

**Halifax Investment Services
Pty Ltd (Administrators
Appointed)
ACN 096 980 522**

Voluntary Administrators' Report

12 March 2019

Section	Page
Glossary of terms	2
1 Executive summary	6
2 Introduction	14
3 Company information	20
4 Funds Flow / Client Monies	37
5 Legal issues / Litigation Strategy	51
6 Historical financial position	54
7 Report on company activities and property and director's reasons for failure (ROCAP)	64
8 The Administration to date	70
9 DOCA	77
10 Statutory investigations	78
11 Voidable transactions	88
12 Causes of the deficiency in Client funds	93
13 Return to creditors	95
14 Statement by Administrators	101
15 Further information and enquiries	102
Annexures	103
A – Receipts & Payments	104
B – Notice of meeting of creditors	105
C – Nomination Form – Committee of Inspection	108
D – Appointment of proxy	110
E – Proof of debt	111
F – Remuneration proposal	112
G – Timeline of key events	125
H – Funds flow	126
I – Indicators of Insolvency	130
J – ARITA creditor information sheet	131

Glossary of terms

Term	Description
ACN	Australian Company Number
Act	Corporations Act 2001
Accountant	The accountants of the Company as at 23 November 2018
Administrators	Morgan Kelly, Phil Quinlan and Stewart McCallum
Administration	Voluntary Administration of Halifax Investment Services Pty Limited
AEDT	Australian Eastern Daylight Time
AFCA	Australian Financial Complaints Authority
AFSL	Australian Financial Services Licence
AMH	Australian Mutual Holdings Limited
ANZ	Australia and New Zealand Banking Group
APAAP	All present and after-acquired property – no exceptions
ARITA	Australian Restructuring, Insolvency & Turnaround Association
ASIC	Australian Securities & Investments Commission
ATO	Australian Taxation Office
Auditors	The auditors of the Company as at 23 November 2018
Audited Accounts	Audited Financial Statements
ASX	Australian Securities Exchange
Bankruptcy Act	The Bankruptcy Act 1966
BankWest TD	Term deposit held with BankWest to support AFSL
BBY	BBY Limited (Receivers and Managers Appointed) (In Liquidation)
CFD	Contract for difference
China Business	Expansion of Halifax operations in China
Clients	Investors that trade through the platforms. For the purposes of this report, Clients and Investors are used interchangeably
Client Monies	Funds invested by Investors into Halifax
Client Money Rules	Client Money Rules 2017
Code	ARITA Code of Professional Practice
COI	Committee of Inspection
Company	Halifax Investment Services Pty Ltd (Administrators Appointed)
Conveyancing Act	Conveyancing Act 1919

Term	Description
Creditors	For the purposes of this report, the term creditor is used to describe those parties owed money by the Company, including Investors
CSA	Client Services Agreement
Director	Jeffrey John Worboys
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities, pursuant to s436DA of the Act and Code.
DOCA	Deed of Company Arrangement
EOS	Estimated Outcome Statement
ERV	Estimated Realisable Value
FAQ	Frequently asked questions
FEG	Fair Entitlements Guarantee
First Meeting	First meeting of creditors held on 5 December 2018
Former Director	Mr Matthew Barnett
FY	Financial year
FX	Foreign exchange
Halifax	The Company, being Halifax Investment Services Pty Ltd (Administrators Appointed)
Halifax Asia (Australia)	Halifax Asia Limited (Australia)
Halifax Asia (Hong Kong)	Halifax Asia Limited (Hong Kong)
Halifax NZ	Halifax New Zealand Limited (Administrators Appointed)
Halifax Vanuatu	Halifax Capital Markets Limited (Vanuatu)
Halifax Trust Accounts	Accounts that are operated by Halifax and are designated s981B trust accounts in accordance with the Act
HY	Half year
Investors	For the purposes of this report, Clients and Investors are used interchangeably
IB	Interactive Brokers
IB Prop Account	Company account held with IB which holds stock related to MT5 Investors and commission revenue earned
IPR	Insolvency Practice Rules (Corporations) 2016
Management Accounts	Accounts generated in Xero file
m	Millions
Metaquotes	Licensor of the MT4 and MT5 platforms

Term	Description
MF Global	MF Global Australia Limited (In Liquidation)
NAB	National Australia Bank Limited
NTA	Net Tangible Assets
NZ	New Zealand
New Zealand Investors	Investors who have signed a CSA with Halifax NZ
Operating Expenses	Expenses required to be paid to run the day to day operations of Halifax's business
OTC	Over the counter products
PDS	Product Disclosure Statement
P&L	Profit & loss statement
PMSI	Purchase Money Security Interest
PPSA	Personal Property Securities Act 2009 (Cth)
PPSR	Personal Property Securities Register
Regulations	Corporations Regulations 2001
RBA	Running balance account
SGC	Superannuation Guarantee Charge
Replacement DIRRI	The replacement DIRRI lodged on 27 November 2018
ROCAP	Report on Company Activities and Property
Report	This report, prepared pursuant to IPR 75-225 and Section 438A of the Act
ROT	Retention of Title
Saxo	Saxo Bank
Second Meeting	Second meeting held pursuant to IPR 75-225 and Section 439A of the Act, where creditors determine the future of the Company
Section 981B Account	Bank account designated as a client trust account in accordance with Section 981B of the Act
SIPC	Securities Investor Protection Corporation
Treasury Team	The team at Halifax that maintains the Client positions and reconciles the bank accounts on a daily basis
USD	US Dollars
Voluntary Administrator's Report	This report
Xero	Accounting software used to record transaction

Term	Description
YTD	Year to date

1 Executive summary

This section addresses frequently asked questions relating to the Administration of the Company including a summary of the estimated outcome for creditors. Full details are available throughout this Report.

Question		Section Ref																		
What does Halifax do?	<p>Halifax is an AFSL holder and provider of broking and investment services across the following platforms:</p> <ul style="list-style-type: none"> – Interactive Brokers (IB) (including a dedicated NZ platform) – MetaTrader4 (MT4) – MetaTrader5 (MT5) <p>As at the date of appointment the split of investor accounts and client equity across Halifax and Halifax NZ was as follows:</p> <table> <tr> <th>Platform</th><th>No of Investors</th><th>Equity \$m</th></tr> <tr> <td>IB</td><td>2,101</td><td>110.0m</td></tr> <tr> <td>IB NZ</td><td>2,154</td><td>44.4m</td></tr> <tr> <td>MT4</td><td>5,844</td><td>23.8m</td></tr> <tr> <td>MT5</td><td>2,460</td><td>33.0m</td></tr> <tr> <td>Total</td><td>12,599</td><td>211.2m</td></tr> </table> <p>Halifax is the 70% shareholder of Halifax New Zealand Limited (Administrators Appointed) (Halifax NZ).</p> <p>Given that the appointees are the same, the Administrations of Halifax and Halifax NZ are independent of each other but have been run largely in conjunction due to the significant cross over of Investors between the two entities. Halifax and Halifax NZ will herein be referred to as the Halifax Group. The majority of the analysis in this Report is with respect to the Halifax Group. Where a reference is made to Halifax this relates to the Company in its own right.</p>	Platform	No of Investors	Equity \$m	IB	2,101	110.0m	IB NZ	2,154	44.4m	MT4	5,844	23.8m	MT5	2,460	33.0m	Total	12,599	211.2m	3.3
Platform	No of Investors	Equity \$m																		
IB	2,101	110.0m																		
IB NZ	2,154	44.4m																		
MT4	5,844	23.8m																		
MT5	2,460	33.0m																		
Total	12,599	211.2m																		
What is the purpose of this Report?	<p>The purpose of this Report is to table the findings of our investigations of the Company's business, property, affairs and financial circumstances, as well as our opinion on the options available to creditors in deciding the future of the Company at the Second Meeting.</p>	2.3																		

Question	Section Ref
<p>What is the current status of the Company?</p>	<p data-bbox="1378 394 1412 421">2.1</p> <p data-bbox="469 394 1289 488">Morgan Kelly, Phil Quinlan and Stewart McCallum were appointed as Administrators of the Company on 23 November 2018 and as Administrators of Halifax NZ on 27 November 2018.</p> <p data-bbox="469 510 1257 636">On appointment, the Administrators assumed control of the Company's operations and notified Investors, employees, creditors and other stakeholders of their appointment. The Administrators then conducted an urgent financial and commercial review of the Company.</p> <p data-bbox="469 658 1278 779">As a result of the appointment, all investor accounts have been frozen and switched to 'close only' mode, i.e. it is not possible to enter into new positions, nor is it possible to withdraw money from Client accounts, however it is possible to close out current positions.</p>
<p>What have the Administrators done so far?</p>	<p data-bbox="1378 801 1412 828">8.1</p> <p data-bbox="469 824 1270 882">We have undertaken a widescale review of the Company's financial position, including:</p> <ul data-bbox="469 891 1278 1384" style="list-style-type: none"> – A high level review of over 10,000 transactions between accounts operated by the Halifax Group; – Investigations in relation to the quantum of the deficiency in Client funds as at the date of appointment; – Circumstances around how the estimated deficiency arose; – The effect of co-mingling of Client Monies; – Investigations in relation to the solvency of Halifax; – Investigations in relation to possible antecedent transactions and the potential misuse of Client Monies; – Investigation of conduct by the Director and Former Director in relation to the use of Section 981B trust accounts; – Ongoing liaison with ASIC in relation to the status of our investigation and potential director offences; and – Ongoing correspondence with Investors.

Question		Section Ref																																				
Am I an investor or creditor?	<p>It appears as though all of the cash and equities held by Halifax in its various trust accounts are effectively held on trust for Investors. Accordingly, investor claims constitute claims as beneficiaries of a trust and not as a creditor of Halifax.</p> <p>Investors who have signed a CSA with Halifax are considered ordinary unsecured creditors of Halifax to the extent of any shortfall not recovered from trust assets.</p> <p>Investor creditors will be referred to in this report as Investors or Clients. Non-investor creditors will be referred to as unsecured creditors. The classes will be referred to collectively as Creditors.</p> <p>Investors are both beneficiary creditors and unsecured creditors to the extent that there is a shortfall in trust assets.</p> <p>The following table provides a summary of investor creditors and their status as beneficiaries / creditors of entities within the Halifax Group:</p> <table><tr><th>Platform</th><th>CSA</th><th>Beneficiary creditor of</th><th>Unsecured creditor of</th></tr><tr><td>Halifax IB</td><td>Halifax</td><td>Halifax</td><td>Halifax</td></tr><tr><td>Halifax IB</td><td>Halifax NZ</td><td>Halifax</td><td>Halifax NZ</td></tr><tr><td>Halifax NZ IB</td><td>Halifax</td><td>Halifax NZ</td><td>Halifax</td></tr><tr><td>Halifax NZ IB</td><td>Halifax NZ</td><td>Halifax NZ</td><td>Halifax NZ</td></tr><tr><td>MT4</td><td>Halifax</td><td>Halifax</td><td>Halifax</td></tr><tr><td>MT4</td><td>Halifax NZ</td><td>Halifax</td><td>Halifax NZ</td></tr><tr><td>MT5</td><td>Halifax</td><td>Halifax</td><td>Halifax</td></tr><tr><td>MT5</td><td>Halifax NZ</td><td>Halifax</td><td>Halifax NZ</td></tr></table>	Platform	CSA	Beneficiary creditor of	Unsecured creditor of	Halifax IB	Halifax	Halifax	Halifax	Halifax IB	Halifax NZ	Halifax	Halifax NZ	Halifax NZ IB	Halifax	Halifax NZ	Halifax	Halifax NZ IB	Halifax NZ	Halifax NZ	Halifax NZ	MT4	Halifax	Halifax	Halifax	MT4	Halifax NZ	Halifax	Halifax NZ	MT5	Halifax	Halifax	Halifax	MT5	Halifax NZ	Halifax	Halifax NZ	2.5
Platform	CSA	Beneficiary creditor of	Unsecured creditor of																																			
Halifax IB	Halifax	Halifax	Halifax																																			
Halifax IB	Halifax NZ	Halifax	Halifax NZ																																			
Halifax NZ IB	Halifax	Halifax NZ	Halifax																																			
Halifax NZ IB	Halifax NZ	Halifax NZ	Halifax NZ																																			
MT4	Halifax	Halifax	Halifax																																			
MT4	Halifax NZ	Halifax	Halifax NZ																																			
MT5	Halifax	Halifax	Halifax																																			
MT5	Halifax NZ	Halifax	Halifax NZ																																			
What is the estimated deficiency in Client funds?	<p>The deficiency in investor funds for the Halifax Group as at 23 November 2018 is estimated to be approximately \$19.7 million before costs and any recoveries. The deficiency is equal to approximately 9% of Client equity positions.</p> <p>This is a preliminary estimate only and may be subject to revision as our investigation progresses.</p>	4.1.2																																				

Question		Section Ref										
How did the deficiency in Client funds arise?	<p>We consider the primary cause of the deficiency was the use of Client Monies to fund operational losses.</p> <p>A breakdown of the estimated deficiency as at 23 November 2018 is as follows:</p> <table><tr><th></th><th>\$m</th></tr><tr><td>Estimated operational losses in period January 2017 to November 2018</td><td>14.3</td></tr><tr><td>Funds advanced to third parties not in the ordinary course of business</td><td>2.8</td></tr><tr><td>Amount still under investigation</td><td>2.6</td></tr><tr><td>Estimated deficiency</td><td>19.7</td></tr></table> <p>Refer to Section 12 for further details.</p>		\$m	Estimated operational losses in period January 2017 to November 2018	14.3	Funds advanced to third parties not in the ordinary course of business	2.8	Amount still under investigation	2.6	Estimated deficiency	19.7	12.1
	\$m											
Estimated operational losses in period January 2017 to November 2018	14.3											
Funds advanced to third parties not in the ordinary course of business	2.8											
Amount still under investigation	2.6											
Estimated deficiency	19.7											
How did Halifax's three platforms operate?	<table><tr><th>Platform</th><th>Description</th></tr><tr><td>IB</td><td><ul style="list-style-type: none">– Third party trading platform– Funds held with IB 1:1– Exchange traded products only</td></tr><tr><td>MT4 and MT5</td><td><ul style="list-style-type: none">– Virtual trading platforms– All funds held by Halifax on trust for Investors– Halifax decides whether to hedge trades</td></tr></table> <p>The IB account is held on a non-disclosed basis. This means:</p> <ul style="list-style-type: none">– The contractual arrangement is between Halifax and IB, and not with the individual Investors and IB; and– IB does not know the identity of each of Halifax's Clients.	Platform	Description	IB	<ul style="list-style-type: none">– Third party trading platform– Funds held with IB 1:1– Exchange traded products only	MT4 and MT5	<ul style="list-style-type: none">– Virtual trading platforms– All funds held by Halifax on trust for Investors– Halifax decides whether to hedge trades	3.5				
Platform	Description											
IB	<ul style="list-style-type: none">– Third party trading platform– Funds held with IB 1:1– Exchange traded products only											
MT4 and MT5	<ul style="list-style-type: none">– Virtual trading platforms– All funds held by Halifax on trust for Investors– Halifax decides whether to hedge trades											
Are investor funds co-mingled across the MT4/MT5 and IB platforms?	<p>Our investigations to date indicate that while the IB platform may appear to be 'whole' in that it is fully funded, investor funds may have been mixed or co-mingled in a way that affects the claims of all Investors on all three platforms in both the Australian and New Zealand businesses.</p> <p>Refer to Section 4 for further details.</p>	4.2										

Question	Section Ref
How extensive does the co-mingling appear?	<p data-bbox="472 394 1276 454">Based on our preliminary investigations to date (including our review of over 10,000 transactions) it appears that:</p> <ul data-bbox="472 472 1276 645" style="list-style-type: none"> <li data-bbox="472 472 1276 577">– There is no pattern behind the transfer of funds between Client accounts (i.e. frequency, where funds were directed to, purpose etc); and <li data-bbox="472 577 1276 645">– There appears to be substantial contraventions of the Client Money Rules.
I am an IB investor, why is my position not whole?	<p data-bbox="472 745 1276 840">Our investigations to date indicate that funds invested by MT4 and MT5 Investors may have been used to ‘top up’ the accounts of IB Investors (and vice versa).</p> <p data-bbox="472 857 1276 918">In simple terms, the monies of other Investors may have been used to credit the IB platform.</p> <p data-bbox="472 940 1276 1037">Client Monies have been co-mingled across all platforms. The reason for this co-mingling appears to be improper operation of trust accounts and improper application of Client Monies.</p>
I am an IB investor, am I able to claim under the SIPC policy?	<p data-bbox="472 1077 1276 1137">Our investigations have indicated that IB Investors are unable to claim under the SIPC policy.</p> <p data-bbox="472 1160 1276 1317">SIPC covers circumstances where a firm who is an SIPC member becomes insolvent. However, it is IB and not Halifax that is the member whereas the deficiency appears to relate to transactions undertaken by, or conduct, of Halifax and not IB. Accordingly, it appears that IB Investors cannot claim under the SIPC policy.</p> <p data-bbox="472 1339 1276 1400">We are considering potential claims which may be available under other insurance policies.</p> <p data-bbox="472 1422 1276 1451">Refer to Section 3.5.1.4 for further details.</p>
Why does the Director believe the Company became insolvent?	<p data-bbox="472 1491 1276 1552">The Director has advised that in his view the Company became insolvent due to the following:</p> <ul data-bbox="472 1570 1276 1843" style="list-style-type: none"> <li data-bbox="472 1570 1276 1664">– The migration from the Saxo platform (where investor positions were cash backed 1:1) to the MT5 platform which encountered significant technical difficulties and was not well received by Clients; <li data-bbox="472 1664 1276 1809">– Expansion into the Chinese market where Investors had a different risk threshold and level of sophistication compared with Australian Investors, resulting in increased investor gains on the MT4 and MT5 platform; and <li data-bbox="472 1809 1276 1843">– Several legal claims were being pursued against the Company.

