

S E G C

Securities Exchanges Guarantee Corporation Limited

**Annual
Report
1999**

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*M*ESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Ltd ("SEGC") is a company limited by guarantee which was incorporated in 1987 to be the trustee of the National Guarantee Fund ("NGF" or "Fund"). It is a non-consolidated subsidiary of Australian Stock Exchange Ltd ("ASX"). The 1998-1999 financial year was SEGC's twelfth year of operation.

As at 30 June 1999, the net assets of the NGF were \$138.4 million. The NGF plays an important role in the securities industry in Australia. It protects stock market investors by being available to meet certain types of claims arising from dealings with stockbroking businesses which are recognised as Participating Organisations under ASX's Business Rules. Information about the types of claims which can be made and the Board's decisions in respect of claims is set out in the Overview and Claims Report sections of this annual report.

This is the first separate annual report for SEGC. In previous years, SEGC's financial statements have been published in the ASX annual report. In view of ASX's demutualisation and listing in October 1998, SEGC and ASX agreed that it was desirable for SEGC's financial statements to be published separately. A separate annual report also offered SEGC an opportunity to increase awareness of the role of SEGC and the purposes of the National Guarantee Fund. The Board considered this to be a valuable aim given the increasing number of investors holding shares in companies listed on ASX and dealing with Participating Organisations of ASX.

One reason why currently there is not widespread understanding of SEGC's role and the purposes of the NGF may be the technical and complex nature of the Corporations Law provisions which govern SEGC and the NGF. During the financial year, SEGC made a detailed submission to Treasury on those parts of the Commonwealth Government's proposals for implementing its Corporate Law Economic Reform Programme for financial markets and investment products ("CLERP 6") which have relevance for SEGC. If implemented, those proposals could have a significant impact on SEGC and the future functions of the NGF.

The Board hopes that any reform of the Corporations Law will simplify the provisions governing the operation of SEGC and the NGF while maintaining investor protection, and looks forward to working with Treasury to this end.



Clive Batrouney
Chairman

OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for the administration of the NGF and operates in accordance with Part 7.10 of the Corporations Law. The assets of the NGF are the property of SEGC but are held in trust for the purposes set out in the legislation.

The SEGC Board is made up of six prominent members of the community experienced in commercial matters involving the securities industry. 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 Participating Organisations of ASX. It was established by the Australian Stock Exchange and National Guarantee Fund Act 1987, which also created ASX as a national stock exchange. When the six state stock exchanges were merged under that Act, the assets of the fidelity funds of those state exchanges were also merged to form the NGF.

At the time of its formation, the amount in the NGF was \$60.4 million.

The value of the NGF has more than doubled since it was formed. Investment earnings have been the major contributor to the increase in the Fund. In addition, the NGF has received the interest earned from the investment by ASX of trust account deposits lodged by Participating Organisations with ASX under Part 7.8 of the Corporations Law. The earnings of the NGF are income tax exempt.

SEGC has appointed two fund managers for the NGF. The investment mandates under which they operate authorise them to invest in money market and fixed interest securities. The trust account deposits lodged by Participating Organisations with ASX are invested by ASX in short term securities. Fluctuations in interest rates therefore affect the NGF's earnings from both these sources.

At 30 June 1999, the value of the NGF was \$140.1 million and net assets were \$138.4 million. This compares with \$140.3 million and \$137.4 million respectively at the end of the previous financial year.

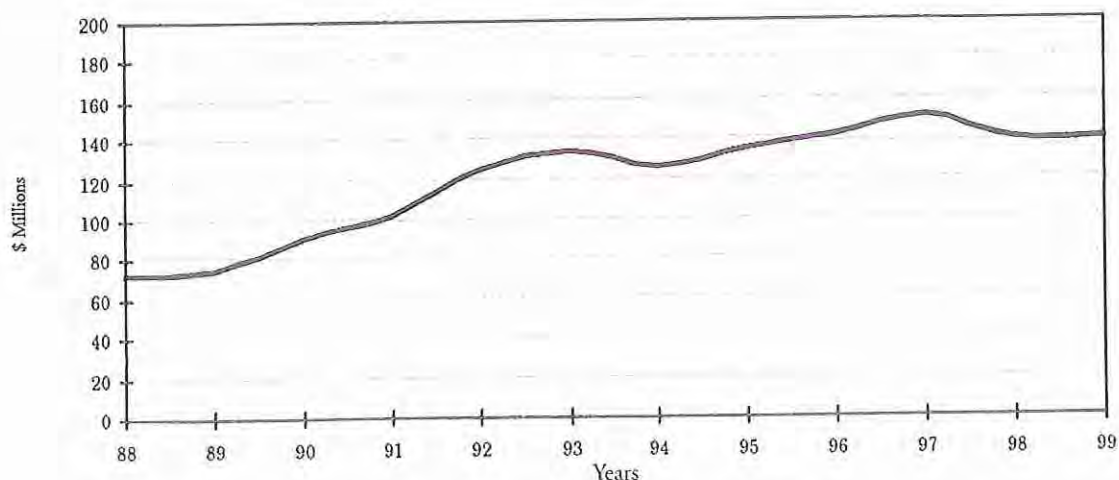


Figure 1: Value of Fund 1988-1999

The value of the NGF over the last twelve years reflects variations in the earnings (see Figure 2), the amount paid to ASX's Securities Industry Development Account (see Figure 3), and the net amount paid in respect of claims (after recoveries) (see Figure 9).

SEGC has the power, in certain circumstances, to raise funds for the NGF. Further information about this is provided below under 'The "minimum amount" of the NGF'.

The Government's CLERP 6 reform proposals include a proposal to remove from the Corporations Law the provisions relating to the deposit with ASX of a portion of brokers' trust accounts. If implemented, this proposal is likely to result in the loss for the NGF of the interest earnings from the investment of those deposits.

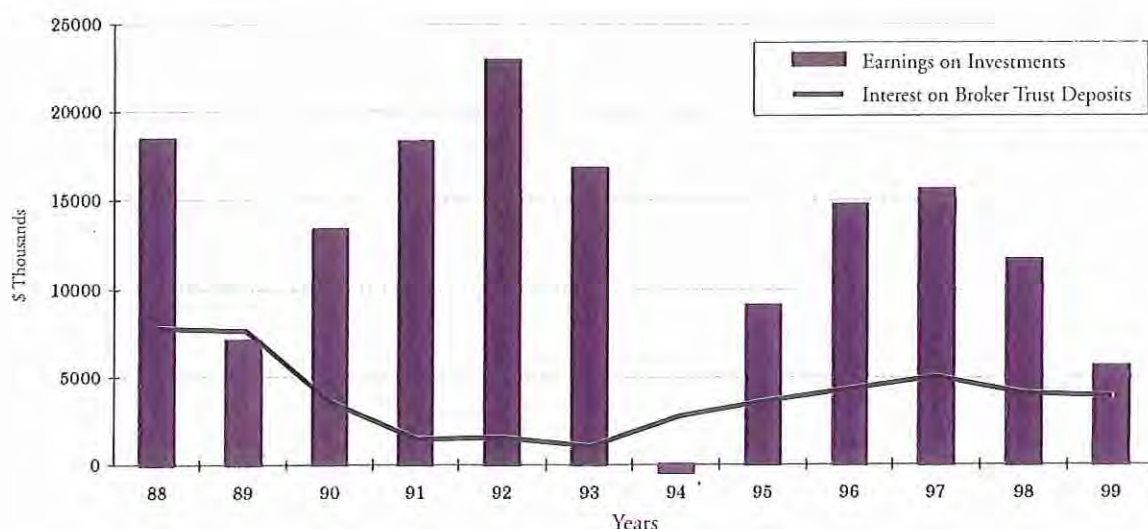


Figure 2: NGF Earnings 1988-1999

What claims can be made on the NGF?

