total comprehensive income for the year (net of tax)		3,113	6,056
Payments to the Financial Industry Development Account (FIDA)	4	(5,822)	(10,941)
Closing balance		103,405	106,114

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND
Statement of Cash Flows
For the year ended 30 June 2012

	Note	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Proceeds from the disposal of investments		7,030	12,135
Investment distribution income received		6,143	5,547
Reinvestment of distribution income		(6,143)	(5,547)
Payments to suppliers		(995)	(1,181)
Claim funds paid to trust account		(237)	(53)
Imputation credits/BAS refunds		23	39
Interest received – other		1	1
Net cash inflow from operating activities	9	5,822	10,941
Cash flows from investing activities			
		-	-
Cash flows from financing activities			
Payments to FIDA	4	(5,822)	(10,941)
Net cash (used in) financing activities		(5,822)	(10,941)
Net change in cash held			
		-	-
Cash at the beginning of the financial year		1	1
Cash at the end of the financial year		1	1

The statement of cash flows 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 acting as trustee to administer the National Guarantee Fund (the Fund). SEGC does not trade in its own right.

ASX Limited (ASX), as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the property of SEGC as may be required in the event of SEGC being wound up. This undertaking is provided whilst ASX is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC that are contracted before ASX's membership ceases, for the payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

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 of Division 4 of Part 7.5 of the Corporations Act 2001.

The financial statements were authorised for issuance by the directors of SEGC on 21 August 2012.

2. Statement of significant accounting policies

The significant policies that have been adopted by the Fund in the preparation of these financial statements are shown below.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Fund is a not-for-profit entity for the purpose of preparing the financial statements.

The financial statements have been prepared on a historical cost basis except for investments, which have been recognised at fair value. Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

The new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 do not affect any of the amounts recognised in the current period or any prior period and is not likely to affect future periods. However, the adoption of AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* allows the removal of certain disclosures in relation to commitments.

The Fund has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

The Fund's assessment of the impact of the accounting standards and amendments that have been published but are not yet effective and have not been adopted for the financial year ended 30 June 2012 is shown below.

- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013*) address the classification and measurement requirements for financial assets and financial liabilities. AASB 9 requires that all financial assets held to pay contractual cash flows be measured at amortised cost and all financial assets not held for the purpose of collecting contractual cash flows be measured at fair value. The Fund's other financial assets - investments which currently include UBS Cash Plus Fund and Schroders Fixed Income Fund do not give rise to specified contractual cash flows and as such will continue to be measured at fair value under the new standard.

There will be no impact on the Fund's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities designated at fair value through profit or loss and the Fund does not have any such liabilities.

The Fund has not yet decided when to adopt AASB 9. Currently, the new standard and amendments will be mandatory for the Fund's 30 June 2014 financial statements.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

*In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective from 1 January 2013) explain how to measure fair value and aim to enhance fair value disclosures. The impact of the new standard and amendment is yet to be fully assessed however it is not expected to have a material impact as fair value estimates are not used extensively by the Fund. The Fund has not yet decided when to adopt the new standard and amendment which will be mandatory for the Funds 30 June 2014 financial statements.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective from 1 July 2013) removes the individual key management personnel requirements from AASB 124 *Related Party Disclosures*. The adoption of this amendment will have no impact on the financial statements.

The amendment is not available for early adoption and will be mandatory for the Fund's 30 June 2014 financial statements.

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective from 1 July 2012) requires entities to group items presented in other comprehensive income on the basis of whether they may be recycled to profit or loss in the future. The impact of the new standard and amendment will not have a material impact as the Fund does not have any items of Other Comprehensive Income. The Fund will adopt the amendment in the 30 June 2013 financial statements.

There are no other standards that affect future periods, and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

b) Revenue recognition

Movements in fair value of investment units

Investments in units of managed funds are classified as financial assets at fair value through profit or loss and are stated at fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Gains and losses that result from adjusting the fair values of investment units in managed funds are included as revenue in the statement of comprehensive income.

Distribution revenue

Distribution revenue from investments is recognised when the right to receive the distribution has been established.

Interest revenue

Interest revenue on cash at bank is recognised using the effective interest method.

Refund of imputation credits

The Australian Taxation Office (ATO) endorsed the Fund as an income tax exempt charitable entity. As a result, imputation credits arising from distributions received during the year are recognised as revenue. Imputation credits to be received at the end of the financial year are recognised as receivables.

c) Claims

Claims are recognised on an accruals basis when they are considered by the board as valid. Provisions for claims are recognised when the following conditions are met:

- (i) the Fund has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) the amount can be reliably estimated.