Question	Section Ref
What do the Administrators consider were the underlying causes of the Company's failure?	<p data-bbox="474 389 1203 450">Our preliminary view is that in addition to the factors identified by the Director, the Company became insolvent due to:</p> <ul data-bbox="474 461 1267 674" style="list-style-type: none"> – Substantial operating losses on the MT4 and MT5 platforms; – Costs associated with setting up the China business (including high commissions which exacerbated losses); – Costs associated with the New Zealand business; and – Significant operational overheads (for example wages, rent and platform expenses).
When do the Administrators consider the Company became insolvent?	<p data-bbox="474 714 1254 775">We consider that the Company may have been insolvent from as early as January 2017.</p>
Have the Administrators explored the possibility of a DOCA, whereby Investors agree to share the deficiency proportionately to expedite the distribution process?	<p data-bbox="474 871 1227 931">This option has been explored in detail, however a DOCA is not legally possible as:</p> <ul data-bbox="474 943 1278 1077" style="list-style-type: none"> – Investors of Halifax are both trust beneficiaries for the amount that is held on trust for them and unsecured creditors for any shortfall; and – A DOCA cannot bind trust creditors and cannot purport to deal with trust assets.
What is the purpose of the Second Meeting of Creditors?	<p data-bbox="474 1184 1294 1279">The Second Meeting of Creditors will be held on 20 March 2019 at 10am (AEDT) at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000. Registration will commence at 9am (AEDT).</p> <p data-bbox="474 1301 1198 1361">To resolve the future of the Company. The options available include whether:</p> <ul data-bbox="474 1373 970 1480" style="list-style-type: none"> – The Company should execute a DOCA; – The Administration should end; or – The Company should be wound up. <p data-bbox="474 1525 1227 1626">We advise that for the reasons outlined in Section 8.1, a DOCA is not feasible nor can the Administration end in circumstances where the Company is insolvent.</p> <p data-bbox="474 1671 1262 1727">Given the insolvency, the only option is for the Company to be wound up.</p>
What do creditors need to do prior to the Second Meeting?	<p data-bbox="474 1789 1235 1850">For the purposes of voting at the Second Meeting, creditors will need to complete a Proof of Debt Form and proxy form.</p> <p data-bbox="474 1861 1262 1921">Creditors who have already lodged a POD do not need to complete a new POD unless an amendment is required.</p> <p data-bbox="474 1944 1278 1977">Please forward the completed forms to halifax@linkmarketservices.com.au.</p>

Question	Section Ref
<p>Do creditors need to attend the Second Meeting?</p>	<p>As you may be a creditor of Halifax you are entitled to attend and vote at creditor meetings. However, you are not obliged to attend the meetings. If you wish to attend you may do so in person or nominate someone to attend on your behalf using a proxy form.</p> <p>You are not obligated to attend and your claim against Halifax is not prejudiced by your attendance or absence from the Second Meeting.</p>
<p>What is the estimated return to Clients and creditors?</p>	<p>We currently estimate that a dividend of approximately 85 to 95 cents in the dollar will be payable to Investors in their capacity as beneficiaries with an entitlement to claim trust monies.</p> <p>This estimate is preliminary only and may be subject to revision. In particular, it may be impacted by market movement in value of open positions and directions from the Court as to the date to value investor claims.</p> <p>Given the deficiency in Client funds, it appears that there is likely to be a shortfall to Investors from trust assets. Inventors will have an unsecured claim in the Company in the event of a shortfall in trust assets, however any return to unsecured creditors is contingent on future recoveries of Company assets, including potential voidable transactions, together with any future Court directions in relation to the allocation of costs to these assets. The EOS presented in Section 13 has not allocated any costs against these potential asset recoveries.</p> <p>Please refer to Section 13 for further information.</p>
<p>What will happen next?</p>	<p>The only viable option for Investors and creditors to resolve at the Second Meeting is that Halifax be placed into liquidation.</p> <p>Following the Second Meeting of Creditors, it is our intention to:</p> <ul style="list-style-type: none"> – Make an application to Court for directions in relation to pooling (please see Section 5 for further details in respect of Client Monies and trust accounts); – Make an application to Court for directions with respect to: <ul style="list-style-type: none"> – Distributions from Client trust monies including in relation to entitlements of Clients; and – Costs and expenses of and associated with making such distributions. – Pending it being deemed appropriate to do so and any Directions and orders from the Court, we may seek to make an interim distribution to Investors as soon as possible, – Continue the investigation and potential pursuit of antecedent transaction recoveries and other actions and litigation for the benefit of Creditors; and – Continue ongoing investigations and report to the relevant authorities (including ASIC). <p>Refer to Section 5 for further details.</p>

Question	Section Ref
What claims will a liquidator investigate?	<p>Whilst the Administrators have considered the underlying causes of the Company's failure, our investigations into claims arising from those matters are at an early stage.</p> <p>The preliminary investigations have identified that:</p> <ul style="list-style-type: none"> – The Director and Former Director may have breached their obligations under Sections 180 to 184 of the Act; – Halifax may have breached its obligations in relation to the ASIC Client Money Rules and Section 981B of the Act; – There may be potential claims against external advisors for misstatement of accounts and/or failure to report misconduct; and – Recoveries may be available in respect of antecedent transactions and insolvent trading. <p>These, and other potential claims, will require further investigation by a liquidator if appointed.</p> <p>The preliminary investigations undertaken to date in the Administration are detailed at Section 10 of this report.</p>
How long will it take for Investors to receive a distribution?	<p>This will primarily be dependent on the length of time taken for Court directions.</p> <p>We appreciate that Clients would like to have access to funds held in accounts as soon as possible. However, due to the many complex issues and matters that will require directions from the Court as well as other recovery actions to be taken, it is difficult at this time to provide an estimate as to when Investors can expect to receive a distribution.</p> <p>Following the receipt of Court directions, we anticipate it will take at least 6 months to make a distribution due to the time required to:</p> <ul style="list-style-type: none"> – Liquidate stocks; and – Adjudicate on approximately 12,600 investor claims
How am I able to participate in the process and ensure that my views are heard?	<p>Clients and other interested parties will be given an opportunity to be represented and have submissions made on their behalf in such an application to Court and it will be the Court that will ultimately determine the matter. All Clients and creditors will be informed of the Court application and the orders being sought as well as any orders that are ultimately made by the Court.</p>
Where can I get more information?	<p>If you require any further information, please see the Ferrier Hodgson website and/or contact Link Market Services below:</p> <p>Phone: 1300 910 051 (within Australia)</p> <p>Phone: +61 1300 910 051 (from overseas)</p> <p>Email: halifax@linkmarketservices.com.au</p> <p>Website: https://www.ferrierhodgson.com/au/creditors/halifax-investment-services-pty-ltd</p>

2 Introduction

This section provides information on the entities subject to the Administration process, the objectives of the Administration, the purpose of this Report, details of meetings of creditors and a summary of the Administrators' remuneration.

Key takeaways		Ref.
1	The majority of the assets held by Halifax are held on trust for Investors	2.5
2	On this basis, Investors will have recourse to trust assets ahead of unsecured creditors (non-investor creditors)	2.5
3	The Second Meeting will be held on 20 March 2019, at 10am (AEDT) at the Wesley Conference Centre , 220 Pitt Street, Sydney NSW 2000. All unsecured creditors, including Investors are entitled to attend. Webcast facilities will be available for those unable to attend in person	2.8
4	All Investor claims will be admitted for \$1 for voting purposes only at the Second Meeting	2.8

2.1 Appointment of Voluntary Administrators

On 23 November 2018, Morgan Kelly, Phil Quinlan and Stewart McCallum (the Administrators), were appointed as joint and several Administrators of the Company by the Director under Section 436A of the Act.

On 27 November 2018, the Administrators were also appointed as Administrators of Halifax NZ.

On appointment, the Administrators assumed control of the Company's operations and notified Investors, employees, creditors and other stakeholders of their appointment. The Administrators then conducted an urgent financial and commercial review of the Company.

As a result of the appointment, all Investor accounts have been frozen and switched to 'close only' mode (i.e. it is not possible to enter into new positions, nor is it possible to withdraw money from Client accounts, however it is possible to close out current positions).

2.2 Objectives of voluntary administration

In a voluntary administration, Administrators are empowered by the Act to assume control of an insolvent company, superseding the powers of the Directors and Officers to manage the company's affairs and deal with its assets in the interests of its creditors.

The intention of a voluntary administration is to maximise the prospects of a company continuing in existence or, if that is not possible, to achieve better returns to creditors than would be achieved by its immediate liquidation. During a voluntary administration there is a moratorium over most pre-administration creditor claims.

Administrators are also required to investigate the company's affairs and report to creditors on the Administrators' opinion as to which outcome of the voluntary administration process is in the creditors' best interests, informing the creditors prior to their voting at the Second Meeting (please see Section 14 for further details).

2.3 Purpose and basis of this report

IPR 75-225 requires a voluntary administrator to provide a Voluntary Administrator's Report to all creditors ahead of the Second Meeting, outlining:

- Details regarding the business, property, affairs and financial circumstances of the entity under administration;
- The Administrator's opinion and recommendation on each of the options available to creditors; and
- If a DOCA is proposed, the details of the DOCA.

This Report also informs creditors about the preliminary investigations undertaken by the Administrators to date. Accordingly, the views formed in this Report are not final and may be subject to change.

This Report has been prepared primarily from information obtained from the Company's books and records and discussions with the Director and Halifax employees. Although the Administrators have conducted certain investigations of the affairs of the Company, there may be matters which we are unaware of as an audit of the Company has not been undertaken.

In order to complete our Report, we have utilised information from:

- The ASIC;
- The PPSR;
- The Company's book and records;
- Discussions with the Director, the Former Director and other former directors of the Company;
- Discussions with the Company's various advisors;
- Discussions with key employees and former employees of the Company;
- Data extracted from the relevant trading platforms;
- Data provided by IB;
- Discussions with Investors; and
- Other public databases.

2.4 Context of this Report

- This Report is based on our preliminary investigations to date. Any additional material issues that are identified subsequent to the issue of this Report may be the subject of a further written report and/or tabled at the Second Meeting.
- The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. We reserve the right to alter any conclusions reached based on any changed or additional information which may be provided to us between the date of this Report and the date of the Second Meeting (except where otherwise stated).
- In considering the options available to creditors and formulating our opinion and recommendation, we have necessarily made forecasts of asset realisations and total creditors' claims based on our best assessment in the circumstances. These forecasts and estimates may change as asset realisations progress and we receive creditor claims. Consequently the outcome for creditors might differ from the information provided in this Report.
- Creditors should consider seeking their own independent legal advice as to their rights and the options available to them at the Second Meeting.

All amounts in this report are presented in AUD unless specifically advised otherwise.

2.5 Distinction between Investors and unsecured creditors

For the purposes of the report, it is important to outline the distinction between Investors and unsecured creditors.

- It appears as though all of the cash and equities held by Halifax in its various trust accounts are effectively held on trust for Investors. The Investors are considered trust beneficiaries for the amount held on trust for them by Halifax. Accordingly, **Investor claims constitute claims as beneficiaries of a trust and not as a creditor of Halifax.**
- Investors who have signed a CSA with Halifax are considered ordinary unsecured creditors of Halifax to the extent of any shortfall which is not recoverable from trust assets.
- Ordinary unsecured creditors (e.g. trade and statutory creditors) do not have recourse to assets held on trust by Halifax.

- Investor creditors will (to the extent of any shortfall that is not recoverable from trust assets) be referred to in this report as **Investors or Clients**. Non-investor creditors will be referred to as unsecured creditors. The classes will be referred to collectively as **Creditors**.

However, Investors may be both a beneficiary creditor and an unsecured creditor as this constitutes a part of their claim.

The following table provides a summary of investor creditors of the Halifax Group and their status as beneficiaries / creditors of entities within the Halifax Group:

Platform	CSA	Beneficiary (Investor) creditor of	Unsecured (Non-Investor) creditor of
Halifax IB	Halifax	Halifax	Halifax
Halifax IB	Halifax NZ	Halifax	Halifax NZ
Halifax NZ IB	Halifax	Halifax NZ	Halifax
Halifax NZ IB	Halifax NZ	Halifax NZ	Halifax NZ
MT4	Halifax	Halifax	Halifax
MT4	Halifax NZ	Halifax	Halifax NZ
MT5	Halifax	Halifax	Halifax
MT5	Halifax NZ	Halifax	Halifax NZ

Having regard to the above, all beneficiary and unsecured creditors of Halifax will be considered contingent unsecured creditors of Halifax for voting purposes at the Second Meeting.

On this basis, and considering the uncertainty regarding the calculation of Investor entitlements and any potential deficiency, **all Investor claims will be admitted for \$1 for voting purposes only at the Second Meeting.**

For the purposes of the Second Meeting, any reference to Creditors will also include Investor creditors.

Investor creditors will not be prejudiced in any way by the figure provided in their POD for the Second Meeting, nor by the fact that claims will be admitted for \$1 only at this stage. A full adjudication process will subsequently be undertaken by a liquidator, if appointed.

2.6 Declaration of independence, relevant relationships and indemnities

In accordance with Section 436DA of the Act and the Code, a DIRRI was enclosed with the Administrators' first communication to creditors. Subsequent to our appointment as Administrators of Halifax NZ, we then prepared an updated DIRRI and lodged with ASIC on 27 November 2018 (**the Replacement DIRRI**). The Replacement DIRRI was tabled at the First Meeting.

The DIRRI disclosed information regarding the Administrators' independence, prior personal or professional relationships with the Company or related parties and any indemnities received in relation to the appointment. This assessment identified no real or potential risks to the Administrators' independence.

There has been no further change to the Replacement DIRRI.

2.7 First Meeting of Creditors and Committee of Inspection

Section 436E of the Act requires the Administrators to convene the first meeting of creditors within eight business days of being appointed.

The First Meeting of the Company was held on 5 December 2018, at which the Administrators' appointment was confirmed.

Creditors resolved at the First Meeting to appoint a COI, details of which are as follows:

Name	Representing
Andrew Baxter	Blunsdon Capital Management
Rodney Morris	A.C.N 152 926 595 Pty Ltd
Bradley O'Hara	Atlas Asset Management Pty Ltd
Jody Elliss	Self
Peter Wilson	Peter and Shelly SMSF Pty Ltd

Each member of the COI has executed an undertaking as to confidentiality and the COI has been kept apprised by and consulted with the Administrators in relation to:

- Calculation and quantification of the deficiency;
- Tracing of Client funds;
- Investigation of potential antecedent transactions;
- Outcome of statutory investigations;
- Potential breaches of directors duties;
- Costs and fees that have been incurred (subject to approval of the Court); and
- Potential for a DOCA to be proposed by the Administrators.

Meetings of the COI have been held on 11 January 2019 and 28 February 2019. No resolutions have been passed by the COI to date.

The Administrators intend to facilitate the formation of a new COI for the liquidation period. Those creditors wishing to nominate a member for appointment to the COI (if one is appointed) must complete the attached Nomination Form – COI (**Annexure C**) and return it to Ferrier Hodgson no later than 10:00 am (AEDT) on Monday, 18 March 2019 by email to Halifax COI@fh.com.au.

Please be advised that existing COI members will also be required to submit a nomination form.

2.8 Second Meeting of Creditors

Based on the statutory timetable of a voluntary administration, the Second Meeting was required to be convened by 21 December 2018.

Given the complexities associated with the Company, we made an application to the Federal Court of Australia for an extension of the convening period pursuant to Section 439A(6) and Section 447A(1) of the Act.

The Court made orders on 12 December 2018 extending the date by which the Administrators were required under Section 439A of the Act to convene the Second Meeting of the Company to 29 March 2019.

The Second Meeting will be held on **20 March 2019 at 10:00am (AEDT) at the Wesley Conference Centre**, 220 Pitt Street, Sydney NSW 2000.

All Creditors are entitled to attend the Second Meeting. Creditors who wish to participate in the Second Meeting must complete and submit the following forms to Link Market Services by **10:00am (AEDT) on 18 March 2019**.

For those Investors unable to attend in person, a webcast facility will be available, details will be made available at the following link: <https://webcast.openbriefing.com/5144/>

Creditors who are unable to attend the meeting in person may view the meeting via a webcast subject to providing the relevant proof of debt and proxy documents in advance. Creditors will be able to ask questions via the webcast, however, please note that due to the technological limitations, creditors will not be able to vote via the webcast. Creditors may view the meeting by webcast and participate in voting by nominating a proxy to attend the meeting in person and vote on their behalf.

Form	Comments
Appointment of proxy (form 532)	<ul style="list-style-type: none"> – Corporate creditors must appoint an individual to act on its behalf. – Individuals voting in person are not required to complete this form but must complete this form if a representative is appointed to vote on their behalf. – Please note that proxy forms submitted for the First Meeting are not valid for the Second Meeting. A new proxy form must be submitted.
Informal proof of debt (form 535)	<ul style="list-style-type: none"> – Creditors must submit documentation to support the amount they have claimed (i.e. unpaid invoices, payslips). – Creditors who have already submitted a proof of debt are not required to resubmit a proof of debt form unless the amount claimed has changed. – This POD is indicative only and will not constitute a formal adjudication of investor claims.

2.9 Remuneration and internal disbursements

An Administrator's remuneration can only be fixed by resolution of a COI, the Company's creditors, or by application to the Court. In accordance with IPR 70-35 and the Code, an Initial Remuneration Notice was provided to creditors with our initial communication and tabled at the First Meeting of Creditors.

However, where it appears that the only source (or the only substantial source) of funding for the remuneration of an Administrator is assets which are held on trust (i.e. where monies are held on trust by the Company for Investors), the Administrators are of the view that the remuneration should first be approved by the Court before being paid out of trust monies. To the extent that there are any recoveries received from Company assets, the Court may approve the payment of remuneration from those monies.

We will be seeking an indication from the Creditors at the Second Meeting that Creditors do not object to the remuneration of the Administrators. The view of the Creditors will be placed before the Court in the applications to the Court in respect of remuneration.

ARITA has issued an "Approving remuneration in external administrations" information sheet providing general information for creditors on the approval of an administrator's fees in a liquidation, a voluntary administration or a DOCA. This information sheet is available from the ARITA website (www.arita.com.au).

We will be seeking the view of Creditors of the following remuneration and internal disbursements at the Second Meeting:

Remuneration period	Amount (\$ ex GST)
Remuneration to be put before the Second Meeting	
Voluntary Administration – 23 November 2018 to 28 February 2019	1,444,681.50
Internal disbursements to be put before the Second Meeting	
Voluntary Administration – 23 November 2018 to 28 February 2019	9,922.80
Estimated total remuneration & internal disbursements	1,454,604.30

We provided a summary of our fees incurred up to 31 January 2019 to the COI at the meeting held on 28 February 2019. No objections to the fees incurred to date were noted by the members of the COI.

At this stage, there are insufficient company assets with which to make payment of the Administrators' fees and disbursements or, in the event the Company is placed into liquidation, the liquidators' remuneration, costs and expenses in the liquidation. Accordingly, we intend to seek approval from the Court prior to drawing fees and disbursements.

As stated above, it is likely that, subject to the approval of the Court, payment of the remuneration, costs and expenses will be made from trust monies or from any recoveries (to the extent they have been received) and in accordance with any process or procedure that may be set by the Court. The Administrators expect that payment of the remuneration, costs and expenses will only extend to those fees, costs and expenses reasonably incurred and having regard to the balance of the various trust accounts and the quantum of any recoveries (to the extent they have been received) on the date of the payment.