The protection provided by the NGF is only available in relation to the activities of dealers in the markets operated by participating exchanges of SEGC. ASX is currently the only participating exchange.

Under Part 7.10 of the Corporations Law, clients of Participating Organisations of ASX may make claims on the NGF in certain circumstances for:

- completion of sales and purchases of quoted securities entered into by a Participating Organisation on ASX's equities and debt markets where the transaction is required to be reported to ASX (Division 6). The Participating Organisation may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have been suspended by ASX or by the Securities Clearing House;
- loss that results if a Participating Organisation transfers marketable or certain other securities without authority (Division 7);
- loss that results if a Participating Organisation cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the business rules of the Securities Clearing House (Division 7A); and

- loss that results if a Participating Organisation 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 Participating Organisation of 14% of the "minimum amount" of the NGF (Division 8). Currently, the maximum is \$9.8 million. (See below for an explanation of the "minimum amount").

No claims have been made under Division 7A.

In addition to the above categories of claims, the following claims may be made on the NGF:

- a Participating Organisation may make a claim for completion of certain sales and purchases of quoted securities entered into on ASX's equities and debt markets where the transaction is required to be reported to ASX and is not novated to an ASX related clearing house (Division 6);
- ASX may make a claim if an obligation of a Participating Organisation under a guaranteed securities loan is not met (Division 6A); and
- a Participating Organisation or an ASX related clearing house to which a net payment obligation or a net delivery obligation is owed by the other may make a claim if that obligation is not met (Division 6B).

No claims have been made under Divisions 6A and 6B.

Further information about claims 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 specific categories referred to earlier. Examples of claims which

cannot be made are claims:

- for loss arising from investment decisions;
- for money lent to a Participating Organisation which has not been repaid;
- in respect of conduct by an entity other than the specific entity which is the Participating Organisation;
- in respect of alleged unauthorised withdrawal or misappropriation by a Participating Organisation 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 Division 7 or Division 8. These include the Participating Organisation concerned, its officers and their spouses and relatives.

The "minimum amount" of the NGF

Under the Corporations Law, the SEGC Board may, with the approval of the Government Minister responsible for the Corporations Law, 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. The CLERP 6 reform proposals include a proposal that the responsible Government Minister, rather than the SEGC Board, will set the "minimum amount".

In 1987 when the NGF was formed, the initial "minimum amount" under the legislation was \$15 million. Because changes occur in the securities industry and new products and services are developed, the SEGC Board has periodically reviewed the "minimum amount" which has been increased over time and is currently set at \$70 million.

SEGC maintains close liaison with ASX on new products and monitors developments in the regulatory environment so that potential changes to the NGF's risk may be assessed. SEGC may also engage consultants from time to time to provide an external assessment of the risks to the NGF. The Board is currently considering a recently conducted external assessment and whether any change to the "minimum amount" is appropriate.

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

- It may determine (with the Minister's approval) to reduce the "minimum amount" of the Fund.
- 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 the Fund.
- It may raise funds for the NGF over a period of time by imposing a levy on "leviable transactions" (certain sales or purchases of securities that are required to be reported to ASX under its business rules, or certain guaranteed securities loans), or more quickly by imposing a levy on ASX. Both types of levy may be imposed at the same time.

If SEGC imposes a levy on ASX, ASX may impose a levy on its Participating Organisations to go towards the levy payable to SEGC.

The amount in the Fund 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.

In December 1998, SEGC put in place an unsecured bank standby facility of \$30 million to provide short term funding where it may not be possible or desirable within the time available to liquidate the NGF investments if funds are required immediately to pay claims.

Securities Industry Development Account (SIDA)

The Corporations Law also provides the Board with flexibility if the amount in the NGF exceeds the "minimum amount". In that circumstance, and while ASX is the only participating exchange of SEGC, SEGC may in its discretion pay all or part of the excess to ASX. Any money received by ASX out of NGF funds must be kept in a separate account designated as SIDA. A total of \$101.4 million has been paid out of the NGF to the SIDA account held by ASX since formation of the NGF.

During the financial year, \$7.9 million was paid to the SIDA account. This amount comprised most of the Fund's surplus for the financial year.

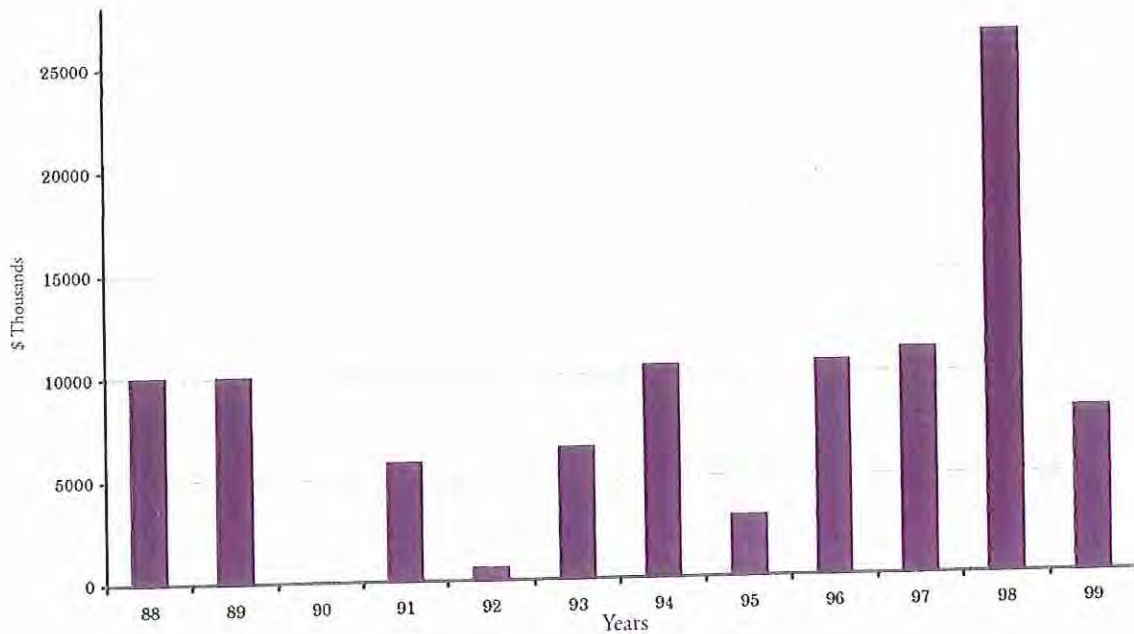


Figure 3: NGF Payments to SIDA 1988-1999

Money held in the SIDA account can only be used by ASX for purposes relating to the development of the securities industry in Australia, and which have been approved by the responsible Government Minister. In the past, approval has been given for the use of SIDA funds for significant technology-based projects such as the development of ASX's trading and settlement systems. Figure 4 shows the projects for which NGF payments to SIDA have been made over the last twelve years.

The Minister has indicated that, as a result of ASX's demutualisation and listing, future payments out of the SIDA account will only be approved for securities industry development initiatives which are consistent with public interest purposes, rather than for profit-related activities or commercial operations of ASX. This may affect the amount paid out of the NGF to SIDA.