If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (section 892F of the Corporations Act 2001). No allowance has been made for potential recoveries from relevant brokers by SEGC upon the exercise of its rights of subrogation.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

d) Income tax

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

e) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

f) Other financial assets – investments

The other financial assets of the Fund are unit trust investments currently managed by two professional investment portfolio managers, UBS Global Asset Management (Australia) Limited and Schroder Investment Management Australia Limited. During the year the Fund has held investments in the UBS Cash Plus Fund in cash or cash-like products and in Schroders Fixed Income Fund in a diversified range of fixed income securities. They are held at fair value through profit or loss and are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition of these assets. Subsequent to initial recognition, they are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Fair values of these two portfolios are established by referring to redemption prices quoted by the two fund managers. The two fund managers are responsible for using the relevant market bid prices of underlying instruments in the portfolios at balance date to calculate the redemption prices for both funds.

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. Where it is not recoverable, GST is recognised as part of the cost of acquisition of an asset where applicable, or recognised in the income statement as an expense. Payments to FIDA are not subject to GST.

Receivables and payables in the balance sheet 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) Cash and cash equivalents

For cash flow presentation purposes, cash includes cash deposits held with financial institutions.

i) Payments to Financial Industry Development Account (FIDA)

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

j) Payables

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

3. Financial instruments & risk management

a) Market risk

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

(i) Interest rate risk

The Fund has exposure to interest rate risk, which arises in relation to cash at bank and indirectly from other financial assets - investments. 'Other financial assets – investments' comprise investment units in cash-based and fixed-income securities 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 prices. The interest rate risk is part of the overall market risk as it affects the investment valuations of these financial assets. The risk is managed through segregating the Fund into two portions in

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

accordance with an investment strategy approved by the Board. Each portion is managed by a professional investment 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 Schroders Fixed Income Fund in a diversified range of fixed income securities. 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.

	Interest bearing		Non-interest bearing		Total	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Financial assets						
Cash	1	1	-	-	1	1
Receivables	-	-	11	67	11	67
Other financial assets - investments	-	-	107,863	106,642	107,863	106,642
	1	1	107,874	106,709	107,875	106,710
Financial liabilities						
Payables	-	-	-	-	-	-
Related party payables	-	-	221	320	221	320
Provisions	-	-	4,265	292	4,265	292
	-	-	4,486	612	4,486	612
Net financial assets	1	1	103,388	106,097	103,389	106,098

The annual average interest rate for interest bearing assets for the year was 3.85% (2011: 4.16%).

The average return of distributions from non-interest bearing financial assets - investments for the year was 8.24% (2011: 7.14%).

Fair value sensitivity analysis of interest bearing financial assets:

An increase/decrease of 25 basis points in interest rates would increase/decrease the Fund's annual profit and loss by \$58 (2011: \$41). Variations in interest rates may also affect the unit prices of the Fund's non-interest bearing other financial assets – investments, however the amount of the effect is unknown. See below for the fair value sensitivity analysis of these funds.

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

An increase/decrease of 25 basis points in investment redemption prices would increase/decrease the Fund's profit and loss by \$269,658 (2011: \$266,605).

(ii) Liquidity risk

Liquidity risk associated with the need to pay any claims, as determined by SEGC, is mitigated by investing in cash based funds. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund (Other financial assets – investments) can be called upon at short notice to fund working capital requirements as required.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

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

	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	No specific maturity \$'000	Total \$'000
2012				
Assets				
Cash	1	-	-	1
Receivables	-	11	-	11
Other financial assets - investments	107,863	-	-	107,863
Total assets	107,864	11	-	107,875
Liabilities				
Related party payables	-	221	-	221
Provisions	-	4,065	200	4,265
Total liabilities	-	4,286	200	4,486
Net assets/(liabilities):	107,864	(4,275)	(200)	103,389
	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	No specific maturity \$'000	Total \$'000
2011				
Assets				
Cash	1	-	-	1
Receivables	-	67	-	67
Other financial assets - investments	106,642	-	-	106,642
Total assets	106,643	67	-	106,710
Liabilities				
Related party payables	-	320	-	320
Provisions	-	292	-	292
Total liabilities	-	612	-	612
Net assets/(liabilities):	106,643	(545)	-	106,098

(iii) Foreign currency risk

The Fund has exposure to foreign currency risk indirectly from its other financial assets - investments. Where the managed funds investments in underlying securities are denominated in foreign currencies, movements in the exchange rate may cause the value of these investments to fluctuate.

b) Credit risk

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

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk as at 30 June 2012 is shown on the following page:

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

	Note	2012 \$'000	2011 \$'000
Cash		1	1
Receivables	5	11	67
Other financial assets – investments	7	107,863	106,642
Total		107,875	106,710

Credit risk relating to investments in managed funds is managed by fund managers having credit limits set for individual names in diversified portfolios. The Fund is invested in two portfolios in accordance with an investment strategy approved by the Board.

c) Capital management

The SEGC Board's policy is to maintain the assets of the Fund at a level above the minimum amount prescribed in the Corporations Act 2001 to meet claims and administration costs of SEGC and the Fund. The current minimum amount of the Fund is \$76 million which is subject to regular review.