Having regard to the co-mingling of funds, the Court may also make directions as to the particular pool or pools of monies from which it will be appropriate for the remuneration, costs and expenses to be paid.

Please refer to our Remuneration Proposal at **Annexure F** for details of the key tasks undertaken throughout the course of the administration to date.

2.10 Non-disclosure of certain information

There are sections of this Report where we have considered it inappropriate to disclose certain information to creditors, including which may be the subject of litigation in the future

We recognise the need, as far as possible, to provide creditors with complete disclosure of all necessary information relating to the Company. However, we believe this information is commercially sensitive and it is not in creditors' interests for us to disclose the information publicly at this stage.

Where necessary in this Report, we provide a combined figure for potential realisations of assets when comparing estimated dividends under the relevant options.

During consultations with the COI, we have disclosed such information to COI members to ensure that they are fully informed. All information provided to COI members was disclosed under the strict terms of the undertaking as to confidentiality that each member signed prior to receiving such information.

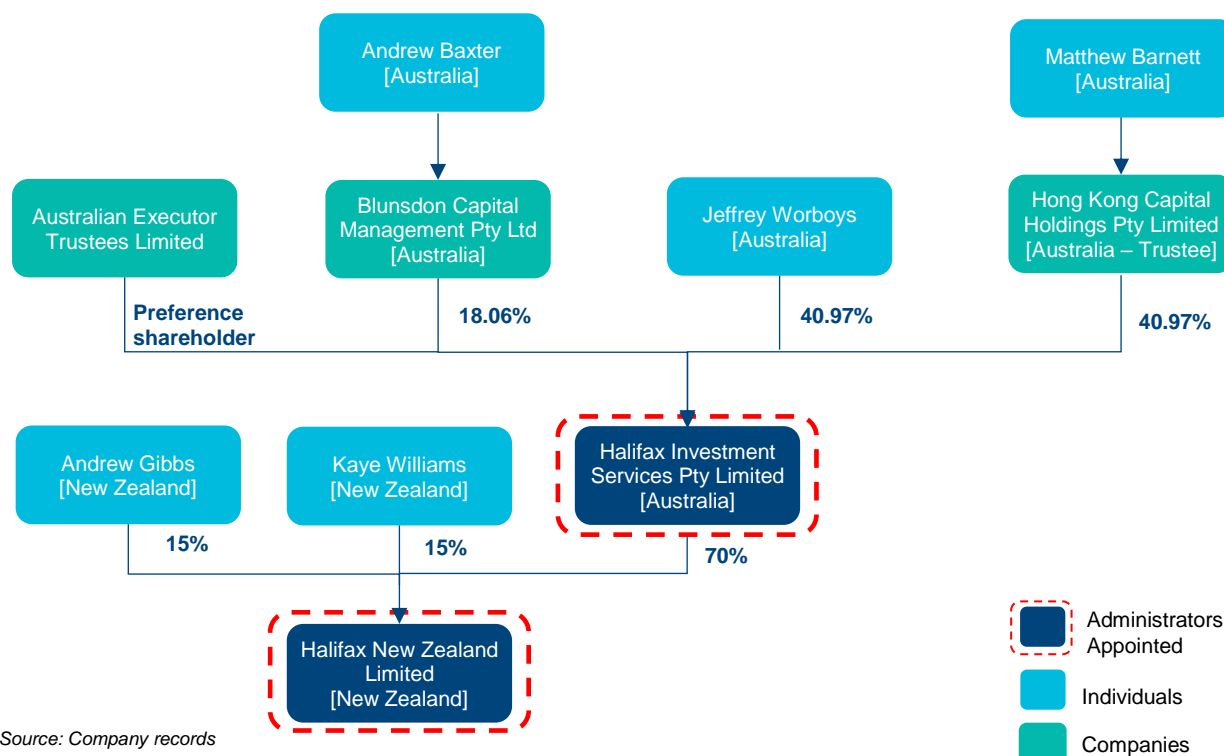
3 Company information

Halifax was incorporated on 30 May 2001 and conducted the business of a licenced financial services provider.

Key takeaways	Ref.
1 Halifax is an AFSL holder which provided broking services for financial products	3.3
2 Halifax has three investment platforms, Interactive Brokers (IB) , MetaTrader4 (MT4) and MetaTrader5 (MT5)	3.5
3 Halifax previously operated a 'white label' arrangement with Saxo which was terminated on 30 June 2016. Halifax's business operations changed significantly from this point .	3.6
4 Saxo and IB both had a requirement that all investor positions were held by Saxo on a 1:1 basis, as such we are of the view that all investor positions held by Saxo and IB were likely to be whole or substantially whole as at 30 June 2016 .	3.6
5 Following the migration to the MT5 platform in August 2016, there was a dramatic increase in Client positions that were not required to be cashed backed on a 1:1 basis and Halifax had wide scale access to Client funds.	3.6
6 In September 2017 , Halifax commenced an expansion into the Chinese market through the Halifax Asia structure . We understand that this area of the business performed significantly below expectations.	3.6

3.1 Company structure

A summary of the corporate structure of the Company is below:

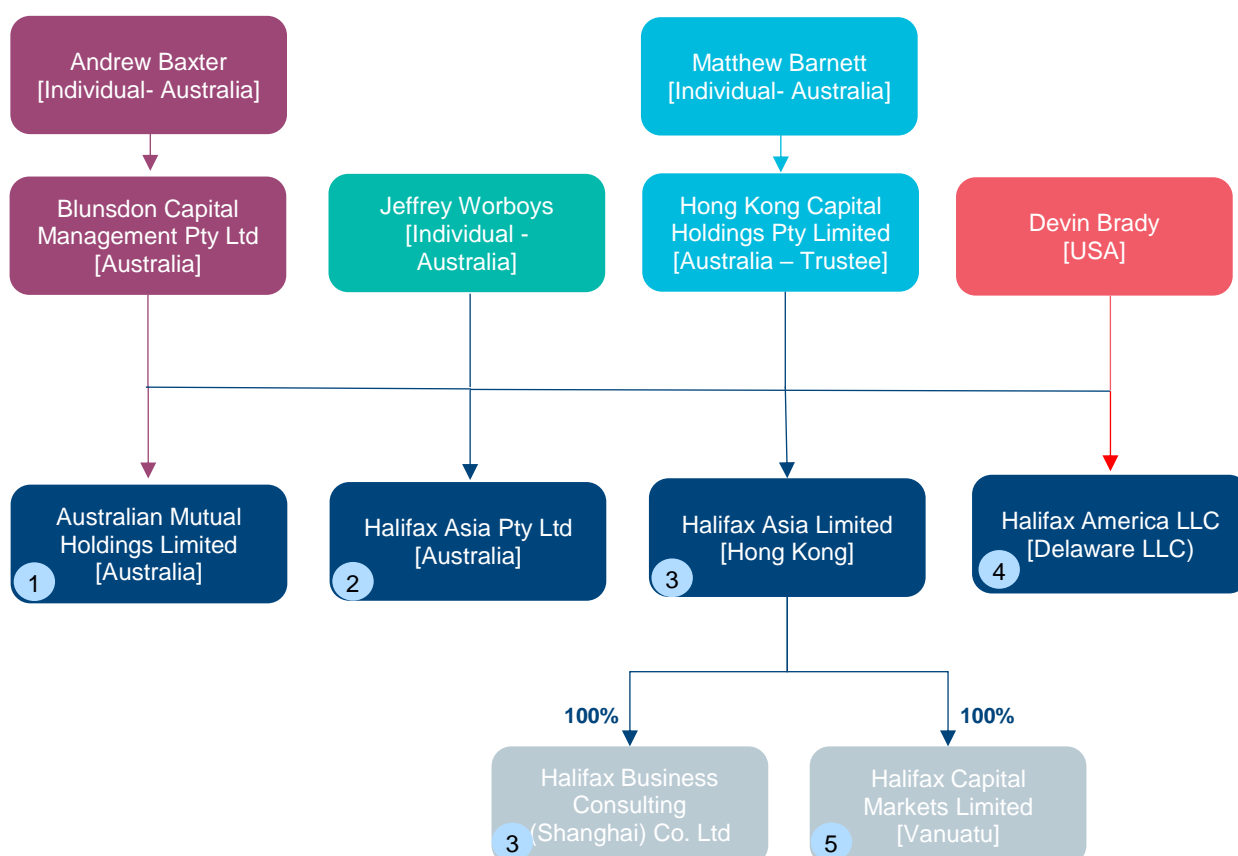


Key points to note in relation to the corporate structure are:

- Halifax is a 70% shareholder of Halifax NZ.
- The Administrators have also been appointed over Halifax NZ, which operated in conjunction with Halifax. The relationship between Halifax and Halifax NZ is discussed further in **Section 3.2**.

3.2 Related entities structure

A summary of the entities related to Halifax is below:



The following table summarises the shareholder ownership with respect to each related entity illustrated above:

Shareholders	AMH	Halifax Asia (Australia)	Halifax Asia (Hong Kong)	Halifax America
Blunsdon Capital Management Pty Ltd	17%	-	-	-
Jeffrey Worboys	41.5%	50%	50%	27.6%

Shareholders	AMH	Halifax Asia (Australia)	Halifax Asia (Hong Kong)	Halifax America
Hong Kong Capital Holdings Pty Limited	41.5%	50%	50%	27.6%
Devin Brady	-	-	-	45.1%

Key points to note in relation to the related entities are below:

Entity	Comments
1 Australian Mutual Holdings Limited (AMH)	<ul style="list-style-type: none"> AMH was incorporated on 7 July 2005. AMH is an unlisted public company which operates financial trading services. AMH acts as the responsible entity for managed investment schemes. AMH also acts as an introducing broker to Halifax and generates commissions in this regard. This entity is not subject to our appointment.
2 Halifax Asia Pty Limited (Australia)	<ul style="list-style-type: none"> In June 2017, Halifax commenced an expansion into the Asian market by setting up Halifax Asia (Australia) and Halifax Asia (Hong Kong). This entity is not subject to our appointment. Further information can be found at Section 3.7.
3 Halifax Asia Limited (Hong Kong) Halifax Business Consulting (Shanghai Co. Ltd) (Halifax Shanghai)	<p>As mentioned above, in June 2017, Halifax commenced an expansion into the Asian market by setting up Halifax Asia (Australia), Halifax Asia (Hong Kong) and Halifax Business Consulting (Halifax Shanghai) which were solely reliant on the financial support of Halifax. These entities are not subject to our appointment as Voluntary Administrators.</p> <ul style="list-style-type: none"> Further information can be found at Section 3.6.
4 Halifax America LLC	<ul style="list-style-type: none"> In 2014, Halifax purchased a 67% controlling interest in Halifax America LLC (previously Progressive Trading Group). Halifax America is a Delaware limited liability company based in the USA. Halifax transferred the shares held in Halifax America LLC in June 2017 to the shareholders of Halifax.
5 Halifax Capital Markets Limited (Halifax Vanuatu)	<ul style="list-style-type: none"> In January 2018, Halifax Capital Markets (Halifax Vanuatu) was established by the Director. We understand that Halifax Vanuatu was in the process of obtaining a local licence to trade as a broking services business with the local regulator when the Administrators were appointed. Halifax Vanuatu is not subject to our appointment as Voluntary Administrators. Halifax Vanuatu holds the licensing rights to the MT5 trading platform. We understand that this licence was transferred to Halifax Vanuatu

via a Deed of Assignment executed on 11 June 2018. The Administrators have come to an agreement with Halifax Vanuatu whereby Halifax reimburses this entity for the provision of the licence to ensure continuity of the platform. The Director has indicated that all assets are held on trust for the Company by Halifax Vanuatu.

- Further information in relation to the transfer of the licence is provided at **Section 11.3.7**.

3.3 Business operations

Halifax was incorporated on 30 May 2001 and conducted the business of a licenced financial services provider which dealt in financial products, including listed shares, bonds and over-the-counter (**OTC**) derivatives. It conducted its business through various trading platforms.

Halifax acted as a financial intermediary but was not a market participant on the ASX meaning that it could not place trades directly for its Clients and was not subject to the ASX market rules, including prudential and supervisory requirements.

The financial products involved were complex and involved transactions that occurred across different trading platforms, on behalf of Investors within and outside of Australia, and through different related entities. Halifax's main source of revenue was from generating commissions earned on trades placed by Clients as well as interest accrued on Client Monies held.

As a provider of financial services, Halifax was required to hold an AFSL under which it was regulated in two principal respects:

- Halifax was required to provide its Clients a Product Disclosure Statement (**PDS**) which set out prescribed kinds of information to enable an investor to make a decision as to, amongst other things, how monies were to be treated, the nature and description of the product; and
- Halifax was required to have measures in place to ensure compliance and ongoing disclosure obligations with financial services laws and anti-money laundering / counter-terrorism legislation.

3.3.1 Office locations at the date of appointment

Office location	Employing entity	No. of employees
Sydney	Halifax	15
Auckland	Halifax NZ	4
Shanghai	Halifax	1
Shanghai	Halifax Business Consulting	12



3.4 Products

Clients invested through Halifax in a range of equities, securities, derivatives and other financial products. These can be broadly divided into exchange traded securities and derivatives and OTC products. The terms and conditions of the exchange traded securities and derivatives are governed by the exchange on which they are traded. The terms and conditions of the OTC derivatives are set by the issuer, being Halifax.

Product line	Summary of product
Equities (Exchange traded)	Clients may trade in shares (where shares are held in the name of custodians).
Futures (Exchange traded)	A futures contract is a standard form contract for the purchase or sale of a standard quantity of a specified asset at a future date at a price agreed today. The buyer takes a long position on the asset, and the seller a short position. The buyer expects to profit from a rise in the price of the underlying asset. The seller, holding a short position, expects the price to fall.
Options (Exchange traded)	An option is a right, but not the obligation to buy (or sell) the underlying stock at a predetermined price on or before a predetermined date (the right to buy is a "call", the right to sell is a "put").

Foreign Exchange (OTC)	Trading foreign exchange involves buying one currency and simultaneously selling another.
CFDs (OTC)	A CFD is a contract to exchange the entry price and the exit price of an underlying asset. There is no expiry or exercise date and the timing of entry and exit are determined by the Client.

3.5 Platform providers

Halifax held various contractual arrangements with several platform providers from the date of incorporation.

As at 23 November 2018, Halifax (and its associated entities) held agreements with the following trading platform providers to facilitate 12,599 accounts trading in a variety of products:

Platform	Entity with contractual arrangement	Type of platform	Products offered	Revenue generation	No. of Investors	Equity \$
Trader Workstation (TWS) (also referred to as IB AU)	Halifax AU	White label, third party provider	<ul style="list-style-type: none"> – Stock – Stock options – Futures – Future options 	<ul style="list-style-type: none"> – Commission – Interest 	2,101	110.0m
NZ Trader Workstation (TWS) (also referred to as IB NZ)	Halifax NZ	White label, third party provider	<ul style="list-style-type: none"> – Stock – Stock options – Futures – Future options 	<ul style="list-style-type: none"> – Commission – Interest 	2,154	44.4m
MetaTrader4 or Halifax Pro (MT4)	Halifax AU	Virtual trading platform	<ul style="list-style-type: none"> – Foreign exchange – Stocks – CFDs on stocks – Indexes, metals and commodities 	<ul style="list-style-type: none"> – Commission – Interest – Profits from investor losses if unhedged 	5,844	23.8m
MetaTrader5 or Halifax Plus (MT5)	Halifax AU	Virtual trading platform	<ul style="list-style-type: none"> – Foreign exchange – Stocks – CFDs on stocks, indexes, metals and commodities 	<ul style="list-style-type: none"> – Commission – Interest – Profits from investor losses if unhedged 	2,460	33.0m
Total					12,519	211.2m

We understand the following with respect to the relationship between Investors and the above trading platform providers:

- The Client did not have a direct relationship with the platform provider but rather a direct relationship with Halifax;

- The Client could trade directly on the platform; and
- Client Money received was not intended to be segregated based on the type of product, but rather based on the platform on which the Investor was trading.

The selection of the trading platform is made by the Investor. This selection is either:

- Made by the Investor picking an option on the Halifax website when performing the set-up of a trading account; or
- By Halifax directly contacting the investor and assessing their preferences for trading.

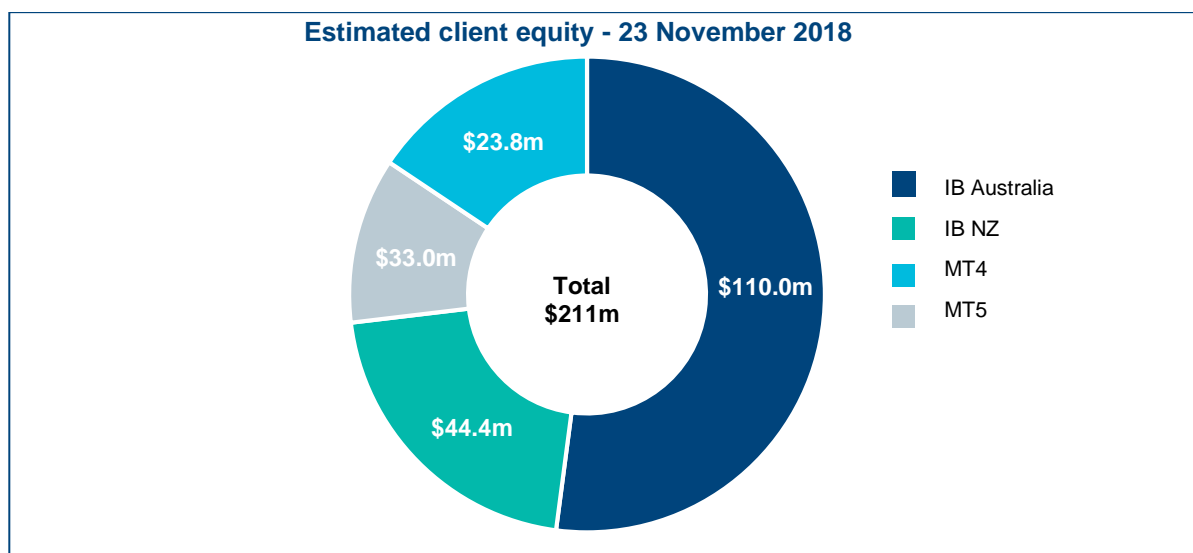
All Clients of the Company appear to have been treated by the Company as retail Clients for the purposes of the Act.

The Director has advised that Investors that provided funds in excess of \$500,000 may have been classified as wholesale investors for reporting purposes. That may (subject to certain other conditions being satisfied) have been a correct classification.