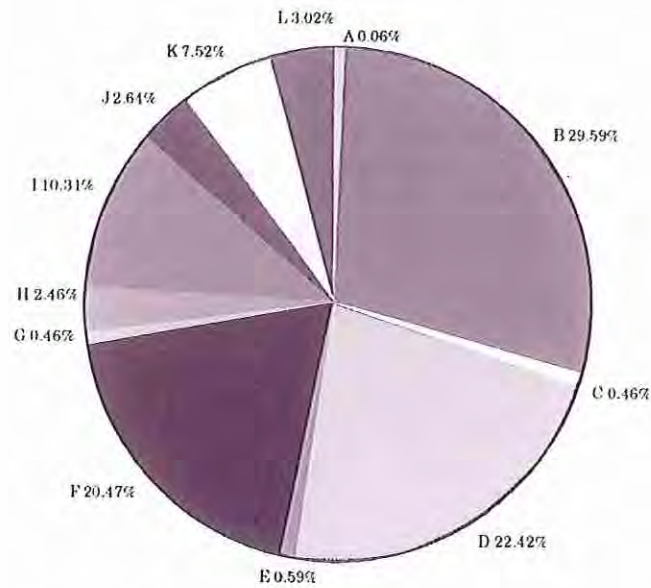


Figure 4: NGF Payments to SIDA by Project 1988-1999

Key to projects

A	Industry Research	Individual research projects commissioned or sponsored by ASX
B	CHESS	ASX's Clearing House Electronic Sub-register System for electronic shareholdings and automated electronic clearing and settlement of equities
C	AGSM	Development of a securities markets teaching laboratory at the Australian Graduate School of Management
D	SEATS 97	Upgrading of SEATS
E	SIRCA	Infrastructure support for the Securities Industry Research Centre of Asia-Pacific
F	DTF	ASX's automated Derivatives Trading Facility for screen-based options trading
G	Internet	ASX's Interactive Internet Site
H	CENSAS	ASX's Centralised Scrip & Accounting System (forerunner to CHESS)
I	SEATS	ASX's Stock Exchange Automated Trading System for screen based trading of equities
J	National Data Centre	ASX's Data Centre at Bondi, NSW
K	CORE	ASX's central electronic repository for market and trading data
L	DATS	ASX's Derivatives Automated Trading System (forerunner to DTF)

BOARD OF DIRECTORS



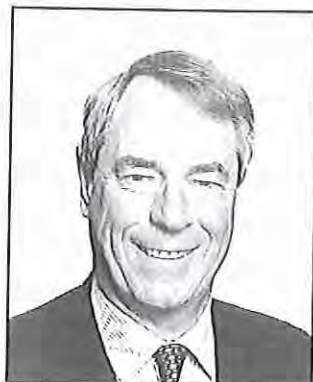
Clive M. Batrouney, ASIA, FAIM, age 58. Non-Executive Chairman. Appointed Chairman July 1998. Director since October 1997.

Vice Chairman of Australian Stock Exchange Ltd. Director of Victorian Funds Management Corporation, Hansen Yuncken Pty Ltd, Horizon Private Equity Pty Ltd, Committee for Melbourne and ANZ MeesPierson Clearing Services Pty Ltd. Deputy Director of Health Super Pty Ltd. Former Chairman of ANZ McCaughan Securities Ltd, Australian Stock Exchange (Melbourne) Ltd (1989-1991) and Australian Stock Exchange Ltd Melbourne Advisory Board (1991-1994).



Geoffrey W. Hone, LLB(Hons), age 55. Independent Non-Executive Director. Appointed May 1991.

Solicitor and partner with the national law firm, Blake Dawson Waldron, practising in the area of securities regulation and corporate law. Director of Melbourne University Law School Foundation and The Queens Trust for Young Australians. Member of the Legal Committee of the Companies and Securities Advisory Committee.



E. Allan McDonald, BEc, FCPA, FCIS, FAIM, age 59. Independent Non-Executive Director. Appointed May 1993.

Director of General and Cologne Life Reinsurance Australasia Ltd, General and Cologne Reinsurance Australasia Ltd, Brambles Industries Ltd, Development Capital of Australia Ltd, Delfin Property Group Ltd and TAB Ltd. Director of a number of private companies.



Maurice L. Newman, AM, FSIA, age 61. Non-Executive Director. Appointed January 1995.

Chairman of Australian Stock Exchange Ltd, Deutsche Bank Asia Pacific Advisory Board, Morgan Grenfell (Australia) Ltd, Benchmark Securities Management Ltd, Acrux Ltd, National Year 2000 Steering Committee, Financial Sector Advisory Council, Australia Taiwan Business Council and Sydney Legacy Citizens Committee. Co-Chair of the Singapore Australia Business Alliance Forum. Former Executive Chairman of Deutsche Bank group in Australia (1985-1999).



Michael J. Sharpe AM, Hon.DScEcon, BEc, FCA, age 61.
Non-Executive Director. Appointed July 1998.

Director of Australian Stock Exchange Ltd and ASX Settlement and Transfer Corporation Ltd. Chairman of State Super Financial Services Ltd and Cards Etc Pty Ltd. Director of Military Superannuation Benefits Board and National Australia Trustees Ltd. Past President of The Institute of Chartered Accountants in Australia. Former Chairman of International Accounting Standards Committee. Former Partner of Coopers & Lybrand (1968-1998).



Hon. Keith De Lacy, Hon.DLitt, BA, QDA, FAIM, age 58.
Independent Non-Executive Director. Appointed December 1998.

Chairman of Ergon Energy Corporation Ltd and Trinity Funds Management. Director of Queensland Investment Corporation, Ergon Energy Pty Ltd and Cairns International University. Chairman of Red Shield Appeal, Cairns. Strategic Adviser, Thiess Contractors Pty Ltd. Former Treasurer of Queensland (1989-1996).

DIRECTORS' ATTENDANCE AT MEETINGS

	Board Meetings		Investment Sub Committee	Insurance Sub Committee
	A	B	A	B
CM Batrouney	7(7)	7(7)	1(1)	1(1)
JGA Tucker ¹	1(1)	4(4)		
GW Hone	7(7)	5(5)		
FA McDonald	7(6)	7(7)	1(1)	1(1)
ML Newman	7(6)	7(7)		
MJ Sharpe ²	7(7)	7(7)		
K De Lacy ³	5(5)	2(2)		

¹ Retired 15 October 1998

A = Meetings held (Meetings attended)

² Appointed 1 July 1998

B = Resolutions circulated (Resolutions responded to)

³ Appointed 1 December 1998

ADMINISTRATION OF SEGC

The chief executive officer of SEGC is the Manager, who is also company secretary and legal counsel to the Board.



Sue Hansen, LLB(Hons), BA, DipEd, LdeLM, SIA(Aff), Appointed Manager January 1998.

Previously Corporate Lawyer, SEGC (1996-1997), Corporate Lawyer, ASX Derivatives (1995-1996) and Company Secretary, Options Clearing House Pty Ltd (1995-1996).

Associate Member, Insolvency Practitioners Association of Australia since 1989; Member, Fidelity Fund Management Committee of The Law Society of New South Wales since 1998.

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



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

YEAR 2000

SEGC is dependent on ASX's Year 2000 preparations in respect of computer and technology facilities and the premises provided to SEGC. Information about ASX's Year 2000 Project may be found on ASX's website at www.asx.com.au. ASX's reporting on its Year 2000 Project provides information about the Year 2000 readiness of its own systems as well as information reported to ASX by Participating Organisations and relevant non-brokers about their Year 2000 readiness. ASX

has taken numerous steps, such as facilitating Year 2000 industry tests, to assist Participating Organisations and relevant non-brokers in their Year 2000 preparations.