The Board has an investment strategy in place to invest available financial assets, amounting to \$107,863,207 (2011: \$106,642,086), into two cash and fixed income funds managed by two professional investment portfolio managers respectively at 30 June 2012 in order to preserve the minimum fund requirement as prescribed above.

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

If the total fair value amount of the Fund falls below the minimum amount, the Board is able to take measures to manage the financial position, including taking insurance against claim liability, paying claims in instalments, external borrowing or imposing levies on ASX or participants of ASX. The Board has not yet taken any of the measures, or considered them to be necessary.

If the amount in the Fund 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 the Financial Industry Development Account (FIDA), with the approval of the Minister for Financial Services and Superannuation (the Minister).

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- ii. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The below amounts represent the Fund's financial assets measured and recognised at fair value:

Other financial assets - investments			
UBS Cash Plus Fund – at quoted redemption price		53,769	53,218
Schroders Fixed Income Fund – at quoted redemption price		54,094	53,424
Total		107,863	106,642

All of the Fund's assets are measured as 'level 2' in the fair value hierarchy.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

Fair values of investments are established by referring to redemption prices, as quoted by the two fund managers, which are based on the relevant market bid prices of underlying instruments in the portfolios at balance sheet date. As the fair values of the investments are not determined directly by reference to quoted prices in active markets, they are designated in level 2 of the fair value hierarchy.

There are no financial instruments designated within level 1 or 3 of the fair value hierarchy as at 30 June 2012 and 30 June 2011.

4. Payments to FIDA

Sub-regulation 7.5.89(1) of the Corporations Regulations 2001 confers on the Board of SEGC, being the administrator of the Fund, discretion to pay amounts from the excess above the minimum amount (currently \$76 million), for purposes approved by the Minister under regulation 7.5.88 of the Corporations Regulations 2001. Excess money paid from the Fund must be paid into FIDA and may only be used for approved purposes.

In the prior financial year, certain responsibilities for supervision of financial markets were transferred from ASX to ASIC. The Parliamentary Secretary to the Treasurer on behalf of the Minister approved the use of excess money from the Fund to pay certain costs related to the transfer. The Fund paid \$1,912,500 during the current year.

The payments made to FIDA in relation to the above transfer and other approved purposes for the year ended 30 June 2012 are shown below:

	2012 \$'000	2011 \$'000
Transfer of market supervision responsibilities from ASX to ASIC	1,913	8,613
Investor education initiatives	2,563	1,846
Share ownership survey	98	145
Corporate Governance Research Centre	506	337
Financial Markets Research Centre	153	-
Industry training & education programs	589	-
Total	5,822	10,941

5. Receivables

Imputation credits receivable	8	11
Other receivables – GST	3	3
Claim funds held on trust	-	53
Total	11	67

In the prior year, SEGC paid an amount of \$52,872 to SEGC's lawyers to be held in their trust account pending the outcome of a claims appeal. The appeal was lodged by SEGC following an initial Court decision in favour of the claimant in respect of a claim that had been disallowed by SEGC. The amount held in the trust account represented the claim plus an amount in respect of interest.

During the year, the appeal was dismissed and the funds held in trust were paid to the claimant.

6. Prepayments

Prepayments	16	16
Total	16	16

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

7. Other financial assets – investments

	2012 \$'000	2011 \$'000
UBS Cash Plus Fund – at quoted redemption price	53,769	53,218
Schroders Fixed Income Fund – at quoted redemption price	54,094	53,424
Total	107,863	106,642

8. Contingent liabilities

Contingent liabilities	-	53
Total	-	53

As at the date of the report, there are a number of claims which are still being assessed by SEGC. There are no material contingent liabilities in relation to these claims.

9. Notes to the Statement of Cash Flows

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

Net profit for the period	3,113	6,056
(Increase) / decrease in investments	(1,221)	4,618
Decrease / (increase) in receivables	56	(40)
(Decrease) in payables	-	(100)
Increase in provisions	3,973	292
(Decrease) / increase in related party payables	(99)	115
Net cash provided by operating activities	5,822	10,941

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 bank account only. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund (Other financial assets – investments) can be redeemed to fund working capital requirements as required.

10. Related party disclosures

Directors

The directors of SEGC during the financial year and at the date of this report, unless stated otherwise, are as follows:

Ms Nancy Jane Milne (Chairperson)*
 Ms Susan Doyle
 Mr Ian William Thoburn McGaw
 Ms Lynn Susan Ralph**
 Mr Peter Hastings Warne

* Ms Nancy Jane Milne was appointed as a director on 19 October 2011 and as Chairperson on 6 December 2011.