Notwithstanding that position, we understand that, in practice, funds received from Investors in excess of \$500,000 were held in the same manner as funds received from Investors in amounts less than \$500,000, that is, they were held in Section 981B Trust Accounts. It would appear that, if some wholesale Clients have been treated as retail clients, and accordingly have had their funds held in Section 981B trust accounts when their monies should have been held in a separate account, these monies may nevertheless be regarded as monies held on trust. However, there are complexities regarding these classifications and further enquiries need to be undertaken and it may well be a matter which will need to be subject to directions or advice of the Court.

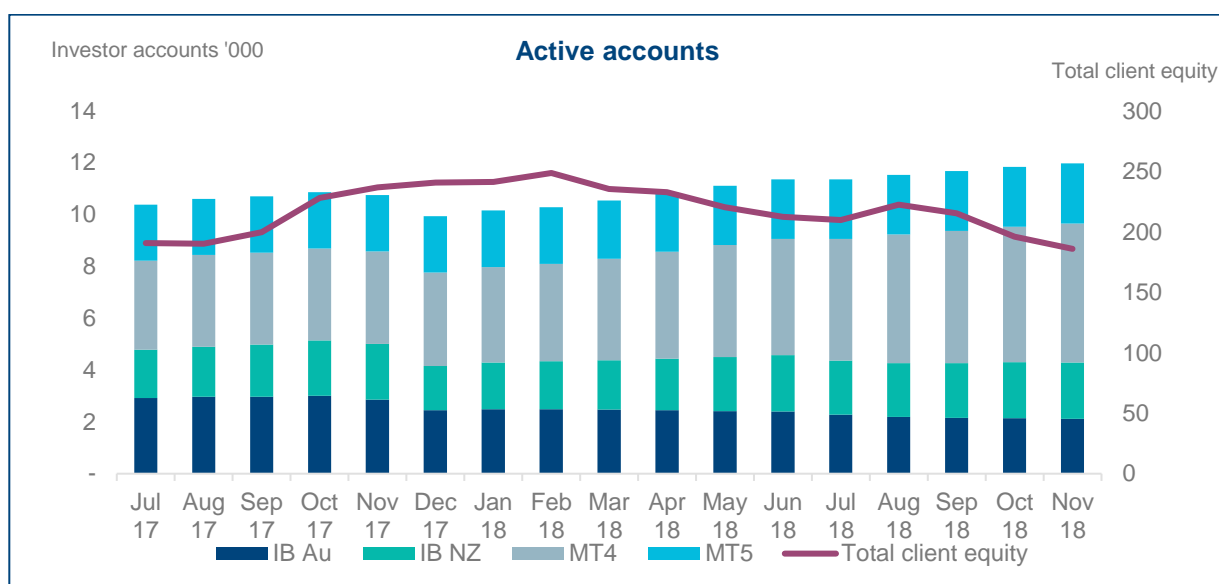
The majority of Client equity is held on the IB platform. Client Monies were paid to Halifax and then transferred to IB on a 1:1 basis to allow Investors to trade.

The following provides an illustration of the estimated distribution of equity across the IB, MT4 and MT5 platforms as at 23 November 2018:



Source: Company books and records

The following provides an illustration of the distribution of active accounts across the IB, MT4 and MT5 platforms for the period July 2017 to November 2018:



Source: Company books and records

3.5.1 Interactive Broker Platform (also known as Trader Workstation)

Halifax operated a 'white label' system whereby all trades and data in relation to the IB platform are held on IB servers. There is an Australian and New Zealand omnibus account held by Halifax however NZ Investors trade on both the Australian and NZ platform and vice versa.

We understand the following with respect to the IB trading platform:

- All Client positions are exchange traded with the purchase of stock or futures contracts and supported on a 1:1 basis by cash or stocks.
- The Investor had a direct relationship with Halifax and not with IB.
- All Investor positions on the IB platform relate purely to cash, stocks, options and futures.
- IB uses custodians and clearing brokers for trading shares, options and futures in different countries.
- Halifax only deals directly with IB and not with the custodian parties engaged by IB.

Halifax held accounts with IB on the following basis:

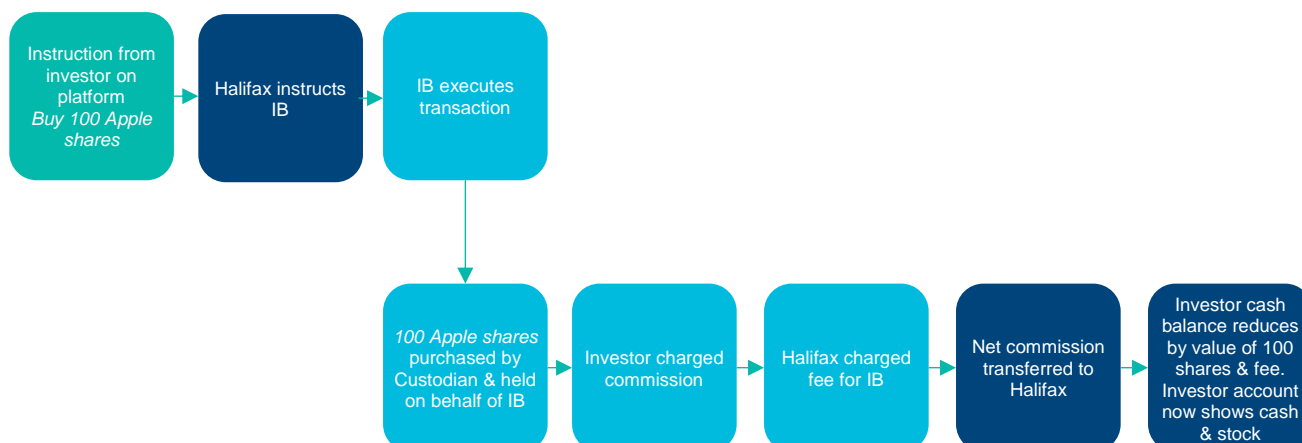
- **Non-Disclosed basis:** Various accounts that allow for Clients to contract with IB via Halifax whereby IB does not know the full identify of the Halifax Client. Halifax holds a consolidated account with IB comprising of a sub-account for each Client
- **Fully Disclosed basis:** An account that allows for Clients to directly contract with IB, whereby IB knows the Client's identity and IB sets the account up directly.

Whilst the above options were available, Halifax's Clients were set up on a non-disclosed basis. We are not aware of any Halifax Clients that were set up on a disclosed basis with IB as at the date of the Administrator's appointment.

We have liaised with IB directly and ensured that all investor accounts were frozen on the date of appointment. IB have confirmed they will only act on the Administrators' instructions in this regard.

3.5.1.1 Trading process – IB Client

The trading process relating to an IB Client is summarised below:



3.5.1.2 Commission revenue & interest

As illustrated above, commissions due to Halifax were generated through the IB platform. This revenue was applied instantaneously upon each trade occurring and funds were deducted automatically from an Investor account. Commissions were then swept to a Company controlled account, being the IB Prop Account (which holds both cash and stock used for hedging positions, described below, on the MT4/MT5 platform). Finally, Halifax earns interest on Client funds held in its trust accounts.

3.5.1.3 Introducing Broker Rebates

Rebates were paid to introducing brokers, being the brokers that had introduced Clients to Halifax. Rebates to introducing brokers were paid to the relevant introducing broker of a Client based on a percentage of what Halifax received from IB in Australia and a fee per trade in China.

The rebate rate is between 20% and 80% of the commission that Halifax earned from the Client. Not all Investors have an introducing broker and therefore this expense is not incurred on all trades. Halifax paid the introducing brokers the rebate by way of an invoice issued to Halifax or by directly crediting a trading account that the introducing broker held with Halifax on IB.

3.5.1.4 Securities Investor Protection Corporation (SIPC)

We are in the process of reviewing the SIPC cover and understand that IB Investors may not be able to claim any coverage from SIPC which is summarised below:

- SIPC is not an insurance company. Rather, SIPC is a US federally mandated corporation which assists to protect (and provide coverage to) customers on their brokerage accounts, if their brokerage firm (who is a SIPC member broker-dealer) becomes insolvent. That is, SIPC will assist where a “member broker-dealer” enters liquidation.
- Interactive Brokers LLC is an SIPC member. However, they are not in liquidation.
- **Halifax Investments Services Pty Ltd (Administrators Appointed) is not an SIPC member.** The deficiency in funds appears to relate to transactions effected by the conduct of Halifax and not IB. **As a result, it does not appear as though Investors can claim any coverage from SIPC.**

Further, even if Halifax customers could be deemed to be “customers” of Interactive Brokers LLC (which we do not consider to the case), in order for those deemed customers to be able to claim from SIPC, Interactive Brokers LLC would need to be in liquidation (which it is not).

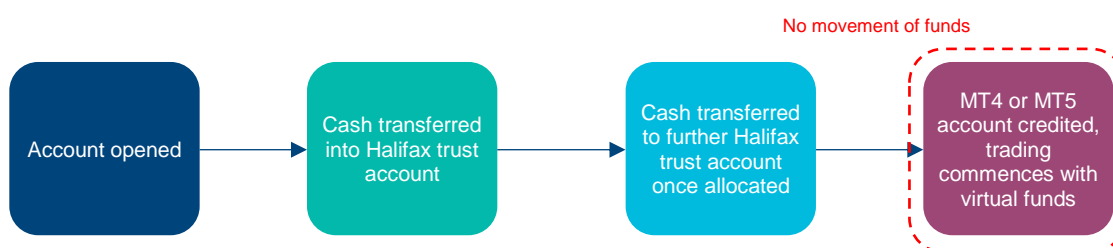
A liquidator, if appointed, would need to further investigate this relationship and any representations made by Halifax or SIPC in this regard.

3.5.2 Halifax Pro (MT4) & Halifax Plus (MT5) platforms

MT4 and MT5 are virtual trading platforms licenced by MetaQuotes Software. MetaQuotes is an offshore software company that specialises in the development of software for foreign exchange trading. Halifax purchased the MT4 and MT5 software from MetaQuotes and paid an ongoing monthly licence fee.

We understand that Halifax utilised the MT4 platform from at least April 2016. Halifax commenced utilising the MT5 platform from 8 August 2016 post the termination of the Saxo agreement. We understand that Halifax maintained control over Client Monies held with respect to MT4 and MT5.

Accordingly, there is no cash movement on the trading platforms as the cash is held separately by Halifax and further illustrated below:



Key observations from the cash movement process for MT4 & MT5 Investors are below:

- As an Investor makes a trade on the trading platform, their account will appear to be credited or debited upon the outcome of the trade.
- When the trade is made, Halifax does not buy the particular commodity (except for stocks and stock CFDs) but rather holds the cash and records the profit or loss in the Investor's account.
- Halifax decides whether to hedge a trade or use its own assets to underwrite a trade.

3.5.2.1 Revenue

As illustrated above, the Investor places a trade on the relevant platform (either MT4 or MT5) themselves. Once they close out the trade, the Investor will see a profit or loss in the trading platform. Once the trade closes, Halifax will recognise either a profit or a loss on the trade (i.e. Halifax will recognise a loss made by an investor as a profit once the position is closed). Profits or losses are only generated on B-Book trades as these are unhedged. These investor profits/losses are not recognised on stocks and stock CFDs as these are hedged.

Stock trades performed through the MT5 trading platform are hedged by Halifax using the shares held in the IB Prop Account. When these trades made either a profit or loss, a similar result should also be recorded in the IB Prop Account.

Halifax also charges the Investor a commission in the MT4/MT5 platform, which is automatically deducted from the Investor's trading account. Finally, Halifax earns interest on Client Monies held in its trust accounts.

We understand that the original business model for MT4 and MT5 accounts anticipated that Investors would make losses over the course of their investment in the platform in relation to OTC products (i.e. where Halifax is the counterparty). The Director has indicated that it was assumed that the average investor would lose 68% over the course of their investment. This 68% loss would then translate to a profit for Halifax. In reality, our preliminary calculations have indicated that in the two years prior to the appointment of Administrators the win/loss ratio was substantially lower than 68%, impacting the overall profitability of the business.

It is also important to note that when determining the net asset position, the Accountants and the Director appear to have assumed that Investors would lose 68% on future trades, therefore reducing the requirement to hold sufficient cash and assets to cover the total equity position. A liquidator will need to consider further the appropriateness of this conduct.

3.5.2.2 Hedging providers

Halifax utilised Invast and Gain to place a hedge on positions for some MT4 and MT5 Investors. MT4 and MT5 Investors are characterised by Halifax's software as either an A-Book or B-Book investor summarised below:

Type of investor	Description	Example	Hedging
A-Book Investors	High risk Investors making substantial profits	Professional investor investing significant funds or an investor making significant gains	Hedged Replicate trade with external provider
B-Book Investors	Investors that are not classified as A-Book Investors	Investor make trades in foreign exchange, index CFDs, metal & commodities	Not hedged - Halifax does not execute trade but holds the cash and distributes the proceeds to the Investor dependent on the outcome of the trades

When hedging specific trades, the hedging providers specify a minimum collateral balance (dependant on the value of open positions) which Halifax would be required to be topped up on an as needs basis. Conversely, in circumstances where a profit was made on hedging, funds would be returned by the liquidity providers to Halifax.

In respect to stock and CFD trading, Halifax hedges the virtual trades on the MT5 platform through acquiring or selling stocks in the Company's account with IB called the IB Prop Account. Stocks acquired and held in the IB Prop Account are not in the name of the Investor but are held as a pool of stocks available to Halifax.

3.5.2.3 MT4 / MT5 Rebates

Rebates were also paid to introducing brokers that operate on the MT4 and MT5 platforms as detailed below:

Chinese based introducing brokers:

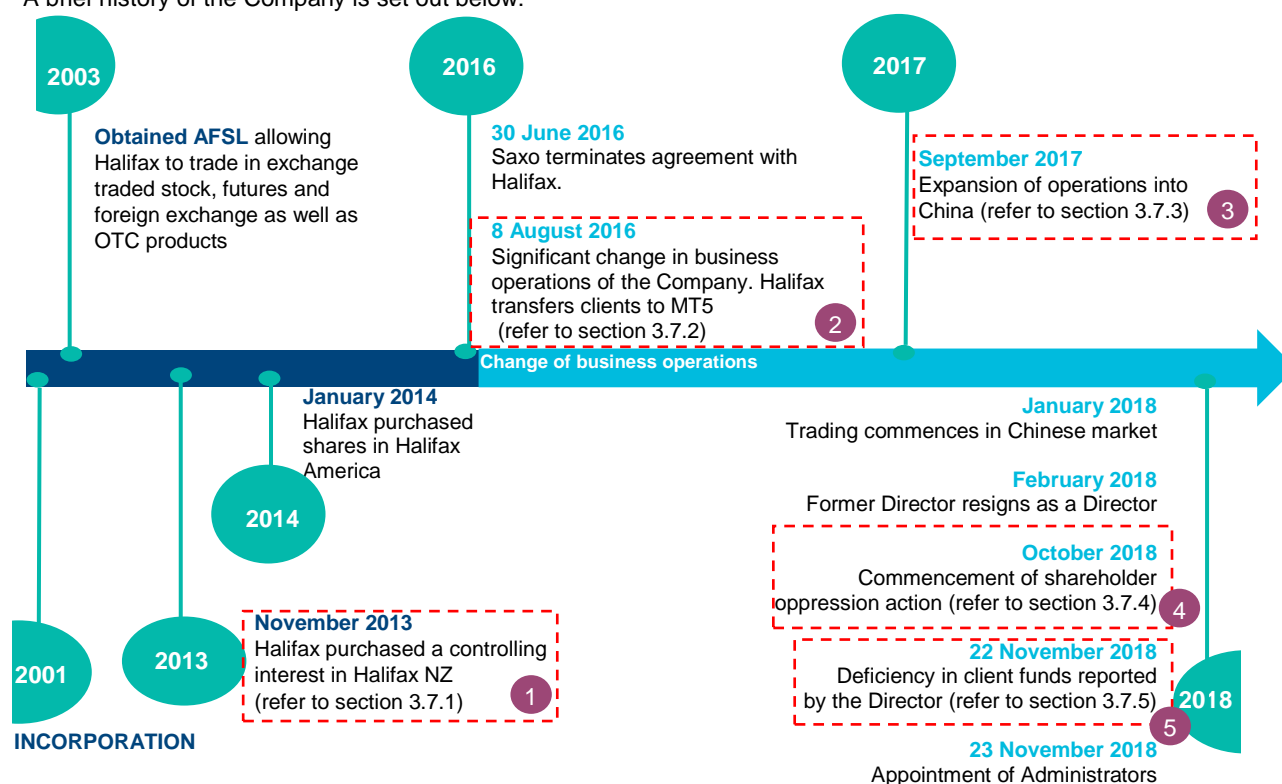
- Rebates are paid automatically through a cloud-based program called Leanwork on a dollar per trade basis regardless on whether the trade wins or loses, on the close out of a position.
- These commissions are credited to an introducing broker Client account that they hold with MT4 or MT5 instantaneously upon the Chinese Investor closing out their position.
- At this point there is no movement of cash, the MT4 or MT5 system is simply credited with virtual funds. The Investor's account is not debited for this commission.
- These rebates are converted to cash if the introducing broker requests a redemption from their Client account, similar to an investor redemption. Once a redemption is requested, the MT4 or MT5 account is reduced by the amount of redemption they seek, which is paid in cash out of one of the Client accounts.

All other introducing brokers:

- A notional commission rate to Halifax is calculated on both the buy and sell side of a transaction.
- The broker would then be entitled to rebates based on a percentage of this notional commission rate generally between 20% and 55%.
- The broker would then be presented with the amount they are owed for the prior month and invoice Halifax the amount they are owed. This invoice would then be paid via EFT.

3.6 Company history and events leading up to the administration

A brief history of the Company is set out below:



Source: Prepared by the Administrators based on investigations performed to date

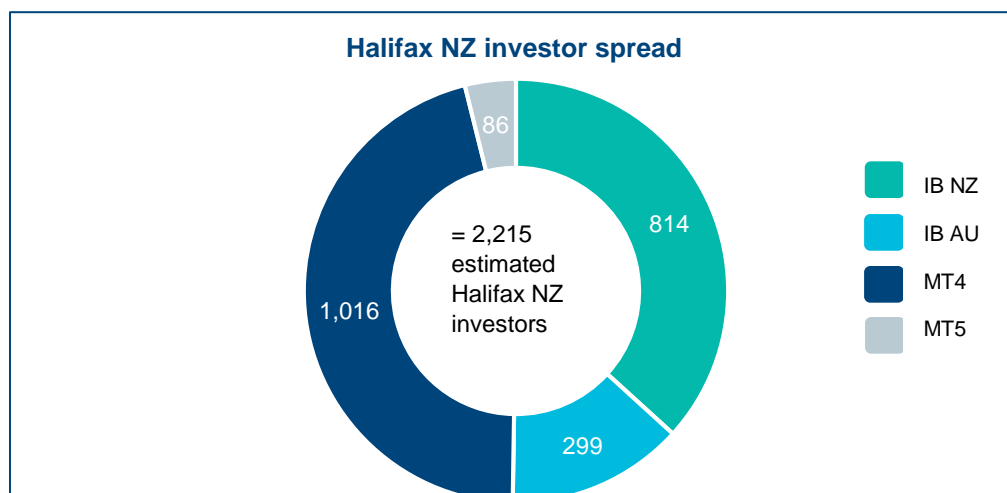
3.7 Key milestones

1 Halifax New Zealand – November 2013

In 2013, Halifax purchased a controlling interest in Halifax NZ (previously Strategic Capital Management which was established in 2008). Halifax NZ was dependent on financial support from Halifax and its treasury function is run out of Halifax.