Although the NGF does not provide specific Year 2000 cover, an act or default which results in a claim might be occasioned by a Year 2000 failure. It is not possible to quantify this risk to the NGF.

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 Participating Organisations of ASX in the following way:

- **Notification:** The Participating Organisation 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 Participating Organisation.
- **Investigation:** The facts surrounding the claim are ascertained or confirmed by SEGC from relevant sources. For example, SEGC may obtain information from Participating Organisations, registries, liquidators, ASX, the Securities Clearing House and Options Clearing House Pty Ltd, as well as from the claimant. Under the Corporations Law, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** If the claim has been made outside the time limit specified in the Corporations Law, the Board determines whether the circumstances are such that the time period for making the claim should be extended. If the Board does not extend the time for making the claim, the claim is barred. In general, the time limit for claims is six months commencing from the time of the relevant event or from the time the claimant became aware of the loss, depending on the category of claim. In some cases, SEGC may publish a notice specifying another time limit.
- **Determination:** The Board determines whether to allow or disallow claims made within the time limit and claims for which the Board has extended the time limit. If a claim is allowed, the claimant is provided with replacement securities and/or money.
- **Recovery:** The Corporations Law 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 Participating Organisation, and in appropriate cases other parties. Potential recoveries are pursued so that loss to the Fund is mitigated.

The Corporations Law also provides that if a claim is allowed, SEGC may serve a notice on the Participating Organisation's insurer to inform the insurer of the claimant's right or remedy and that SEGC is subrogated to the right or remedy.

CURRENT CLAIMS ENVIRONMENT

Over recent years, there has been a significant increase in the level of share ownership in Australia, in trading activity on ASX's markets, and in market and new product developments. During the same period, there has also been an increasing focus on and sophistication of risk management measures adopted by ASX and its related clearing houses, and by Participating Organisations themselves. These factors may explain why the number of claims made on the NGF in recent years has remained relatively low (see Figure 6).

CLAIMS PROCESSED IN THE CURRENT YEAR

1999 was one of SEGC's busiest years for claims in the last six years. A total of twenty-one claims were closed (that is, determined or withdrawn). Six new claims were received.

Of the claims closed, seventeen were determined by the Board (allowed, disallowed or time barred). This is comparable with the 1996 year, when claims resulted from a stockbroker insolvency. In addition, four claims were withdrawn during the year, after SEGC management successfully facilitated settlement between the claimant and the broker concerned.

All but one of the claims closed (and all new claims received) during the financial year were made under Division 7 of Part 7.10 of the Corporations Law (unauthorised transfer of securities). Many of these claims were of significant value. Because of the nature of the allegations involved, these Division 7 claims required a substantial amount of SEGC management time in investigation and analysis. SEGC's claims processing activity in the period 1994-1999 is shown in Figure 5.

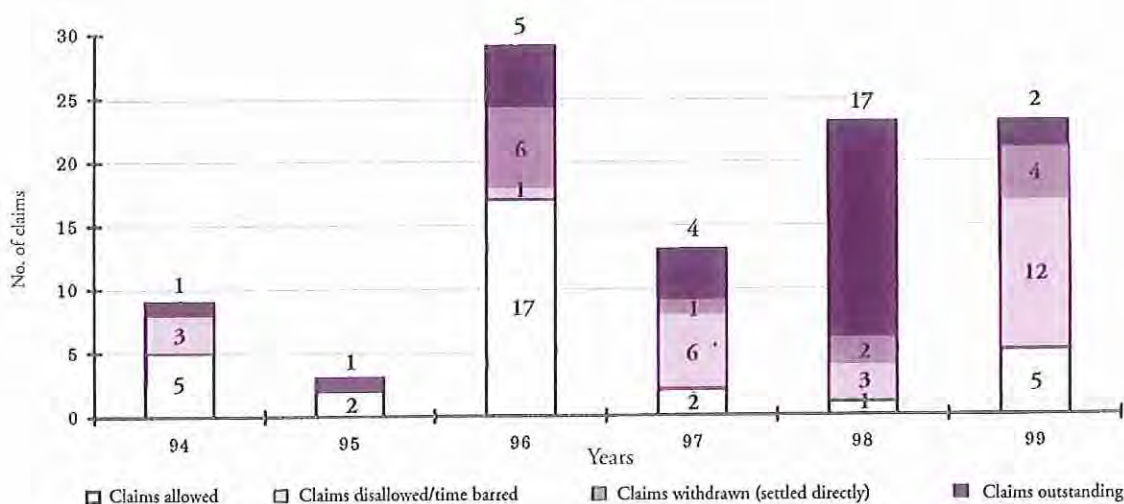


Figure 5: Claims processed 1994-1999

Disallowed Claims

The Corporations Law provides that if the Board disallows a claim, the claimant may bring legal proceedings within 3 months seeking an order directing the Board to allow the claim.

Two proceedings were commenced against SEGC during the financial year in respect of a number of disallowed claims made under Division 7 of Part 7.10. Both proceedings were still pending at the end of the financial year.

Figures 5 to 8 relate only to formal claims received. They do not reflect appeals against disallowance, which usually require considerable management time. Nor do they reflect potential claims notified to SEGC which do not result in a formal claim. In relation to the stockbroker insolvencies which have occurred, a large number of potential claims were notified to SEGC, some of which were later satisfied by the relevant liquidator without the need for a formal claim on the NGF.

CLAIMS HISTORY AND TRENDS

Since the NGF was formed, SEGC has received a total of 5,402 claims. As shown in Figure 6, 98% of the claims were received in the first four years. The high number of claims in those years resulted from seven stockbrokers becoming insolvent during the first three years of the Fund's operation.

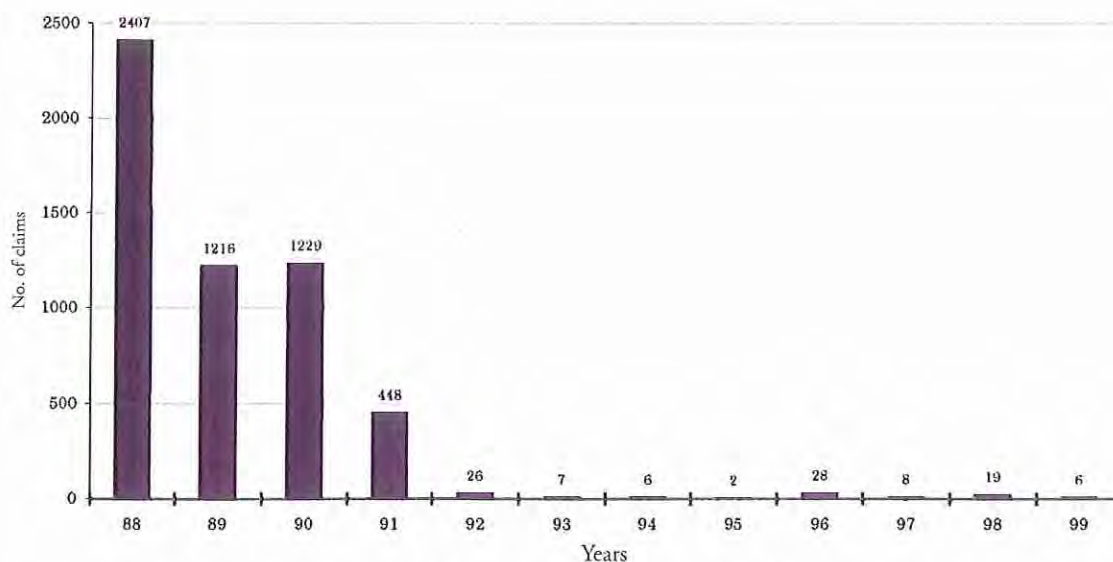


Figure 6: Number of claims received 1988-1999

The claims received have involved a total of 30 different brokers. Some brokers have been involved in claims received in more than one year. By way of comparison, the number of active Participating Organisations of ASX was 86 as at 30 June 1999.