** Ms Lynn Susan Ralph was appointed as a director on 6 December 2011.

Mr Clive Michael Batrouney was the Chairman of SEGC until his retirement on 5 December 2011.

Mr Fergus Allan McDonald was a director of SEGC until his retirement on 18 October 2011.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

Mr Ian William Thoburn McGaw was appointed by ASX Limited (ASX). Mr McGaw was also a director of certain controlled entities of ASX, during the financial year ending 30 June 2012.

Related party transactions

During the year, SEGC incurred expenses on behalf of the Fund of \$308,710 exclusive of GST (2011: \$388,156) in respect of staff, administration, occupancy and accounting services provided by ASX Operations Pty Limited (ASXO) for the administration of SEGC and the Fund. These were reimbursed by the Fund in accordance with section 889H of the Corporations Act 2001.

The balance owing to ASXO by SEGC at 30 June 2012 was \$221,895 (2011: \$320,596) and is expected to be paid from the Fund. This balance represents the operating expenses for the quarter ended 30 June 2012. No interest is charged by ASXO on the outstanding balance owing from SEGC or the Fund.

11. Key Management Personnel compensation

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

	2012 \$	2011 \$
Short-term employee benefits	180,000	180,000
Post-employment benefits (superannuation)	15,132	15,072
Total	195,132	195,072

Key Management Personnel compensation set out above comprises directors' fees and superannuation paid to the five directors of SEGC. The amounts were paid by ASXO and in accordance with section 889H of the Corporations Act 2001, the above has been reimbursed from the Fund to ASXO.

12. Auditor's remuneration

Audit services:

Audit of the financial statements for the Fund	11,500	9,500
Total	11,500	9,500

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

There were no non-audit services provided by the auditor to the Fund (2011: nil).

13. Revenue

Net gains on financial instruments held at fair value through profit or loss:	\$'000	\$'000
UBS Cash Plus Fund	565	1,148
Schroders Fixed Income Fund	1,543	822
Total	2,108	1,970

Distribution income:

UBS Cash Plus Fund	2,084	2,433
Schroders Fixed Income Fund	4,059	3,114
Total	6,143	5,547

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

14. Claims

	2012 \$'000	2011 \$'000
The below table shows claims allowed by SEGC during the year:		
Claims provided for	4,265	292
Claims not provided for	65	-
Adjustments to prior year claims	(67)	-
Total	4,263	292

The adjustment to prior year claims above includes \$7,000 of dividend distributions received in relation to prior year claims that were not previously provided for.

15. Operating expenses

Operating expenses consist of:

Staff cost	165	223
Legal cost	247	436
Administration cost	419	447
Occupancy cost	53	75
Total	884	1,181

16. Provisions

Claims	4,265	292
Total	4,265	292

The movement in the provisions during the year consists of:

Opening balance at 1 July	292	-
Additional provisions recognised	4,265	292
Amounts used during the year	(232)	-
Unused amounts reversed	(60)	-
Closing balance at 30 June	4,265	292

Additions to the provision for the current financial year relate to:

- Claims of \$4,065,000 approved by SEGC but not paid at reporting date. The provision includes an amount for the claim, legal costs and interest, and
- Legal fees of \$200,000 to be paid in respect of a claim that was appealed by SEGC in the prior year but subsequently disallowed.

The provision used during the financial year relates to the payment of a claim allowed by SEGC and provided for in the prior financial year. The remaining \$59,699 of the provision was reversed during the year.

17. Subsequent events

Subsequent to the balance date, SEGC determined 5 claims by way of settlement with the claimants for the amount of \$4,065,000. These claims have yet to be paid and have been recognised as a liability in the Fund's financial statements for the year ended 30 June 2012.

There were no other items, transactions or events of a material and unusual nature which are likely to significantly affect the operations, the results of those operations, or the state of affairs of the Fund.


NATIONAL GUARANTEE FUND

Directors' Declaration

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited (SEGC) as the trustee for the National Guarantee Fund (the Fund):

- a) the financial statements and notes of the Fund set out on pages 7 to 20 are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the financial position of the Fund as at 30 June 2012 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in note 2(a).

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



Nancy J Milne
Chairperson

Sydney, 21 August 2012



Independent auditor's report to the beneficiaries of the National Guarantee Fund

Report on the financial report

We have audited the accompanying financial report of the National Guarantee Fund (the Fund), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors of the trustee's responsibility for the financial report

The directors of Securities Exchanges Guarantee Corporation Limited (as trustee for the Fund) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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Independent auditor's report to the beneficiaries of the National Guarantee Fund (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the National Guarantee Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2012 and of its performance 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) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'M J Codling'.

M J Codling
Partner

Sydney
21 August 2012

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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