The Halifax NZ head office is located in Auckland, New Zealand. Halifax NZ acts as an introducing broker to Halifax and is paid commissions on trades placed.

Although Halifax NZ Investors signed CSAs with Halifax NZ, it appears as though Clients of Halifax NZ were able to trade on all platforms held by Halifax and Halifax NZ. Halifax NZ Investors by number on each platform are as follows:



Source: Halifax NZ books and records

2 Termination of Saxo agreement – 30 June 2016

Saxo is an international white label trading platform covering FX, CFDs, stocks, futures and other derivatives. Halifax previously held a white label partnership with Saxo, whereby Saxo provided the Saxo Trader platform to Halifax Investors to trade from.

In late 2013, Saxo began to require that it hold Client Monies for white label partners to manage risk. We understand that Halifax was required to transfer Client Monies to ensure that Saxo held all Client Monies on a 1:1 basis.

At this time, Halifax also operated IB on a 1:1 basis, and only held minor funds with Gain and MT4 on a margin basis. As such, it appears Investor positions were largely backed by cash and assets at this point in time.

On 30 June 2016, Saxo terminated its agreement with Halifax with effect from 31 December 2016. At this stage, the reason for the termination is not known. The Director has outlined that the contract allowed for termination by Saxo without cause. The termination of the Saxo agreement resulted in the following at the time of migration:

- The transfer of investor data from the Saxo platform to a new virtual trading platform (MT5) to allow Investors to continue trading;
- Significant issues with the MT5 platform, in particular with its capabilities with trading stocks which may have contributed to continued reconciliation issues with Client accounts, in particular with the shares held in the IB Prop Account; and
- Numerous errors in the data transferred to MT5, particularly in relation to Client equity balances. The internal reporting during the period 1 July 2016 to 1 January 2017 appears to be limited.

We understand that the Director and Former Director considered commencing legal action in relation to the termination of the Saxo agreement, however decided not to proceed.

Our initial view is that as at 30 June 2016 (the date on which the Saxo agreement was terminated), it is likely that Halifax's Client positions were largely whole. A liquidator (if appointed) would need to conduct further analysis around what deficit, if any, there may have been at that time.

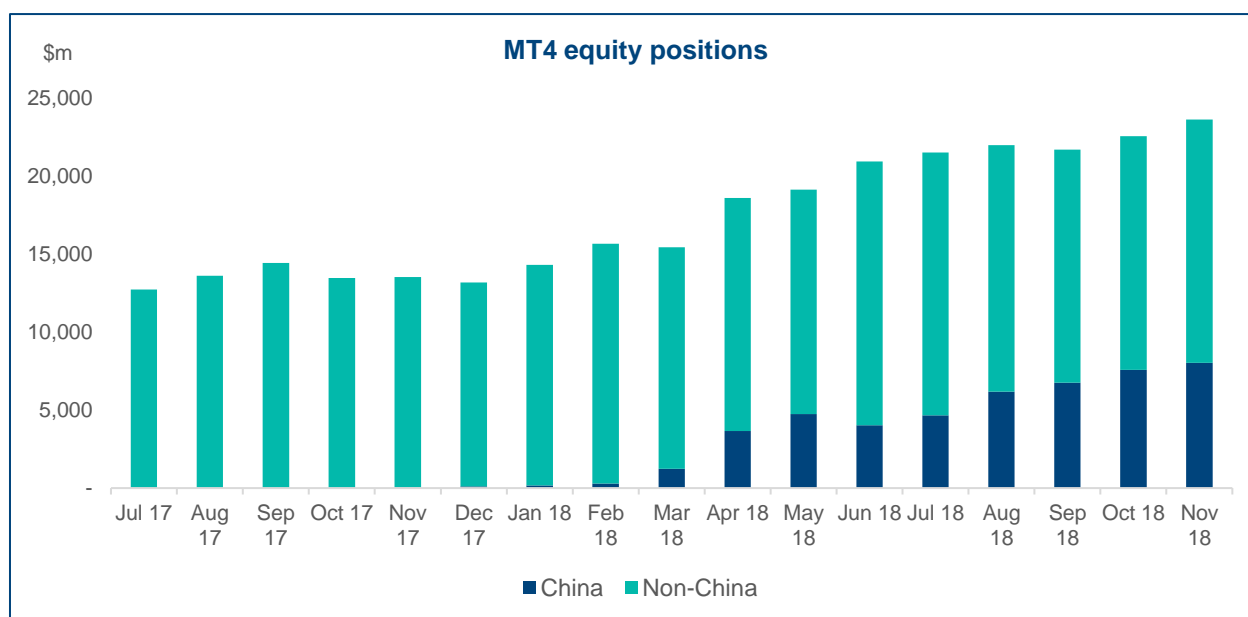
3 Expansion into Asia – September 2017

In September 2017, the Director and Former Director commenced the expansion of Halifax into China. To enable this venture, Halifax Asia (Hong Kong) was established in April 2018 for the purpose of opening and maintaining a bank account which could be utilised to collect Investor deposits. Most of these deposits would be paid into Halifax Trust Accounts or into an account held by Halifax Asia (Hong Kong). Halifax Shanghai, was incorporated to act as the interface between Chinese Clients and Halifax.

Halifax employed an employee in China from March 2018 to manage local staff and operations. We understand that Halifax Shanghai employed 12 employees who acted as introducing brokers to attract new business.

From our discussions with the Director, we understand that Halifax Asia performed below expectations from incorporation. The Director has attributed the expansion into China as one of the reasons for the failure of Halifax.

The following provides an illustration of the distribution of China and Non-China based investor equity positions across the MT4 platform:



4 Shareholder oppression action – 11 October 2018

We understand that on 11 October 2018 proceedings were commenced by Blunsdon Capital Management with respect to a shareholder oppression claim against the following entities and individuals:

- The Company;
- The Director;
- The Former Director;
- Hong Kong Capital Holdings Pty Ltd;
- Halifax Asia (Australia); and
- Australian Mutual Holdings Ltd

Following the Administrators' appointment, the proceedings against the Company have been stayed.

5 Deficiency in Client funds – 22 November 2018

The Director has advised that on 22 November 2018, he requested the Company's Accountants to prepare an updated position on whether Halifax held sufficient cash and stock in comparison to Client's equity positions utilising a different assumption regarding future investor losses. The Director has advised that he first became aware of a deficiency (estimated by the Director to be between \$2.24m to \$6.44m) in Client funds on 22 November 2018 and resolved to appoint Administrators on 23 November 2018. The circumstances around the deficiency are covered in **Section 12**.

3.8 Statutory information

Statutory details for the Company extracted from ASIC's national database at the time of our appointment are summarised below.

Halifax Investment Services Pty Ltd	
ACN	096 980 522
Incorporation date	30 May 2001
Registered address / principal place of business	Governor Phillip Tower, Level 49, 1 Farrer Place, Sydney NSW 2000

Source: ASIC

The Company's officers over the past 3 years were:

Name	Role	Appointment date	Resignation date
Jeffrey John Worboys	Director	9 March 2017	N/A
Matthew Barnett	Director	22 January 2007	28 February 2018
Andrew Baxter	Director	22 January 2007	24 March 2016

Source: ASIC and Annual Report

We note that Mr Worboys was also a director of Halifax from 30 May 2001 to 29 July 2016.

A search of the National Personal Insolvency Index maintained by the Australian Financial Security Authority shows that the Director is not bankrupt or subject to a Personal Insolvency Agreement under Part X.

The ASIC database discloses the Company's shareholders to be:

Registered Owner	Shares held	Description	Fully paid	Issued Capital %
Hong Kong Capital Holdings Pty Limited	388,827	Ordinary	Y	41
Blunsdon Capital Management Pty Ltd	171,362	Ordinary	Y	18
Jeffrey John Worboys	388,827	Ordinary	Y	41
Australian Executor Trustees Limited	2,750	Preference	Y	100

Source: ASIC

3.9 Registered security interests

The PPSR discloses that three parties held registered security interests on the PPSR as at the date of appointment. Details of the security interest holders are set out below:

Security interest holder	Date created	Type of security	Amount \$
Halifax Asia (Australia)	21 February 2018	Other goods	Unknown
	21 February 2018	Other goods	Unknown
	21 February 2018	Other goods	Unknown
Westpac Banking Corporation	24 December 2014	Motor vehicle	Unknown
	15 January 2016	Motor vehicle	80,020
National Australia Bank Limited	16 March 2015	Motor vehicle	-
Total			80,020

Source: PPSR searches undertaken in November 2018

The Administrators' preliminary investigation has identified the following:

Security interest holder	Type of security	Security Removed (Yes/No)	Administrator's Comments
Halifax Asia Australia	Other goods	Yes	<ul style="list-style-type: none"> These appear to be in relation to computer equipment. The Administrators have not sighted any security agreement with Halifax Asia (Australia). The Administrators requested Halifax Asia (Australia) to remove the PPS registrations. The PPS registrations have subsequently been removed.
	Other goods	Yes	
	Other goods	Yes	
Westpac Banking Corporation	Motor vehicle	Yes	<ul style="list-style-type: none"> These PPS registrations appear to be in relation to a Bentley and Maserati. It appears that the Bentley was paid out prior to our appointment and NAB has removed the registration with respect to the Bentley. Refer to Section 11.3.6 for further information. There was a finance agreement with Westpac with respect to a Maserati on appointment and the Administrators have disclaimed the Maserati on the basis that there was no equity in the vehicle.
	Motor vehicle	Yes	

			<ul style="list-style-type: none"> – Any payment made by Halifax with respect to this registration will be further investigated by a liquidator.
National Australia Bank Limited	Motor vehicle	Yes	<ul style="list-style-type: none"> – This PPS registration appears to be in relation to a Ferrari California. – It appears that the Ferrari California was paid out prior to the Administrators' appointment and NAB has removed the registration. – Any payment made by Halifax with respect to this registration will be further investigated by a liquidator.

Source: PPSR searches undertaken on 22 February 2019

3.10 Winding up applications

At the date of our appointment, there was no outstanding winding up application against the Company.

4 Funds Flow / Client Monies

This section of the Report provides an outline of how Investor funds flowed through the Halifax structure and the extensive co-mingling of funds across all three platforms in both the Australian and New Zealand business.

Key takeaways		Ref.
1	There is an estimated deficiency in investor funds across Australia and New Zealand as at 23 November 2018 of \$19.7 million (before costs), although that figure is subject to change with market movements post 23 November 2018	4.1.2
2	Halifax does not appear to have complied with the requirements under Section 981B of the Act to utilise Client funds only for the purposes provided for in the ASIC Client Money Reporting Rules	4.3.4
3	Halifax drew money from investor funds in excess of revenue earned in the amount of approximately \$12.8 million between January 2017 and November 2018 to meet operating expenses	4.3
4	While the IB platform may appear to be 'whole' in that it is fully funded, we have determined that Investor funds have been mixed or co-mingled in a way that affects the claims of all Investors on all three platforms in both the Australian and New Zealand businesses	4.2.6
5	In simple terms, it appears that funds invested by MT4 and MT5 Investors may have been used to 'top up' the accounts of IB Investors (and vice versa) in circumstances where Halifax had overdrawn Client Monies	4.4.2

4.1 Client Money Rules

4.1.1 Introduction to Client Money Rules

As an AFSL holder, Halifax was required to comply with the client money provisions contained in Division 2 of Part 7.8 of the Act (**the Client Money Rules**), the key aspects of which are as follows:

- Section 981A and 981B of the Act outline that, subject to certain exceptions, money received by an AFSL holder (such as Halifax) is required to be placed into a designated client trust account (a **Section 981B Account**).
- Section 981H provides that money held in a Section 981B Account is to be held by the AFSL holder on trust for clients and the monies held in Section 981B Accounts may only be paid out in certain specified circumstances.
- AFSL holders are also required to ensure that no other funds (other than client monies) are paid into a Section 981B Account.
- Funds held in Section 981B Accounts may only be used or withdrawn as provided for in the Client Money Rules.
- From April 2018, Halifax were required to submit monthly reconciliations of reportable Client monies to ASIC (Rule 2.2.2).

4.1.2 Introduction to deficiency

Our investigations to date indicate that there is a **deficiency in Investor funds held by the Halifax Group as at 23 November 2018 of \$19.7 million (before costs)**.

Our initial view as to the reasons for the shortfall are as follows:

- Use of Client Monies to fund operational losses; and

- Improper operation of trust accounts and improper application of Client funds.

We have raised this view with the Director who has highlighted that he disagrees that improper operation of trust accounts and improper application of Client funds is the reason for the shortfall.

Further information in relation to the causes of the deficiency is provided at **Section 12**.

4.1.3 Insolvency of an AFSL Holder

Regulation 7.8.03 of the Regulations deals with circumstances in which an AFSL holder is subject to a voluntary administration process. This regulation provides that in circumstances where Client money is held in a Section 981B trust account, investor funds are to be paid to each person entitled to be paid out of that account in accordance with their entitlement. In circumstances where there are insufficient funds with which to do so, Investors are to be paid out in proportion to their entitlement.

We have undertaken high level tracing of over 10,000 transactions between accounts in the Halifax Group structure. Based on our review, there appears to be no pattern behind the transfer of funds in Client accounts, funds appear to have been transferred between Client accounts on an 'as needs' basis and there appears to have been contraventions of the Client Money Rules.

On this basis, Client funds may have been comingled extensively between the IB and the MT4/MT5 platforms, as well as between Australian and New Zealand Investors. Distributing funds in the way contemplated by Regulation 7.8.03 may not be possible. Rather, it appears the pooling together of all investor positions (or consideration of a series of pools) and then, so far as possible, distributing funds in proportion to investor entitlements may be more appropriate. **Ultimately, this will be determined by the Court in due course.**

4.2 Funds Flow

4.2.1 Summary of bank accounts

The following table provides a summary of the main bank accounts operated by Halifax.

Name	Description
Halifax Investment Services Pty Ltd (NAB Company Account)	Company bank account
Halifax Grouped Account (Bankwest Grouped Account)	Company bank account that contains interest on all Bankwest accounts
IB Suspense (s981B trust account) (IB Suspense Account)	IB Investors deposit funds into this account which is then swept on a daily basis to IB Allocated Account
BWA Halifax Pro Suspense (s981B trust account) (Halifax Pro Suspense Account)	When using MT4 and MT5 platforms, Investors deposit funds into this account which is then swept on a daily basis to the Halifax Pro Allocated Account
IB Allocated (s981B trust account) (IB Allocated Account)	The funds in the IB Suspense Account are transferred to this account once the deposit has been allocated to an individual investor
BWA Halifax Pro (s981B trust account) (Halifax Pro Allocated Account)	The funds in the Halifax Pro Suspense Account flow to this account once the deposit has been allocated to an individual Investor

NAB Foreign Currency Accounts (s981B trust accounts) (Various Foreign Currency Accounts)	Foreign currency accounts to which Investors from all three platforms deposited funds directly
BWA Merchant Account	Account to which Investors on IB and MT4/MT5 deposited funds via credit card
ANZ HNZ Bank account (trust) (ANZ HNZ Account)	Used for New Zealand Investor deposits (in NZD) and redemptions for the Halifax NZ IB account. Also used for New Zealand Investors on the Halifax IB account and MT4/MT5.
ANZ Foreign Currency Accounts (NZ)	Used for New Zealand Investors depositing foreign currency to trade on IB, MT4 and MT5

4.2.2 Funds Flow process

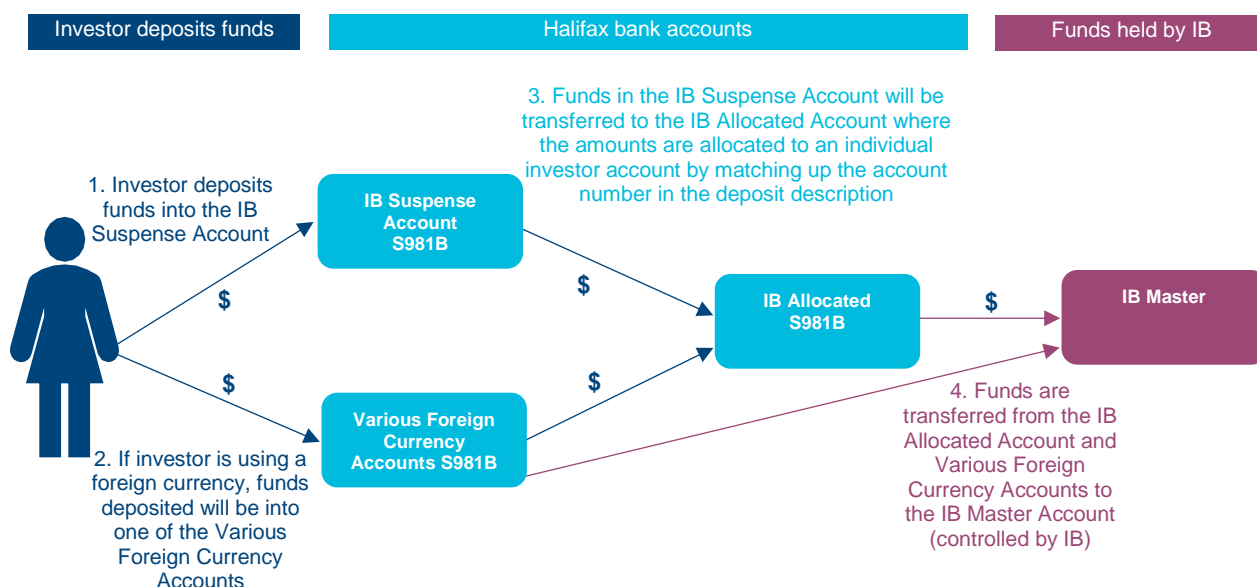
We have prepared an analysis of the funds flow process on the MT4, MT5 and IB platforms. Attached as **Annexure H** is a series of diagrams which represent (at a high level) the funds flow process and co-mingling of funds.