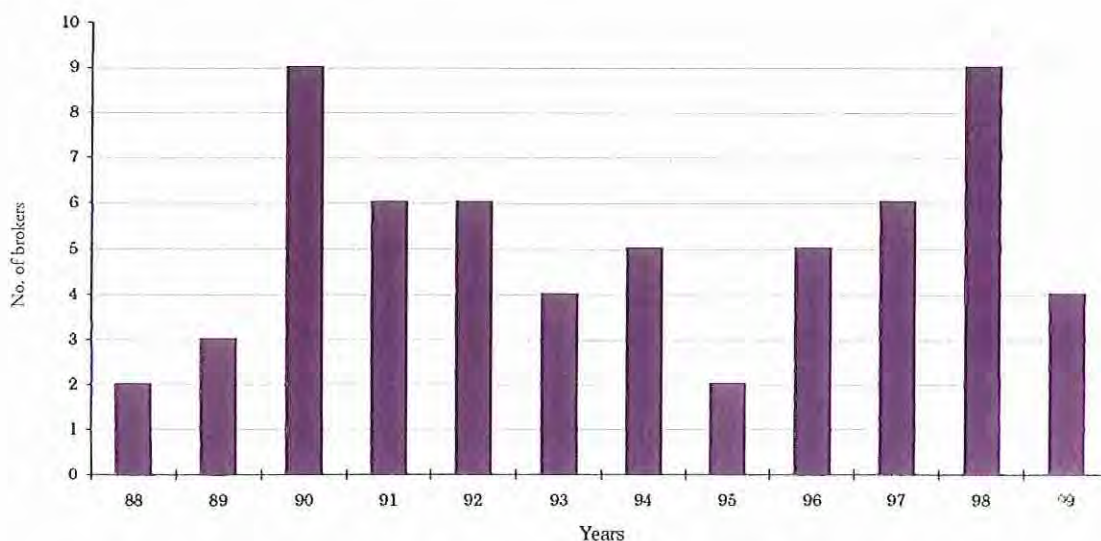


Figure 7: Number of brokers involved in claims received 1988-1999

The NGF claims history may be divided into two six year periods.

1988-1993

During the first six years, eight stockbrokers became insolvent: two in the 1987-1988 financial year; three in 1988-1989; two in 1989-1990; and one in 1992-1993. Formal claims numbered 5,333. Almost all the claims in this period arose out of the insolvency of one of those brokers, and were made under Division 6 or the equivalent of the current Division 8. Those insolvencies were largely attributable to poor management practices, back office and other inefficiencies, and losses from principal trading, and occurred in the aftermath of the October 1987 stockmarket fall.

In this period, very few claims were made for unauthorised transfer of securities. This may be partly because Division 7 was not introduced until 1990-91 when the Corporations Law came into operation.

1994-1999

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

Over the last six years, 69 formal claims have been received. There has been one broker insolvency, which occurred in May 1995 and was responsible for all but four of the claims received in 1996 and for several of the claims received in subsequent years.

Figure 8 shows the categories of claims received in the 1994-1999 financial years. In the last three years, 79% of the claims received have been made under Division 7 (unauthorised transfer of securities). Most of those claims have arisen out of allegedly unauthorised activities of a non-broker intermediary from whom the stockbrokers took instructions.

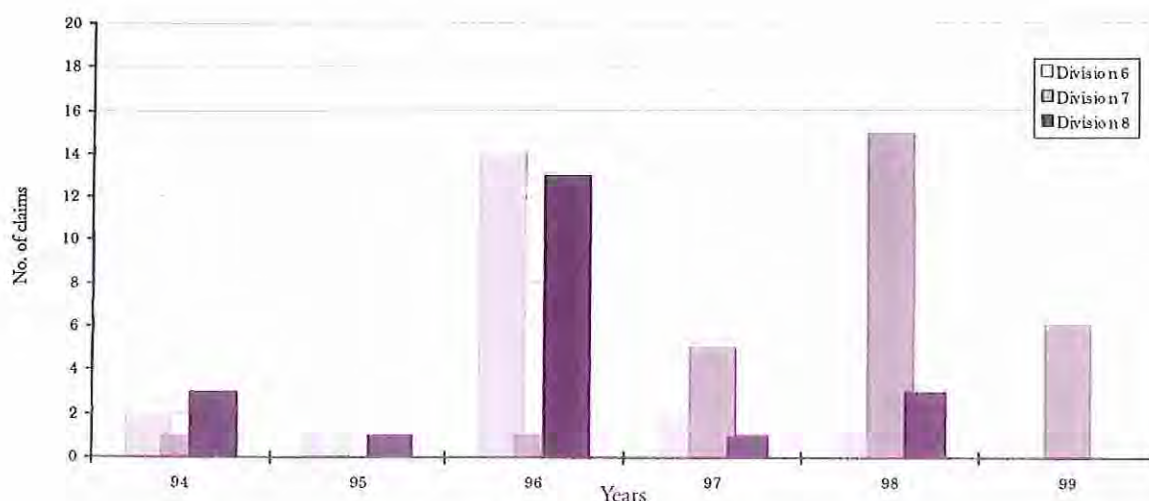


Figure 8: Category of claims received 1994-1999

CLAIMS PAID AND RECOVERIES

Since the NGF was formed, \$21 million has been paid in respect of claims allowed and \$13.2 million of that amount has been recovered. As may be expected, there is a variable lag between payment and recovery (see Figure 9).

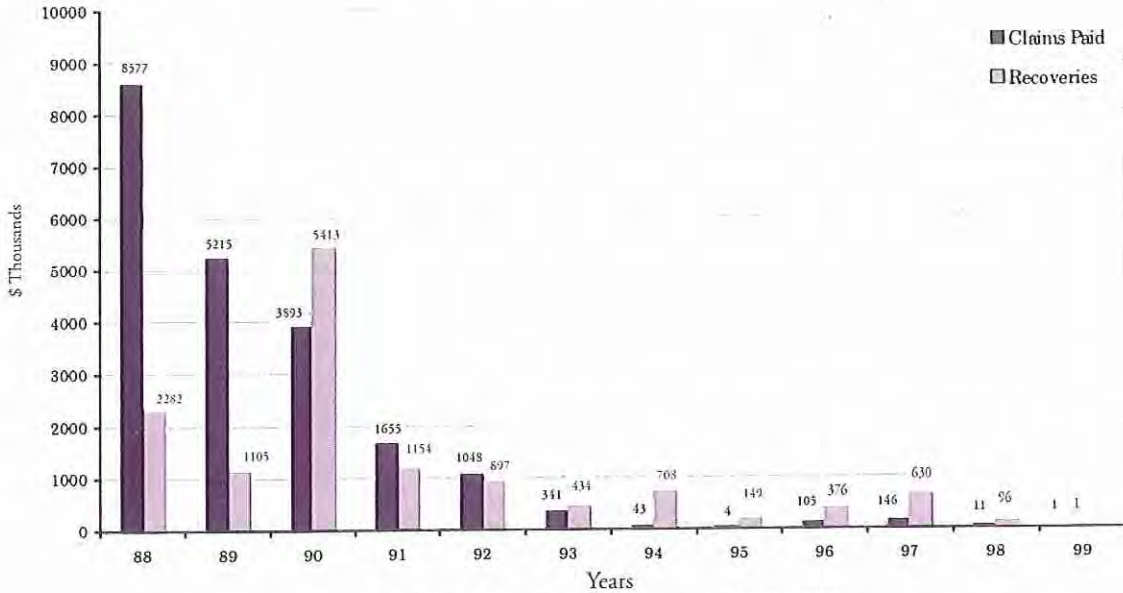


Figure 9: Claims paid and recoveries 1988-1999

In the last six years, \$310,000 has been paid in respect of 29 claims. Eighteen claims involved payments of \$5,000 or less. Three claims involved payments of more than \$20,000. The largest amount paid was in respect of a claim under Division 7.

Figures 10 and 11 show the number and value of claims paid between 1994 and 1999 as a percentage of total claims paid during that period.

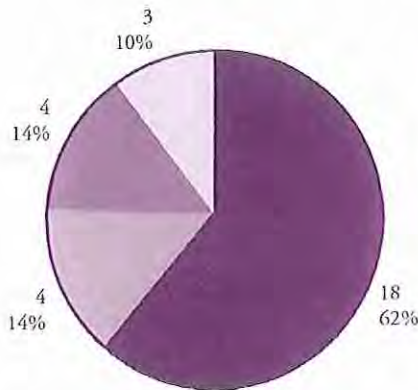


Figure 10: Number of claims paid 1994-1999

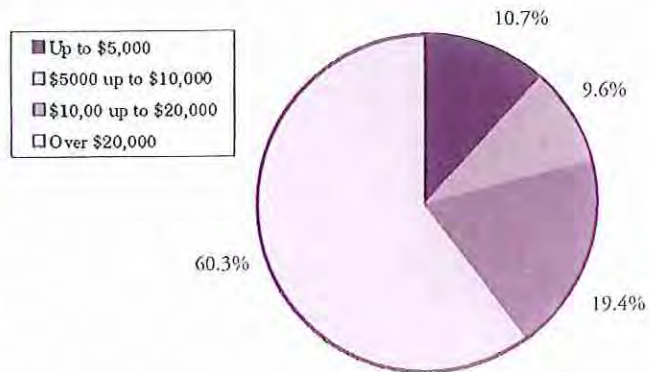


Figure 11: Value of claims paid 1994-1999

*F*INANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their report together with the financial report of Securities Exchanges Guarantee Corporation Limited ("SEGC") for the year ended 30 June 1999, including the separate financial report of the National Guarantee Fund ("the Fund") and the independent auditors' report thereon.

DIRECTORS

The directors of SEGC in office at the date of this report are:-

Clive Michael Batrouney (Chairman)
Geoffrey William Hone
Fergus Allan McDonald
Maurice Lionel Newman AM
Michael John Sharpe AM
Keith De Lacy

For details of the directors' qualifications, experience and special responsibilities, refer to pages 8-9. Directors' meetings and their attendance at those meetings are also detailed on page 9. Those details are to be read as part of this report.

Michael John Sharpe was appointed on 1 July 1998.

James Graham Ambrose Tucker AO, MBE retired on 15 October 1998.

Keith De Lacy was appointed on 1 December 1998.

PRINCIPAL ACTIVITY

SEGC is a wholly-owned but non-consolidated entity of Australian Stock Exchange Limited ("ASX"). It holds the assets of the Fund in trust for the purposes set out in the provisions of Part 7.10 of the Corporations Law and administers the Fund in accordance with those provisions. There were no changes in the nature of the company's activities during the year.

RESULT

SEGC did not trade in its own right during the financial year. The movement in the Fund for the year was a surplus of \$8,895,512 (1998: \$13,207,335) before payment of \$7,929,227 (1998: \$26,215,061) to the securities industry development account held by ASX under section 945(1) of the Corporations Law ("SIDA").

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

During the financial year, six new claims were made on SEGC. For further details about claims, refer to page 12.

Payments of \$7,929,227 (1998 \$ 26,215,061) were made to SIDA during the financial year and the Board gave in principle approval to payments to SIDA of \$1,315,000 (1998: \$470,000) for the purpose of financing four technology-based projects to be undertaken over three years by Securities Institute of Australia and Securities Institute Education.

During the financial year, the Fund earned a return of 3.99% on managed funds (1998: 8.23%). A new fund manager was appointed in July 1998.

During the year, SEGC engaged external consultants to conduct a risk assessment project, the Board in reviewing the minimum amount of the Fund under section 936(1) of the Corporations Law. The risk assessment project is expected to be completed by September 1999.

An unsecured standby facility for \$30 million was established during the financial year to provide short term funding where it may not be possible or desirable within the time available to liquidate the assets of the Fund if funds are required immediately to pay claims.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Investment of the Fund exposes it to changes in interest rates and to credit and liquidity risks. The Board manages these exposures through its investment mandates with the Fund's two external fund managers. Compliance by the fund managers with the investment mandates is closely monitored.

It is the Board's policy to permit the fund managers to use derivative financial instruments to hedge cash flows subject to interest rate risk. Derivative financial instruments are not held for speculative purposes.

STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

DIRECTORS' INTERESTS AND BENEFITS

Since the end of the previous financial year, no director of SEGC has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by SEGC or a related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial interest. Directors' benefits are set out in note 5.

INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

The constitution of SEGC provides that, to the extent permitted by law, the officers of SEGC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than SEGC or a related body corporate, unless the liability involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Law.

CORPORATE GOVERNANCE

The Board of SEGC consists of six non-executive directors. Three of the directors are appointed by ASX and those directors appoint three independent directors who:-

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

SEGC's constitution provides that the term of office of:

- Mr Hone and Mr McDonald expires at the end of the annual general meeting in 1999;
- Mr Batrouney and Mr Newman expires at the end of the annual general meeting in 2000; and
- each other director expires three years after the date the director's appointment takes effect.

A retiring director is eligible to be reappointed to the Board.

Remuneration is approved by ASX as the sole member of SEGC in general meeting.

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Administration and accounting services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX. The audit committee of ASX provides the results of its review of the financial statements of SEGC to the directors of SEGC.

Dated at Sydney this 19th day of August 1999.

Signed in accordance with a resolution of the directors.