Our analysis indicates that while the IB platform may appear 'whole' in that it is fully funded, we have determined that **investor funds have been mixed or co-mingled in a way that appears to affect the claims of all Investors on all three platforms in both the Australian and New Zealand businesses.**

We note that this is a preliminary view only based on work completed to date.

4.2.3 Flow of investor funds – IB Platform

In relation to the deposit of funds onto the IB platform, we understand the following process **should** have occurred:



Source: Prepared by the Administrators based on Company books and records

However, in practice, we understand the following occurred:

	Process	Compliant	Issue
1	Investors deposit funds into the IB Suspense Account	✓	
2	Investors also deposit into Foreign Currency Accounts and the BWA Merchant Account (which also contain funds deposited by MT4 and MT5 investors)	✗	Operating expenses were paid directly from the Various Foreign Currency Accounts. Co-mingling of monies deposited by MT4 and MT5 Investors.
3	Funds would be transferred from the IB Suspense Account to the IB Allocated Account	✓	
4	Funds are <u>not</u> transferred from the Various Foreign Currency Accounts to the IB Allocated Account.	✗	Funds remain in Various Foreign Currency Accounts and are co-mingled with funds deposited by MT4/MT5 Investors
5	Funds in the IB Allocated Account and Various Foreign Currency Accounts were paid to the IB Master Account on an as needs basis.	✗	This resulted in a surplus of funds being held in the IB Master Account at all times. Accordingly, it is not possible to trace individual deposits to the IB Suspense Account through to payments to the IB Master Account.
6	We understand that there were significant movements of funds between the IB Allocated Account and the Halifax Pro Allocated Account.	✗	We are unable to trace investor deposits into IB Allocated Accounts to payments to IB Master Account. Payments between IB Allocated Account and Halifax Pro Allocated Account indicate a mingling of funds between Investors on all three platforms.

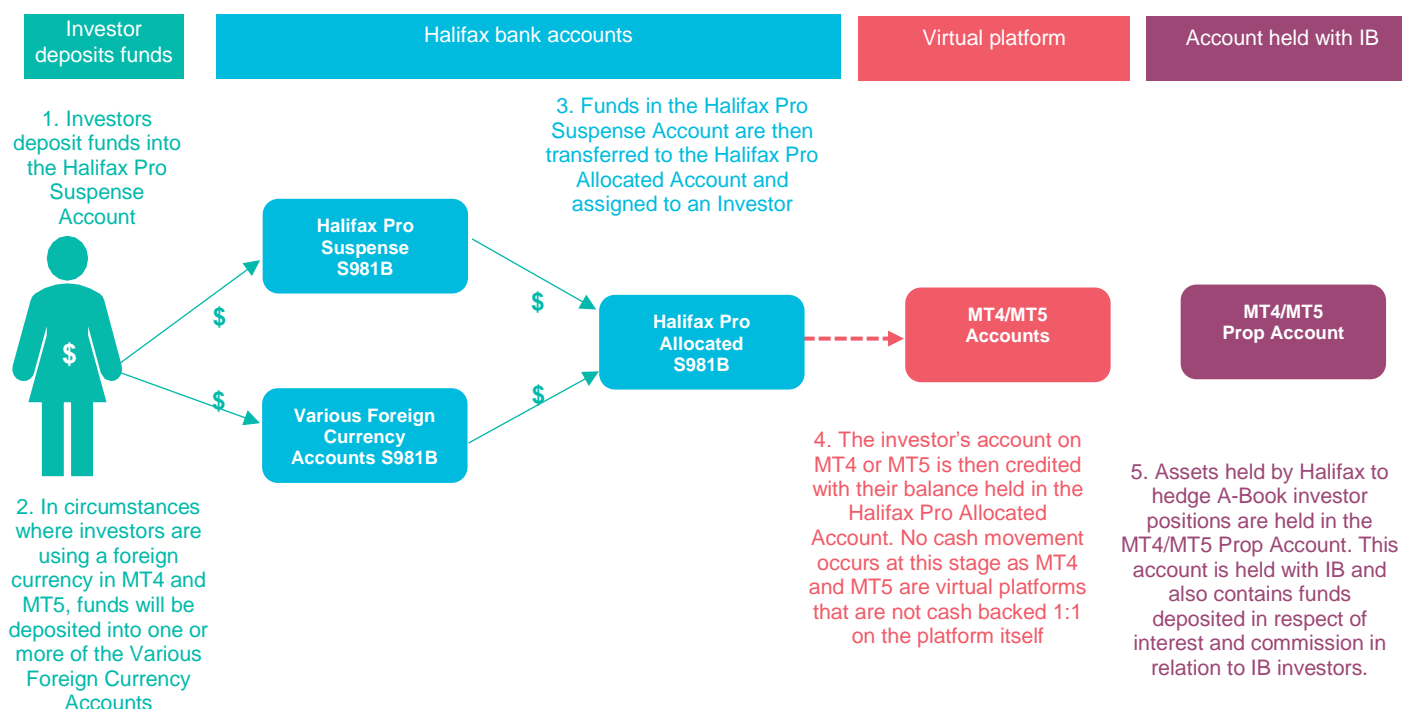
Key points:

- Halifax maintained a surplus of funds in the IB Master Account at all times. This in effect prevents the tracing of individual investor deposits through to the IB Master Account.
- Expenses were paid directly from the Various Foreign Currency Accounts.
- Expenses were paid from the IB Allocated Account to the Bankwest Grouped Account and then to the relevant supplier. The amounts transferred from the IB Allocated Account in this regard were for the exact dollar amount of individual invoices.

A graphical representation of the above is attached as **Annexure H**.

4.2.4 Flow of investor funds – MT4 / MT5

In relation to the deposit of funds into the MT4 and MT5 platforms, we understand the following process **should** have occurred.



Source: Prepared by the Administrators based on Company books and records

However, in practice, we understand the following occurred:

	Process	Compliant	Issue
1	Investors deposit funds into the Halifax Pro Suspense Account.	✓	
2	Investors also deposit into the Various Foreign Currency Accounts and the BWA Merchant Account (contain funds deposited by IB investors)	✗	Operating Expenses were paid directly from the Various Foreign Currency Accounts. Co-mingling of monies deposited by IB Investors
3	Funds would be transferred from the Halifax Pro Suspense Account to the Halifax Pro Allocated Account.	✓	
4	Funds would not be transferred from the Various Foreign Currency Accounts to the Halifax Pro Allocated Account.	✗	Funds remain in Various Foreign Currency Accounts and are co-mingled with funds deposited by IB Investors. It would have been best practice to hold funds deposited in the Various Foreign Currency Accounts in segregated accounts.
5	The Investor's account on MT4 or MT5 is then credited with their balance held in the Halifax Pro Allocated Account. No cash movement occurs at this stage as MT4 and MT5 are virtual platforms that are not cash backed 1:1 on the platform itself.	✓	
6	On occasion, funds would be transferred from the Halifax Pro Allocated Account to the IB Allocated Account and vice versa. We understand from discussions with Management and the Treasury that this occurred when funds were required in either of the allocated accounts.	✗	This conduct indicates co-mingling of IB and MT4/MT5 Investor funds at the Allocated account level.

Key points:

- Expenses were paid directly from the Various Foreign Currency Accounts.
- Expenses were paid from the Halifax Pro Allocated Account to a company account and then to the relevant supplier. The amounts transferred from the Halifax Pro Allocated Account in this regard were for the exact dollar amount of individual invoices.

In addition to the above, Halifax operated an account called the IB Prop Account. We understand the following in relation to this account:

- This account held shares used for hedging positions on the MT5 platform; and
- Commissions and interest earned from Investors on the IB platform were deposited (by IB) into the IB Prop Account.

It appears that funds deposited by IB and MT4/MT5 Investors were co-mingled with funds in the IB Prop Account.

A graphical representation of the above is attached as **Annexure H**.

4.2.5 Redemptions

Where an investor requests their funds to be transferred back to their personal bank account, transfers occur out of the following accounts:

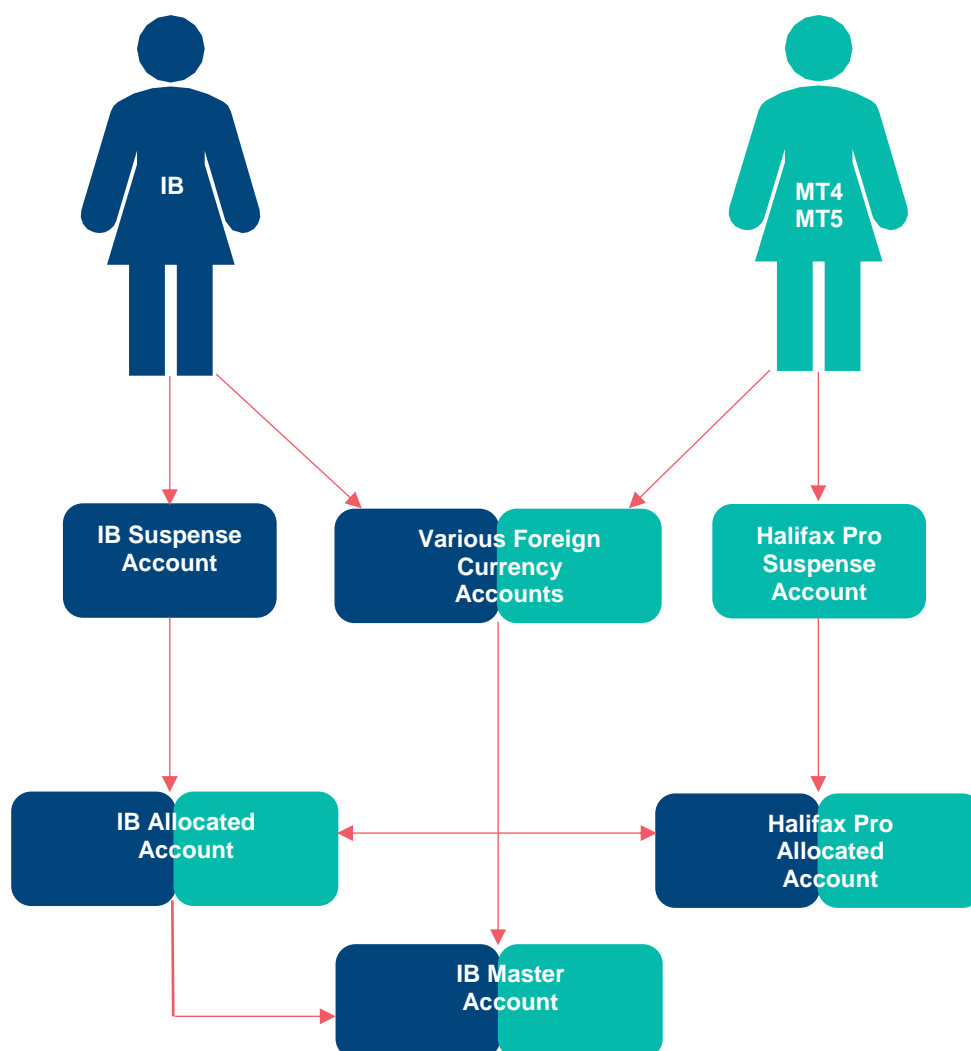
- IB Allocated Account – (IB Investors);
- Halifax Pro Allocated Account (MT4 or MT5 Investors); and
- Various Foreign Currency Accounts – (withdrawal of funds in a foreign currency for IB and MT4/MT5 Investors).

4.2.6 Co-mingling example – IB/MT4/MT5

An example of how funds from IB and MT4/MT5 Investors have been co-mingled is as follows:

- IB Investors would deposit funds either into the IB Suspense Account or the Various Foreign Currency Accounts.
- Funds in the IB Suspense Account would be deposited to the IB Allocated account and then onto the IB Master Account as needed. Funds in the Various Foreign Currency Accounts would be paid directly to the IB Master Account or remain in the Various Foreign Currency Accounts.
- MT4/MT5 Investors would deposit funds into the Halifax Pro Suspense Account or the Various Foreign Currency Accounts.
- The IB Allocated Account would receive and pay funds to the Halifax Pro Allocated Account, resulting in a mix of funds between MT4/M5 and IB Investors.

The above process is presented diagrammatically as follows, blue and green boxes indicate accounts in which a comingling of funds on the IB and MT4/MT5 platforms has occurred.



Source: Prepared by the Administrators based on Company books and records

4.2.7 Co-mingling example – Australia / New Zealand

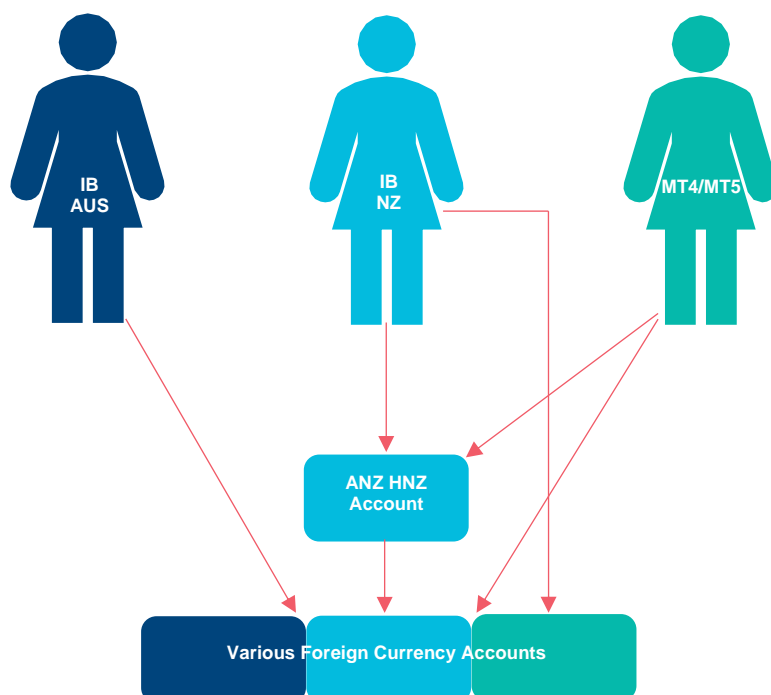
It appears as though funds from New Zealand Investors have been mixed with funds from Australian Investors and as such, it is not possible to distinguish investor funds in this regard.

An example of how funds from New Zealand Investors were co-mingled with Halifax Investors is as follows:

- Investors that deposited funds to the Halifax AU IB Platform would deposit funds either into the IB Suspense Account (for AUD) or the Various Foreign Currency Accounts (for NZD or other).
- Investors that utilise MT4/MT5 would deposit funds into the Halifax Allocated Account, the Halifax New Zealand ANZ trust account or to the Various Foreign Currency Accounts.
- NZ IB Investors would deposit funds into either the ANZ HNZ trust account or to the Various Foreign Currency Accounts.

- On this basis, funds deposited by Investors of Halifax and Halifax NZ were co-mingled in the Various Foreign Currency Accounts.

The above process is presented diagrammatically as follows, blue and green boxes indicate accounts in which a comingling of funds on the IB AUS, IB NZ and MT4/MT5 platforms has occurred.



On this basis, funds from Australian and New Zealand Investors are comingled in the Various Foreign Currency Accounts. Further, funds deposited by Investors on the MT4 and MT5 platform by New Zealand Investors are comingled in the NZ Trust Accounts.

4.3 Payment of revenue and expenses

We understand the following in relation to the receipt of revenue and payment of expenses:

- From April 2018, approximately \$4.8 million of funds were advanced to the NAB Company Account in advance of revenue earned and approximately \$7.4 million of Operating Expenses were paid from the Various Foreign Currency Accounts (which held Investor funds and were designated Section 981B Accounts).
- **Halifax utilised approximately \$12.8m of Client Monies between January 2017 and November 2018 to pay various Operating Expenses or revenue in advance** from the Various Foreign Currency Accounts and other Section 981B trust accounts.
- The majority of supplier payments were made from the IB Allocated and Halifax Pro Allocated accounts listed above to a company transaction account and then to the third-party suppliers. The majority of the transfers from the allocated accounts were exactly equal to the amount of the relevant supplier invoice.
- From March 2018, operating expenses / working capital payments were paid predominantly from the Various Foreign Currency Accounts.

4.3.1 Use of funds in Client trust accounts

The Regulations specify the following types of payments that may be made from an account under Section 981B:

Payment Type	Reference
A payment to, or in accordance with the written direction of, a person entitled to the money	7.8.02(1)(a)
A payment to defray brokerage and other proper charges	7.8.02(1)(b)
A payment to the financial services licensee of money to which the financial services licensee is entitled	7.8.02(1)(c)
A payment that is otherwise authorised by law	7.8.02(1)(e)
A payment to the financial services licensee of money to which the financial services licensee is entitled pursuant to the Market Integrity Rules or the operating of rules of a licensed financial market	7.8.02(1)(f)
A payment made with the client's prior written agreement or written consent into certain permitted types of investments.	7.8.02(2)&(3)

4.3.2 Use of funds in IB Allocated Account (Section 981B trust account)

The following table provides a summary of the use of funds from the IB Allocated Account during the period 3 January 2017 to 23 November 2018. It is important to note that this analysis has been prepared having regard to descriptions included in the Company's accounting ledger which may not be accurate and comprehensive. Further investigation of these transactions would need to be conducted to confirm the analysis below:

Recipient	Permitted under Regulation 7.8.02
Investor deposits	✓
Investor redemptions	✓
Transfers to Halifax Pro Allocated Account	✗
Halifax NZ	✗
Revenue drawn in advance	✗
Transfer to Halifax NAB Account	Unknown

Key points:

- Funds were transferred from the IB Allocated Account (allocated account for IB Investors) to the Halifax Pro Allocated Account (allocated account for MT4/MT5 Investors).
- Funds from the IB Allocated Account were also transferred to Halifax NZ.

The above appears to indicate a breach of the Client Money Rules on the basis that the transfer of funds between these accounts would not fall into the permitted categories as outlined in Regulation 7.8.02 outlined in **Section 4.3.1**.

4.3.3 Use of funds in NAB USD Account (a designated Section 981B trust account)

The following table provides a summary of the use of funds from the NAB USD Account during the period 16 April 2018 to 23 November 2018. It is important to note that this analysis has been prepared having regard to descriptions

included in the NAB USD bank statements which may not be comprehensive. Further investigation of these transactions would need to be conducted to confirm the analysis below:

Recipient	Permitted under Regulation 7.8.02
Redemptions	✓
Investor transfers	✓
Halifax Asia	✗
Halifax America LLC	✗
AMH	✗
Other	✗

Key points:

- Monies were paid from the NAB USD Account to fund the establishment of the Halifax Asia business and pay ongoing expenses;
- A payment of \$40,200 to Halifax America (a related entity, controlled by the Director) on 23 November 2018; and
- Monies were paid from the NAB USD Account to AMH (a related entity, controlled by the Director).