Clive M Batrouney
Chairman

SECURITIES EXCHANGES GUARANTEE CORPORATION LTD

	Note	1999	1998
		\$	\$
PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 1999			
OPERATING PROFIT	1	-	-

BALANCE SHEET AS AT 30 JUNE 1999

CURRENT ASSET

Right of indemnity for liabilities incurred by SEGC, as trustee of the National Guarantee Fund	3	2,390,665	3,091,158
Total Current Asset		2,390,665	3,091,158

CURRENT LIABILITIES

Liabilities of the National Guarantee Fund		2,390,665	3,091,158
Total Current Liabilities		2,390,665	3,091,158

NET ASSETS

ACCUMULATED FUNDS	1	-	-
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NATIONAL GUARANTEE FUND

	Note	1999 \$	1998 \$
MOVEMENT IN THE FUND FOR THE YEAR ENDED 30 JUNE 1999			
NET ASSETS AT THE BEGINNING OF THE FINANCIAL YEAR		137,430,559	150,438,285
Interest income - managed funds		10,023,135	6,617,434
- Part 7.8 deposits	2(b)	3,900,785	4,157,700
Realised gains on sale of trading securities		1,694,231	8,752,131
Moneys recovered from Participating Organisations		1,278	96,491
Total Income		15,619,429	19,623,756
Realised losses on sale of trading securities		2,105,120	1,485,447
Unrealised deficit on valuation of trading securities		3,999,660	2,253,415
Operating expenses		1,011,417	897,574
Management fees - fund managers		387,899	370,720
Claims paid		1,278	11,205
(Reversal)/increase in claims accrued and provided in prior years	2(c)	(812,000)	1,342,273
Auditors' remuneration - audit fees		18,500	18,500
Fund managers' expenses		12,043	37,287
Total Expenditure		6,723,917	6,416,421
Surplus		8,895,512	13,207,335
Distribution to Securities Industry Development Account held by Australian Stock Exchange Limited		7,929,227	26,215,061
Surplus/(Deficit) after distribution		966,285	(13,007,726)
NET ASSETS AT THE END OF THE FINANCIAL YEAR		138,396,844	137,430,559
BALANCE SHEET AS AT 30 JUNE 1999			
CURRENT ASSETS			
Cash at bank		6,578	1,605
Interest receivable		634,232	249,075
Trading securities - less than three months to maturity	2(e),(f), 4	23,930,398	67,998,628
Trading securities - greater than three months to maturity	2(e),(f), 4	116,216,301	72,272,409
Total Current Assets		140,787,509	140,521,717
CURRENT LIABILITIES			
Creditors and accrued expenses		51,987	91,194
Provisions for - claims	2(c)	2,006,000	2,818,000
- legal and professional fees		205,000	125,000
Amount owing to ASX Operations Pty Limited	9	127,678	56,964
Total Current Liabilities		2,390,665	3,091,158
NET ASSETS		138,396,844	137,430,559
FUND ACCOUNT		138,396,844	137,430,559

The Movement in the Fund and Balance Sheet are to be read in conjunction with the notes to the financial statements set out on pages 22-26.

NATIONAL GUARANTEE FUND (CONTINUED)

	Note	1999 \$	1998 \$
		Inflows (Outflows)	Inflows (Outflows)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1999			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (payments)/ proceeds from the (purchase)/ sale of trading securities		(48,315,900)	20,387,236
Payments to Securities Industry Development Account		(7,929,227)	(26,215,061)
Interest income - managed funds		9,637,978	8,872,363
- Part 7.8 deposits	2(b)	3,900,785	4,591,478
Cash paid to fund managers and creditors		(1,356,893)	(1,306,887)
Claims paid		(1,278)	(11,205)
Moneys recovered from Participating Organisations		1,278	96,491
Net cash (used in)/ provided by operating activities	10	(44,063,257)	6,414,415
Net (decrease)/increase in cash held		(44,063,257)	6,414,415
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		68,000,233	61,585,818
CASH AT THE END OF THE FINANCIAL YEAR		23,936,976	68,000,233

RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, cash includes cash at bank, short term deposits and investments in bank bills with a term to maturity less than three months. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:-

Cash at bank		6,578	1,605
Short term securities	2(e),(f),4	23,930,398	67,998,628
TOTAL CASH, SHORT TERM SECURITIES		23,936,976	68,000,233

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

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

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

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

The financial report has been drawn up in accordance with Accounting Standards, other mandatory pronouncements of the Australian Accounting Standards Board and the Corporations Law. In addition, disclosures required by International Accounting Standards ("IASs") and Australian exposure drafts are included to the extent they do not conflict with Australian Accounting Standards and where such disclosures enhance the usefulness and relevance of the financial statements.

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

(b) Interest Income

Interest income includes the Fund's entitlement, pursuant to Part 7.10 of the Corporations Law, to receive as income the interest from the deposits of Participating Organisations of ASX lodged and invested in accordance with section 891 of the Corporations Law.

(c) Claims

Claims are recorded on an accruals basis.

If SEGC allows a claim, SEGC is subrogated to the claimant's rights and remedies (section 980 of the Corporations Law). No allowance has been made for potential recoveries by SEGC upon the exercise of its rights of subrogation.

(d) Income Tax

No provision is made for income tax as SEGC has received a ruling from the Taxation Commissioner that the income from the Fund is exempt from income tax.

(e) Trading Securities

Trading securities at balance date are stated at market value. Increases or decreases in the market value are recognised in the Movement in the Fund.

Trading securities comprise short-term deposits, bank bills, financial derivatives contracts, government and fixed interest securities. Details of interest and credit rate risk are contained in Note 11.

Investments have been made in government bonds and other permitted investments in accordance with the Corporations Law.

(f) Derivatives and other Financial Instruments

Derivative financial instruments are valued at market rates. Gains and losses are recognised in the Movement in the Fund.

Derivative financial instruments are used to hedge cash flows subject to interest rate risk. Such instruments are not held for speculative purposes.

(g) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. RIGHT OF INDEMNITY

As set out in section 929(2) of the Corporations Law, the assets of the Fund are the property of SEGC but are held in trust for the purposes set out in of Part 7.10 of the Corporations Law. SEGC has a right of indemnity from the assets of the Fund in respect of liabilities properly incurred by SEGC on behalf of the Fund.

	1999	1998
	\$	\$
4. TRADING SECURITIES OF THE FUND		
Securities with less than 3 months maturity		
Cash investments	8,163,444	53,888,971
Bank bills, non certificated deposits	15,766,954	8,904,883
Bonds	-	5,204,774
	<u>23,930,398</u>	<u>67,998,628</u>
Securities with greater than 3 months maturity		
Bonds	115,856,342	72,022,655
Other		
Margin on futures contracts	359,959	249,754
	<u>140,146,699</u>	<u>140,271,037</u>

5. REMUNERATION OF DIRECTORS

The number of directors who were paid income or in respect of whom income is payable or otherwise made available by SEGC or a related party, within the following bands is:

	1999	1998
\$0 - \$ 9,999	1	1
\$10,000 - \$19,999	1	1
\$20,000 - \$29,999	5	4
\$30,000 - \$39,999	-	1
Total income paid or payable or otherwise made available to the directors by SEGC or a related entity:	<u>\$128,710</u>	<u>\$125,000</u>

6. CONTINGENT LIABILITIES OF THE FUND

As at 30 June 1999, contingent liabilities exist in respect of claims notified but not yet formally made on SEGC, claims made and appeals filed but considered unlikely to be paid and costs which may be ordered against SEGC in legal proceedings in respect of disallowed claims. The maximum amount of such contingent liabilities is expected to be \$195,000 (1998: \$13,200).

SEGC has been notified of potential claims in connection with alleged losses suffered by clients of a large financial planning organisation in relation to dealings with a Participating Organisation of ASX. A related company of the financial planning organisation has lodged outline claims on SEGC under power of attorney on behalf of some of the financial planning organisation's clients in order to preserve any rights which those clients may have, given the time limits for lodging claims set out in the Corporations Law. This matter has not reached the stage where it is possible to quantify any contingent liability which SEGC may have.