Our analysis also indicates that the NAB USD Account received \$24.1 million of investor deposits while only \$12 million was credited to an allocated account for the IB, MT4 or MT5 platforms. The significant variance between funds received and funds credited to allocated accounts demonstrated an inconsistency with the way in which investor deposits should have been accounted for.

4.3.4 Summary of potential breaches of Client Money Rules

Our investigations indicate that Halifax may have failed to comply with its obligation to hold Client Monies in Section 981B accounts for the following reasons:

- Operating Expenses were paid directly from Section 981B Accounts.
- We have identified transactions between the s981B Accounts which held funds which were from IB Investors (the IB Allocated Account) and funds from MT4/MT5 Investors (the Halifax Pro Allocated Account).
- Funds from multiple platforms were paid into the same Section 981B trust account, demonstrating no segregation of Client funds.
- Revenue advances were paid into the Company NAB Account in excess of the revenue earned by Halifax, resulting in an overdrawing of Client funds.
- Rule 2.2.2 was not complied with on the basis that the Client Monies reports submitted to ASIC appears to have overstated the position of the Section 981B Accounts and no deficiency was reported in this regard.

The above does not represent a comprehensive list of potential breaches of the Client Money Rules and further investigation is required in this regard.

4.4 Funds Tracing

4.4.1 Tracing undertaken to date

We have undertaken the following work in relation to the tracing of investor funds through the Halifax account structure:

- High level review of transactions in the BankWest accounts for the 6 months prior to the appointment of the Administrators (4,900 transactions);
- High level review of transactions in the NAB foreign currency bank accounts for the 2 years prior to the appointment of the Administrators (4,500+ transactions);

- Review of transactions between the Halifax NZ IB and Halifax IB Allocated Accounts for the 3 years prior to the appointment of Administrators;
- Review of all transactions to and from the IB Allocated and Halifax Pro Accounts in order to ascertain the quantum and volume of transactions in which funds sitting on the IB and MT4/MT5 platforms have been co-mingled; and
- Reviewed timing of transactions into IB Allocated Account and Various Foreign Currency Accounts to identify whether the IB Platform was credited on the same day.

Based on our review of transactions, and our interviews with the Halifax Treasury Team, our work has indicated that:

- There is no pattern behind the transfer of funds between Client accounts (i.e. frequency, where funds were directed to, purpose of transfers);
- Funds appear to have been transferred on an 'as needs' basis;
- Halifax made transfers to maintain a balance of funds in various Client accounts (effectively running accounts on a co-mingled basis); and
- There appear to be substantial contraventions of Client Money Rules.

4.4.2 Funds tracing – IB Allocated (IB) and Halifax Pro (MT4/MT5)

In relation to the IB platform, we note the following:

- The IB platform is backed 1:1 with funds held with IB. IB Investors may be of the view that their positions are 'whole' given that they are able to view cash and/or stock in their accounts.
- We note however that while this may be the case, the IB platform only appears whole due to the fact that funds from MT4 and MT5 Investors which had been deposited in the Halifax Pro Allocated Account may have been transferred to the IB Allocated Account to effectively 'plug the gap' in investor funds, and vice versa.
- This has been able to occur on the basis that there is no requirement for the MT4 and MT5 platforms to be backed 1:1 by Halifax.

Our initial investigations indicate there have been **125 transactions** between the IB Allocated and the Halifax Pro Allocated Accounts from February 2016 to 23 November 2018. We are of the view (at this stage) that transfers between these two accounts constitute one of the key ways in which funds on the IB and MT4/MT5 platform are co-mingled.

Our initial investigations indicate that there was a net estimated movement of **\$25.5** million from the IB Allocated Account to the Halifax Pro Allocated Account. This movement indicates that Client Monies on the MT4 and MT5 platform were 'topped up' on an as needs basis.

We shortly intend to commence a more detailed tracing exercise whereby an analysis of transfers between all Halifax accounts is prepared. This will be presented to the Court to assist with its determination as to whether a pooling order is appropriate or not. See further details in **Section 5**.

4.4.3 Various Foreign Currency Accounts

Our tracing work in relation to the Various Foreign Currency Accounts indicates that:

- Foreign currency funds across all three platforms (IB, MT4 and MT5) were deposited into one set of foreign currency accounts – there is no segregation of foreign currency accounts by platform.
- Foreign currency accounts were used to pay operating expenses that were incurred by the Company. For example, certain platform providers issued invoices in USD, and these invoices were paid by the Company from foreign currency accounts (which were designated as Section 981B Accounts which contained Client Monies).
- Halifax also made payments from foreign currency accounts to fund hedging activities with Invast and Gain.
- From a tracing perspective, the operations of the Various Foreign Currency Accounts create challenges as:

- A deficit in funds was created via the payment of the Company expenses from these accounts; and
- Funds were mixed across platforms, with the deficit likely mixed across platforms.

4.4.4 Tracing of investor deposits into IB Master Account

We have also undertaken a tracing exercise of a sample period of one month to determine whether there is a determinable pattern of the crediting of Client accounts on the IB platform following the transfer of investor funds to the IB Suspense account.

In relation to the IB Master Account, we understand the following:

- Funds were transferred from the IB Allocated Account to the IB Master Account on an as needs basis;
- A surplus of approximately \$250,000 was maintained in the IB Master Account;
- When this balance began to decrease, it would be topped up using funds from the Halifax Pro Account; and
- It is not possible to trace individual investor deposits through to the IB Master Account given the transfers from the IB Allocated to the IB Master Accounts were made in round sums and on an ad hoc basis.

4.4.5 Tracing of funds paid to Halifax Asia

We have undertaken a review of funds paid from Halifax to Halifax Asia (Hong Kong), our initial views are as follows:

- A total of \$5.7 million was paid to Halifax Asia (Hong Kong) from July 2017 to 23 November 2018.
- These funds were used by Halifax Asia (Hong Kong) to pay Operational Expenses and Investor redemptions.
- The bank statements in the name of Halifax Asia (Hong Kong) indicates that a number of large payments were made to overseas entities. Based on our review, these payments relate to amounts paid to merchant providers in relation to Client redemptions.
- The redemption process for Chinese Investors is as follows:
 - Clients request redemption.
 - Halifax processes a bulk payment of redemptions and pays the total to a third party.
 - The third party then distributes the redemptions to Investors as instructed by the Halifax Treasury Team.
- To verify this process, we requested that the Halifax Treasury Team provide a pack of documents for the 10 largest redemptions in the six months leading up to appointment (including the initial email request and documents provided to third party for payment). We have verified these documents against the source data available and have not identified any discrepancies.
- Based on our review, the large payments to overseas entities constitute legitimate redemption payments.
- We are not in possession of any information which would indicate that these payments did not relate to genuine redemptions.
- Further investigations are required (by a liquidator, if appointed) to verify a larger sample of redemptions to confirm our views in this regard.

4.4.6 Conclusion

To confirm our views outlined above, further tracing work will be required to be carried out, specifically in relation to:

- Investor deposits through the IB account structure to determine whether a pattern can be identified; and
- A comprehensive tracing of all payments made from all Halifax accounts from 1 January 2017.

Having regard to the preliminary tracing work we have undertaken to date, and our analysis of the flow of funds through the Halifax account structure, we are of the view that investor funds are comingled in a way that affects the claims of all Investors on all three platforms in both the Australian and New Zealand businesses.

There may, however, be a small number of Investors who may constitute 'pools' of Investors whose funds are able to be traced. These pools may include:

- Investors who held funds in IB prior the migration to Saxo in 2016 and whose accounts have not been effected by the co-mingling. In these circumstances, it may be that a portion of an individual investor's account may not be affected while another portion is.
- Investors who had funds sitting in the suspense or unallocated bank accounts as at the date of appointment.

We note however that this is a preliminary view only and we will be required to seek directions from the Court in relation to the sufficiency of our tracing work.

5 Legal issues / Litigation Strategy

This section provides a summary of legal questions presented on this matter.

Key takeaways		Ref.
1	It may be appropriate that Investors are pooled together in the context of determining the entitlements of individuals to trust monies	5.2
2	It appears that the appointment date of 23 November 2018 is likely to be accepted by the Court as the appropriate date for the crystallising the value of investor claims	5.4
3	Our investigations to date indicate that, absent significant recoveries elsewhere, it may be necessary for the Administrators to seek an order of the Court that their remuneration and the costs and expenses incurred in determining Client entitlements to trust monies are met from the funds held in the trust accounts	5.6
4	It will be necessary for the Administrators to apply to the Court to seek orders and directions in relation to: <ul style="list-style-type: none"> — Client entitlements to trust funds and proceeds realised from investments; — Payment of the Administrators' (and any liquidators') remuneration, costs and expenses from trust monies; — How the money in various Client accounts and different product lines should be treated; and — The ultimate distribution of funds. 	5.7
5	Clients and other interested parties will be given an opportunity to be represented and have submissions made on their behalf in an application to the Court	5.7
6	The Administrators will explore the potential for any interim distribution to Investors however it is not expected that this would occur prior to initial court applications being commenced, heard and determined	5.8

5.1 Introduction

The Administrators have considered the many complex legal questions presented by this matter, and outline below some of the key questions to be determined by the Court.

We anticipate that an application to determine the appropriate way to deal with and distribute trust funds to Investors will be made within 60 days of the Company being placed into liquidation.

5.2 Pooling

In the previous decision of MF Global, it was decided that the starting position is that Regulation 7.8.03(6) of the Regulations is to be applied to each Section 981B trust account on the basis that funds are to be paid to those who have an entitlement to funds held in that account.

That decision, however, does not prevent the Court from directing that pooling is appropriate in a particular circumstance. As explained in the BBY decisions, pooling may be directed where the identification and tracing of the interests of individual Clients is not reasonably and economically practical, in particular if the funds are regarded as “irreversibly deficient and mixed”. In that circumstance, accounts are pooled in a way which treats the entitlement of each Client as identical. The effect of pooling may often be to treat each Client as having a “rateably equal” interest in each fund within the pool. However, that will only be warranted when the funds have become so intertwined that each Client’s entitlement may reasonably be regarded as identical. Whether each Client should be regarded as having a

rateably equal interest in the overall pool, depends on the whole of the evidence of the manner of mixing, the extent of the deficiency, the relative sizes of the funds and so on.

Further enquiries need to be undertaken to ascertain the nature and extent of any pooling which might be regarded as appropriate here. For example, but without being exhaustive, pooling may potentially be viewed as being appropriate in respect of the mixing between funds on the IB Allocated and Halifax Pro Allocated Accounts.

Our investigations indicate that there have been transfers of funds between Client accounts which have meant that the IB Allocated Account and IB Master Account have higher balances than they should have had, by reason that these accounts have received funds sourced from MT4/MT5 Investors and transferred via the Halifax Pro Allocated Account.

While we do not presume to conclude as to what the Court will decide, it may be the case that the appropriate outcome is that certain Investors or classes of Investors are pooled together in the context of determining the entitlements of individuals to trust monies.

5.3 Conversion of foreign currency to AUD

The Company held in Client trust accounts a variety of different currencies, including US Dollars, Hong Kong dollars, Euros, Great Britain Pounds, Japanese Yen, Singapore Dollars, Chinese Yuan and New Zealand Dollars.

In the event there is some form of pooling ordered by the Court, it may be that the only method by which the pooling can practically be achieved is (at least notionally) to convert the relevant foreign currency balances into Australian dollars. In the MF Global case, an actual conversion of foreign currency to Australian dollars, prior to distribution, was ordered.

5.4 Calculation of entitlements

The recent decision in *BBY* suggests that it is preferable to use consistent data for ascertaining Client entitlements, and that the starting point is that the date of the appointment of administrators is the appropriate date at which to calculate entitlements. There is thus a strong argument in support of the position that all Clients' entitlements should be valued as at the time the Administrators were appointed to the Company.

Such a position is somewhat complicated where Client positions remained open on the appointment date. In such circumstances, it may be appropriate to determine the value of the positions by reference to the value of those positions when closed out.

The calculation of such entitlements is not straightforward and the approach to be taken in relation to such open positions will depend on a number of factors, including:

- Whether it is reasonably practicable to carry out a calculation of the value, as at the appointment date, of positions which were open on the appointment date but which were closed out subsequently; and
- Whether it is the position that the value of all of the open positions on the date when they are closed out will be viewed to be the best available, and the most reasonable, value to be given to those positions as at the appointment date.

It appears that it is reasonably practicable to carry out a calculation of the value, as at the appointment date, of positions which were open on the appointment date but which were closed out subsequently. Accordingly, it appears that the appointment date of 23 November 2018 is likely to be accepted by the Court as the appropriate date for crystallising the value of all investments.

5.5 Accounts with minimal balances

For a Client with a minimal balance and entitlement, it is necessary to have regard to such a claim and determine the Client's entitlement, subject to an order of the Court.

An issue with minimal balances is that the costs of determining the amount of the entitlement are likely to far exceed the amount to be paid to the Client. Such a process would potentially deplete the monies available for other Clients and result in an outcome that is unfair to those other Clients.

In respect of any such minimal balances, the Administrators may make an application to the Court to the effect that there is to be no distribution to Clients where the costs associated with determining and processing payment would exceed the amount to be paid to the Client. If such an application is made, careful consideration will need to be given as to where the line is to be drawn.

5.6 Costs of the Administration and remuneration of the Administrators

The Administrators are a trustee in respect of Client segregated monies that clients are entitled to. As trustee, the Administrators are not entitled to withdraw any money from the Client segregated monies and trust accounts in respect of their costs of administering the client monies without an order to that effect.

To date the Administrators have not withdrawn any amount from the trust monies in respect of costs or remuneration.

If there are sufficient non-trust monies available to fund the investigation and reconciliation of the Client segregated monies and trust accounts and any associated Court application, the Administrators may seek to use those non-trust monies to fund that exercise. Our investigations to date indicate that, absent significant recoveries elsewhere, it will be necessary for the Administrators to seek an order of the Court that their remuneration and the costs and expenses incurred in the exercise of determining Client entitlements to trust monies are met from the funds held in the trust accounts.

5.7 Court application

Due to Client Monies being held on trust and the complexity of the issues being faced, it will be necessary for the Administrators to apply to Court and seek orders and directions in relation to:

- Client entitlements to trust funds and proceeds realised from investments;
- Payment of the Administrators' (and any liquidators') remuneration, costs and expenses from trust monies;
- How the money in various Client accounts and different product lines should be treated; and
- The ultimate distribution of funds.

Clients and other interested parties will be given an opportunity to be represented and have submissions made on their behalf in such an application to Court and it will be the Court that will ultimately determine the matter. All Clients and creditors will be informed of the Court application and the orders being sought as well as any orders that are ultimately made by the Court.

5.8 Interim distribution

We expect that the process of dealing with Client monies will take many months. The issues are complex, with required steps including recovering any outstanding Client funds, reconciling Client positions, determining the appropriate approach to deal with claims of Clients, determining the appropriate approach to deal with claims of creditors and making applications to Court. The process of making an application to the Court and of the Court deciding the application, particularly if there is a contest between various parties, may be quite lengthy.

In addition to dealing with those issues, further investigations will be undertaken by the Administrators and, if appropriate, actions commenced in an attempt to obtain recoveries if the Company is placed into the liquidation.

During this time the Administrators will explore the potential for any interim distribution to investor clients. However, due to the complexity of the issues and the need for Court directions on a number of issues, it is not expected that any interim distribution will be made prior to initial Court applications being commenced, heard and determined.

It is anticipated that an application will be filed with the Court within 60 days of the Company being placed in liquidation. The estimated date by when that application will be finally determined is difficult to predict and will depend on a number of variables, including the availability of the Court and the extent of matters that may be raised by various parties. We do not anticipate the application will be determined any earlier than 6-12 months after being commenced and it may take substantially longer than that to be finalised, as actions and claims by and against extant parties can impact on the timing significantly. For example, BBY Limited has taken considerably longer than that period of time to be determined (and is still ongoing in respect of certain matters).

6 Historical financial position

This section provides a summary of the financial performance of Halifax. From the records available to us, it appears that the Audited Accounts and Xero software may not accurately reflect the Company's financial position, since at least January 2017.

Key takeaways		Ref.
1	In our preliminary opinion, the Audited Accounts appear to be inaccurate and may not reflect the financial position of the Company from at least January 2017.	6.1
2	The books and records available to us do not appear to be maintained in accordance with Section 286 of the Act from at least 1 January 2017.	6.1.1
3	It appears that the Operating Expenses paid from the Various Foreign Currency Accounts and other accounts operated by the Company are not captured in the Xero software and may be understated by up to \$13.1m in the Management Accounts.	6.1.2
4	We have prepared a re-constructed profit and loss analysis which indicates Halifax made a cumulative net loss of \$14.2m over the period 1 January 2017 to 23 November 2018 . Please note, this is an indicative calculation only and does not represent an audited position. Losses appear at least partially to be attributable to a high commission structure.	6.4
5	The proprietary business model (MT4 & MT5) implemented in August 2016 fundamentally appears unprofitable (significant platform costs & commissions), further exacerbated by the expansion into China.	6.4.1 6.4.2

6.1 Financial position of Halifax

Halifax and the Accountants prepared multiple management and accounting reports. From a preliminary review of the records received to date, these reports may not accurately reflect the financial position of the Company.

Management Accounts were maintained in a Xero accounting software file (**Xero**) by the Accountants.

We note that our investigations are preliminary in nature and have been limited on the basis that we are awaiting receipt of further books and records from the Company's Accountants.

6.1.1 Summary of books and records

Below is a summary of the issues relating to the period 1 January 2017, identified in the various management and accounting reports:

Report		Maintained by	Accurately reflects financial position	Issue
1	Xero software	The Accountants	✗	<ul style="list-style-type: none">— Potential inaccuracies in revenue and Operating Expenses from at least 1 January 2017— Expenses paid from the Foreign Currency Accounts and other accounts operated by the Company are not expensed through the profit and loss
2	Audited financial statements (Audited Accounts)	The Auditors	✗	<ul style="list-style-type: none">— Potential inaccuracies in revenue and Operating Expenses from at least 1 January 2017— The Audited Accounts are based on the Xero records which appear incorrect
3	Management reports	Halifax	✗	<ul style="list-style-type: none">— Apparent inaccuracies in relation to revenue and Operating Expenses

6.1.2 Limitations of books and records

Halifax only had wide scale access to Client Monies post August 2016, when new trading platforms were provided to Clients. This change led to more onerous financial management requirements. Prior to this, Client Monies were held largely on a 1:1 basis with third party providers.

The key limitations that the Administrators have identified with respect to the books and records post 1 July 2016 are:

- Apparent deficient financial and accounting records which limits the Administrators' ability to understand the financial position of Halifax during this period;
- Limited financial controls in place for the new business structure (post 8 August 2016);
- Awaiting further books and records from the Accountants to assist us with our investigations with respect to the deficiency calculations of Client Monies.