7. COMMITMENTS

The Board of SEGC has approved in principle payments from the Fund for the development of ASX's new trading platform ("SEATS 97") (\$24,475,000), the automation of ASX Derivatives Trading Facility ("DTF") (\$24,970,000), Internet project (\$965,000), infrastructure financing for Securities Industry Research Centre of Asia - Pacific ("SIRCA") (\$900,000), industry research (\$300,000) financing of a financial markets teaching and research laboratory established by the Australian Graduate School of Management ("AGSM") (\$470,000) and financing four technology-based projects by Securities Institute of Australia and Securities Institute Education (\$1,315,000). Each approval is subject to the purposes being approved by the Minister in accordance with the Corporations Law and payments are dependent upon the Fund's financial position at the time each transfer of funds to SIDA is requested.

At the end of the financial year, amounts not yet paid to SIDA in relation to each Board in principle approval are:-

	1999	1998
	\$	\$
SEATS 97	1,711,399	6,204,131
DTF	-	2,943,087
Internet project	499,647	499,647
SIRCA	300,000	300,000
Industry research	244,141	278,000
AGSM	-	470,000
SIA	1,315,000	-
	<u>4,070,187</u>	<u>10,694,865</u>

8. SEGMENT REPORTING

SEGC operates wholly in the Australian securities industry.

9. RELATED PARTY DISCLOSURES

Inter-Entity Transactions

During the year, SEGC incurred management fees of \$555,226 (1998: \$546,833) in respect of administration and accounting services provided by ASX Operations Pty Limited to SEGC.

The balance owing to ASX Operations Pty Limited by SEGC at 30 June 1999 was \$127,678 (1998: \$56,964). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

Directors

The names of each person who has been a director of SEGC during the financial year are Clive Michael Batrouney, Geoffrey William Hone, Fergus Allan McDonald, Maurice Lionel Newman, Michael John Sharpe, Keith De Lacy and James Graham Ambrose Tucker.

1999	1998
\$	\$

10. NOTE TO AND FORMING PART OF THE STATEMENT OF CASH FLOWS OF THE FUND

Reconciliation Net Cash (used in)/provided by Operating Activities to the Movement in the Fund

Surplus/(deficit) movement in the Fund	966,285	(13,007,726)
(Increase)/decrease in unrealised losses	(1,746,245)	2,253,415
(Increase)/decrease in investments at cost	(42,197,647)	15,375,481
(Increase)/decrease in interest receivable	(385,157)	433,776
(Decrease)/increase in provision for claims	(812,000)	1,342,273
Increase in other liabilities	111,507	17,196
Net cash (used in)/provided by operating activities	<u>(44,063,257)</u>	<u>6,414,415</u>

11. FINANCIAL INSTRUMENTS

(a) Credit Risk

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

Credit risk relating to trading securities is managed by placing funds in approximately equal amounts with two professional fund managers who invest the portfolio in accordance with Investment Management Agreements approved by the Board. The Investment Management Agreements contain guidelines which limit the exposure of the portfolio to a specified level of liquidity in investments with a range of counterparties. The guidelines restrict the maximum value of the portfolio which can be invested with a counterparty by reference to published credit ratings. Commonwealth Government issued or guaranteed investments attract no maximum limit.

(b) Interest Rate Risk

The entity has minimal exposure to interest rate risk. Interest rate risk arises in relation to trading securities comprising short-term deposits, bank bills and fixed interest securities. The entity's exposure to interest rate risk and the effective weighted average interest rate class of financial asset and financial liability is set out below.

	Weighted Average Interest Rate		Floating Interest Rate		Fixed Interest Rate*		Non-Interest Bearing		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets										
Cash at Bank			-	-	-	-	6,578	1,605	6,578	1,605
Cash Investments	4.93	4.92	8,163,443	53,888,971	-	-	-	-	8,163,443	53,888,971
Receivables			-	-	-	-	634,232	249,075	634,232	249,075
Trading securities	4.17	5.30	15,766,955	14,109,657	115,856,342	72,022,655	359,959	249,754	131,983,256	86,382,066
			<u>23,930,398</u>	<u>67,998,628</u>	<u>115,856,342</u>	<u>72,022,655</u>	<u>1,000,769</u>	<u>500,434</u>	<u>140,787,509</u>	<u>140,521,717</u>
Financial Liabilities										
Creditors and accrued expenditure			-	-	-	-	51,987	91,194	51,987	91,194
Other			-	-	-	-	127,679	56,964	127,678	56,964
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,666</u>	<u>148,158</u>	<u>179,665</u>	<u>148,158</u>
Net financial assets			<u>23,930,398</u>	<u>67,998,628</u>	<u>115,856,342</u>	<u>72,022,655</u>	<u>821,103</u>	<u>352,276</u>	<u>140,607,844</u>	<u>140,373,559</u>
Less: provisions									2,211,000	2,943,000
Net Assets per balance sheet									<u>138,396,844</u>	<u>137,430,559</u>
Fixed interest rate maturing in:										
Less than 1 year					275,291	-				
Greater than 1 year less than 5 years					43,240,451	38,469,630				
Greater than 5 years					72,340,600	33,553,025				
					<u>115,856,342</u>	<u>72,022,655</u>				

* The majority of the fixed interest rate securities have maturities beyond one year. They are actively traded and are therefore classified as current assets

(c) **Financial Derivatives Contracts**

The Fund's fund managers have entered into financial futures to hedge cash flows subject to interest rate risk.

(d) **Net Fair Values of Financial Assets and Liabilities**

Net fair values of financial assets and liabilities are determined by the economic entity on the following bases:

i) **On-Balance Sheet Financial Instruments**

The economic entity's financial assets and liabilities carried in the balance sheet are carried at amounts that approximate net fair value. Trading securities are valued at market value.

ii) **Off-Balance Sheet Financial Instruments**

The valuation of off balance sheet financial instruments detailed below reflects the estimated amounts which the economic entity expects to pay or receive to terminate the contracts (net of transactions costs) or replace the contracts at their current market rates at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

The net fair value of off balance sheet financial instruments held as at the reporting date are \$nil (1998: \$202,655).

DIRECTORS' DECLARATION

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited:

- (a) the financial statements and notes set out on pages 19-26:
 - (i) are in accordance with the Corporations Law;
 - (ii) comply with Accounting Standards and the Corporations Regulations; and
 - (iii) give a true and fair view of the financial position of the entity and of the National Guarantee Fund as at 30 June 1999, and the performance of the National Guarantee Fund as represented by the movement in the Fund and the Fund's cashflows for the financial year ended 30 June 1999; and
- (b) there are reasonable grounds to believe that the entity and the National Guarantee Fund will be able to pay their debts as and when they become due and payable.

Dated at Sydney this 19th day of August 1999.

Signed in accordance with a resolution of the directors:



Clive M Batrouney
Chairman

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Scope

We have audited the financial report of Securities Exchanges Guarantee Corporation Limited for the financial year ended 30 June 1999, consisting of the profit and loss statement, balance sheet, accompanying notes, and directors' declaration including the separate financial statements of the National Guarantee Fund, as set out on pages 19-27. The entity's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the member of the entity.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view that is consistent with our understanding of the entity's financial position, and the financial position and performance of the National Guarantee Fund as represented by the movement in the Fund and the Fund's cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

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

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the entity's financial position as at 30 June 1999; and
 - (ii) giving a true and fair view of the National Guarantee Fund's financial position as at 30 June 1999 and of its performance for the year ended on that date; and
 - (iii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

KPMG
Chartered Accountants

Mark S Epper
Partner Sydney 19th August 1999