Accordingly, further investigation will be undertaken by a liquidator to:

- Reach final conclusions on the accuracy of Management and Audited Accounts; and
- Determine the trading position of Halifax prior to 1 January 2017.

6.1.3 Issues identified by the Administrators

Based on our preliminary review to date, it appears that the Xero accounting software and the Audited Accounts may not accurately reflect the Company's financial position.

A preliminary review of the Xero file has identified the following issues:

Item	Commentary	HY17, FY18, HY19 Impact
Revenue	<ul style="list-style-type: none"> — Halifax made monthly round sum advances of revenue from Client accounts to the NAB Company Account — Revenue recorded in the Xero accounting software and the Audited Accounts appears to be based on the revenue advances and not the actual revenue earned for each month 	<ul style="list-style-type: none"> — Potential misstatement of revenue from 1 January 2017 in the Xero and Audited Accounts
Operating Expenses	<p>Operating Expenses totalling \$13.1m do not appear to be reflected in the Xero accounting software and the Audited Accounts. These payments were made directly from the Various Foreign Currency accounts to suppliers over a two year period. A breakdown of these payments is as follows:</p> <ul style="list-style-type: none"> — \$7.4m: broker commissions — \$2.7m: platform and software costs — \$1.4m: costs associated with the China business (advances for working capital including payment of wages and rent) — \$1.1m: costs associated with New Zealand business (for example rent) 	<ul style="list-style-type: none"> — Potential understatement of Operating Expenses from 1 January 2017 in the Xero and Audited Accounts — Potential understatement of expenses (and therefore overstatement of profit) of at least \$13.1m over a two year period

Accordingly, we are of the opinion that the Xero file and the Audited Accounts cannot be relied upon to determine the financial position of Halifax from at least 1 January 2017 and therefore reliance should not be placed on the figures in **Section 6.2.1** and **Section 6.2.2**. A liquidator would need to work further with the Accountants to understand this position.

6.2 Preparation of the Audited Accounts

The Company's Audited Accounts prepared up to 30 June 2018, were signed and lodged with ASIC on 31 October 2018. The Auditor audited the financial statements from FY13 up to FY18.

As mentioned in **Section 6.1** it appears that information contained in the Audited Accounts of the Company may be inaccurate as it does not appear to include transactions paid from the Various Foreign Currency Accounts.

Accordingly, we are of the view that the Audited Accounts may not accurately reflect the financial position of the Company and should not be relied upon when determining the Company's solvency.

6.2.1 Audited Accounts - Summary profit and loss

\$000s	FY15	FY16	FY17	FY18
Other revenue	11,639	8,621	9,111	6,918
Interest received & other	2,535	1,666	(47)	(325)
Total revenue	14,174	10,287	9,064	6,593
Contractor fees and commissions paid	(8,144)	(4,270)	(3,377)	(1,437)
Occupancy expense	(633)	(374)	(414)	(369)
Communications expense	(387)	(391)	(394)	(370)
Employee benefits expense	(2,556)	(2,187)	(2,301)	(1,908)
Depreciation & amortisation expenses	(82)	(62)	(54)	(53)
Finance costs	(9)	(4)	(29)	(24)
Other expenses	(2,115)	(1,472)	(1,884)	(1,582)
Profit before income tax	248	1,527	611	850
Income tax expense	(167)	(473)	(171)	(326)
Profit for the year	81	1,054	440	524

Source: Company Annual Audited Accounts

Key observations:

- **As detailed in Section 6.1.2, the Audited Accounts may not be accurate**
- Commission revenue between FY15 and FY18 significantly reduces which is primarily due to the change in the operations of the Company from 8 August 2016, being the date that Clients migrated from the Saxo platform.
- Interest income has significantly reduced from FY15 due to the reduction in interest rates. We understand that the Company previously relied upon high interest rates to earn significant income on Client Monies held.
- Commissions paid and other expenses have significantly reduced which may be due to the Company not recording all payments of commissions (refer to **Section 6.3** below).

6.2.2 Audited Accounts - Summary balance sheet

\$000s	FY15	FY16	FY17	FY18
Current assets				
Cash and cash equivalents	6,838	7,425	7,998	7,725
Trade and other receivables	222,487	209,008	179,032	174,307
Non-current assets				
Plant and equipment	298	362	329	283
Trade and other receivables	87	45	37	43
Deferred tax assets	101	86	88	75
Total assets	229,811	216,926	187,484	182,433
Current liabilities				
Trade and other payables	222,605	211,972	182,318	176,690
Current tax liability	325	459	172	497
Non-current liabilities				
Provisions & other	133	114	107	100
Total liabilities	223,063	212,545	182,597	177,287
Net assets	6,748	4,381	4,887	5,146
Equity				
Issued capital	5,889	3,139	3,049	3,049
Retained earnings	857	1,748	2,059	2,453
Reserves	-	(505)	(223)	(355)
Total equity	6,746	4,382	4,885	5,147

Source: Company Annual Audited Accounts

Key observations:

- Our preliminary view is that the Audited Accounts do not accurately reflect the deficiency in Client assets as per the Company records (see **Section 6.2.2.1**).
- Cash at bank includes all bank accounts held by the Company including the various Section 981B Trust Accounts, term deposits and the Various Foreign Currency Accounts.
- Trade and other receivables appear to principally comprise Clients' assets held by third parties being cash and stock. These amounts resided with IB. These amounts were offset by trade and other payables.
- Net assets deteriorate from FY15 mainly due to the reduction in the net Client asset position, being the total Client assets and stock less the Client equity position. This is consistent with the Director's comment that the MT5 platform was not well received by Investors and as a result Investors migrated away from Halifax.
- The audited balance sheets of the Company indicate that it held sufficient assets to meet its total liabilities. However, given the deficiency in Client funds, the balance sheet does not appear to be accurate.

6.2.2.1 Balance sheet - Client net asset position

The Client asset and equity values appear to be incorporated in the Audited Accounts of the balance sheet and summarised below:

\$m	FY15	FY16	FY17	FY18
Client deposits (assets)	1,210	4,570	5,032	4,893
Client deposits with counterparties (assets)	222,295	206,943	176,589	171,412
Client deposits (liabilities)	-	(4,570)	(5,032)	-
Client liabilities	(222,185)	(206,943)	(176,589)	(176,305)
Net asset position	1,320	-	-	-

Source: Audited Accounts

Key observations:

- From a review of the net asset position of Clients, it appears that there was a nil net asset position with respect to Clients between FY16 and FY18.
- From our review of the books and records, it appears that there was a deficiency of Client assets from as early as March 2017, this is not reflected in the Audited Accounts.
- It appears that all Client equity positions have not been recorded in the Client liabilities for FY18. A liquidator would need to further investigate the amounts that have been reflected as the Client asset and liability position in a liquidation to determine what amounts were included.

6.3 Reconstructed profit & loss by the Administrators

The Administrators have prepared a reconstructed profit and loss for Halifax for the period from 1 January 2017 to 23 November 2018 to include the items that may not be reflected in the Xero software and the Audited Accounts. We are unable to reconstruct the profit & loss for the period prior to 1 January 2017 due to difficulties in integrating Halifax's accounting and financial records.

It should be noted that this reconstructed profit and loss is indicative only and based on incomplete financial information. It is not a definitive view but has been prepared and provided to give an indication of the operational performance of the Company:

	HY17 (Reconstructed)	FY18 (Reconstructed)	YTD (Reconstructed)
Revenue			
Other Revenue	2,395	3,589	9,179
Interest revenue	28	54	18
Contractor fees and commissions paid	(3,455)	(4,854)	(3,416)
Platform & software expenses	(1,190)	(1,417)	(774)
Gross profit	(2,222)	(2,628)	5,007
Expenses			
Occupancy expense	(112)	(270)	(76)
Communications expense	(46)	(108)	(38)
Employee benefits expense	(879)	(1,490)	(4,501)
Finance costs	(29)	(27)	(590)
Other expenses	(937)	(2,263)	(2,474)
Profit before income tax	(4,225)	(6,786)	(2,672)
Tax expense	(24)	(410)	(146)
Profit for the year	(4,248)	(7,196)	(2,818)

Notes:

- Other revenue is calculated on realised gains only and does not include revenue on unrealised gains
- Does not include any changes in market value of surplus assets
- Expenses do not include any depreciation or amortisation
- The above does not include any FX gains or losses
- Further investigations to be conducted on revenue from Invest & Gain

Key observations:

- Revenue has increased from 1 January 2017 which can be attributed to the expansion into Asia.
- The amount of losses made by Investors over the course of their investment on the MT4 and MT5 platform appears to fluctuate significantly between FY17 and FY18. This loss would translate into a profit for Halifax. The Director has indicated that the Company assumed an average investor would lose 68% over the course of their investment which would provide regular income to the business. It does not appear that Halifax regularly monitored the win/loss ratio and based on the information available to us, the calculation was prepared based on a win/loss ratio of 56%.
- Commissions paid to introducing brokers appear to be in excess of revenue earned up to FY18. This is mainly due to the significant level of commissions to China brokers (up to 90% on trades).
- Halifax incurs significant expenses to operate the MT4 and MT5 virtual trading proprietary platforms.
- Employee expenses have significantly increased between 1 July 2018 and 23 November 2018 due to director related transactions outlined in **Section 11.3**.

- The increase in other expenses primarily relates to working capital funding and payments made to related entities including Halifax America, Halifax NZ and Halifax Asia (Hong Kong) which were paid from the Various Foreign Currency Accounts.

6.3.1 Indicative comparison to Audited Accounts

There are significant variances between the Audited Accounts and the Administrators' reconstructed indicative accounts that require further investigation by a liquidator. It is noted that the reconstructed profit and loss is indicative only and based on incomplete financial information.

Below is a comparison of the Audited Accounts for FY18 in comparison to the Administrators' reconstructed profit and loss for FY18:

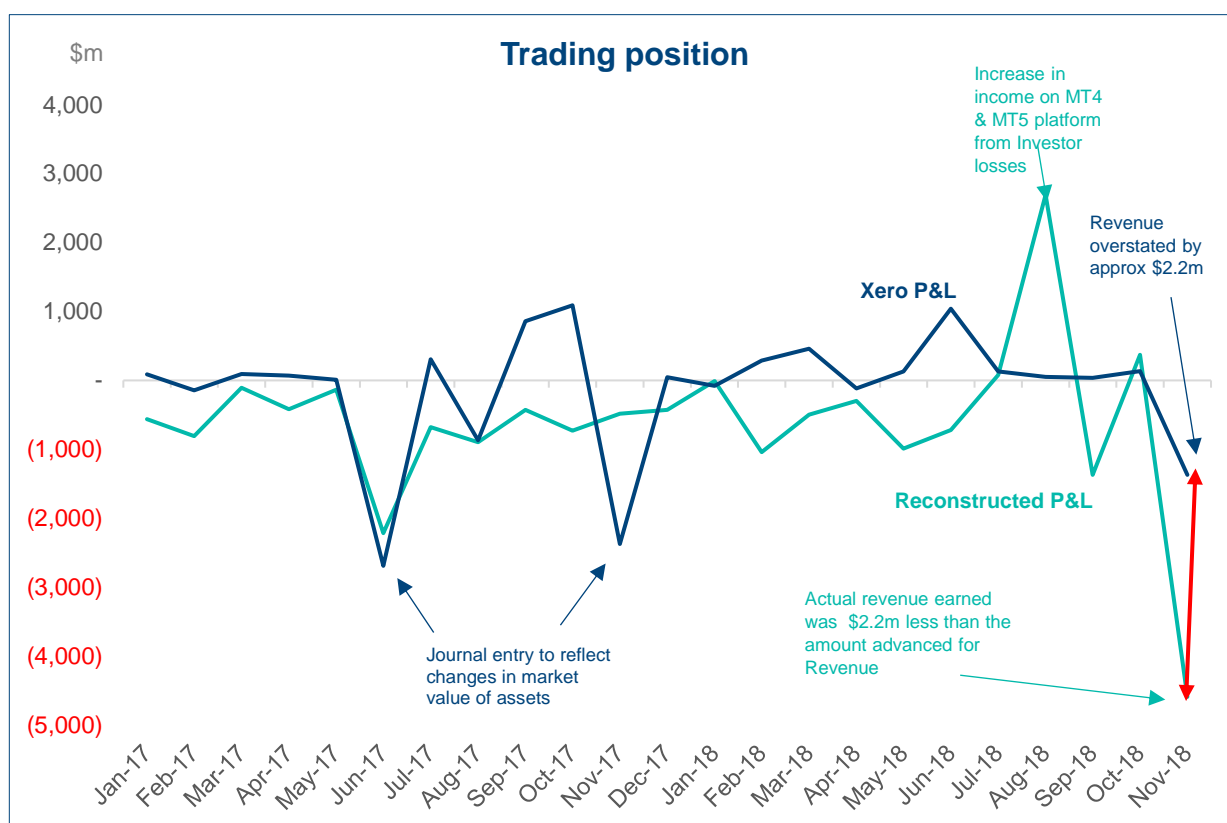
FY18 profit & loss \$m	Audited Accounts	Reconstructed	Variance	Reason
Revenue				
Other Revenue	6,918	3,589	(3,328)	Revenue in the Audited Accounts includes revenue advances for future losses by MT4 & MT5 Investors rather than the actual revenue earned by Halifax
Interest revenue	(325)	54	379	
Expenses				
Contractor fees and commissions paid	(1,437)	(4,854)	(3,417)	Commissions to overseas introducing brokers were paid from the Various Foreign Currency Accounts or credited directly to their respective trading account and not reflected in the Audited Accounts
Occupancy expense	(369)	(270)	99	
Communications expense	(370)	(108)	262	
Employee benefits expense	(1,908)	(1,490)	418	
Depreciation & amortisation expenses	(53)	-	53	
Finance costs	(24)	(27)	(3)	
Other expenses	(1,582)	(2,263)	(681)	Includes amounts paid to Halifax Asia and Halifax NZ for working capital requirements
Platform & software expenses	-	(1,417)	(1,417)	Platform expenses were paid from the Various Foreign Currency Accounts and therefore not captured in the Audited Accounts
Profit before income tax	850	(6,786)	(7,636)	
Tax expense	(326)	(410)	(84)	
Profit for the year	524	(7,196)	(7,720)	Client Monies appear to have funded trading losses of \$7.7m in FY18

Source: Indicative Reconstructed profit and loss prepared by the Administrators

Notes:

- Other revenue is calculated on realised gains only and does not include revenue on unrealised gains
- Does not include any changes in market value of surplus assets
- Expenses do not include any depreciation or amortisation
- The above does not include any FX gains or losses
- Further investigations to be conducted on revenue from Invest & Gain

Below is an illustrated comparison of the financial position of Halifax recorded in the Xero software in comparison to the Administrators' reconstructed profit and loss for the period 1 January 2017 to 23 November 2018:



Source: Xero software and Indicative Reconstructed profit and loss prepared by the Administrators

Halifax appears to be trading at a significant loss from at least 1 January 2017 and the expansion into the Halifax Asia (Hong Kong) may have exacerbated the trading losses made by Halifax further detailed at **Section 6.3.2**.

6.3.2 China operations

From a preliminary review of the books and records, it appears that the China Business was operating below expectations from incorporation. We understand the following with respect to the China Business:

- Halifax provided at least \$1.4m of working capital funding to Halifax Asia (Hong Kong);
- Halifax employed an employee to manage the operations in Halifax Asia (Hong Kong) and Halifax Shanghai employed 12 introducing brokers to assist in building the Client base;
- The Director has advised that Halifax Asia was not operating as expected due to lower than anticipated inflow of funds; and
- China based introducing brokers' commission rate structure appears to be uncommercial and was at times up to 90% on trades.

In addition, Halifax would generate revenue from MT4 and MT5 Investors when an investor would make a loss. The Director has indicated that he assumed that the average Investor would lose 68% of the course of their investment. Although as previously advised, the Company records indicate the calculations were prepared using a win/loss ratio of 56%. Our investigations indicate that Halifax did not monitor the win/loss ratio with respect to China based Investors. The Director has advised that the win/loss ratio with respect to China based Investors over the course of their investment initially was significantly less than anticipated. Our preliminary calculations support this view.

Accordingly, from a preliminary review of the books and records, it appears that the China Business was operating at a trading loss which appears to have been funded by Client Monies.

6.4 ASIC reporting

We understand that the following reports were lodged with ASIC:

Item	Commentary	Recurrence	Issue
FS70	— The lodgement of the FS70 form (which we understand was prepared by the Accountants) is an annual statement lodged by Halifax with a copy of the Audited Accounts	Yearly – at financial year end	— Apparent incorrect recognition of revenue and Operating Expenses in the Audited Accounts
Client Money rules 2.2.2 reporting	<p>— On 4 April 2018, ASIC introduced the monthly reconciliation reporting under clause 2.2.2 of the ASIC Client Money Reporting Rules 2017 whereby a financial services licensee was required to complete a monthly reconciliation and submit to ASIC the following:</p> <ul style="list-style-type: none"> — The amount of Reportable Client Money held in a Client Money Account for each person; and — The amount recorded in the licensee's records for each person, as required by subrule 2.1.1(1) of the Client Money Reporting Rules 2017 	Monthly from April 2018	— Unknown, we have requested the working papers from the Accountants and have yet to receive a response

From a preliminary review of the records lodged with ASIC, it does not appear that they accurately reflected the financial position of Halifax. A liquidator will review these records in further detail in a liquidation.

6.5 Conclusion

Having regard to the above, it appears that the books and records of Halifax, specifically the Audited Accounts and Management Accounts, do not include significant Operating Expenses paid by Halifax. An indicative reconstructed profit and loss indicates that Halifax operated at a significant loss from 1 January 2017 to 23 November 2018. Further investigations will be completed in a liquidation to confirm the true operating performance of Halifax. In particular a liquidator would need access to further books and records held by the Accountant.

7 Report on company activities and property and director's reasons for failure (ROCAP)

This section provides a summary of the report on company activities and property submitted by the Director, together with the Director's explanation for the reasons for failure of the Company.

Key takeaways	Ref.
1 The Director's ROCAP discloses a deficiency of \$12.3 million . In our view the deficiency in Client funds is estimated to be \$19.7 million and the overall company deficiency is estimated to be up to \$21 million as at the date of appointment (before costs).	7.1
2 The Director has advised that the migration from Saxo to the MT5 platform and a change in the win/loss ratio for Chinese Investors were the main reasons for the failure of Halifax .	7.2
3 The Administrators' consider that the primary reasons for the failure of Halifax were poor financial management, trading losses and expansion into China.	7.3

7.1 Report on company activities and property

Section 438B of the Act requires the Director to give an administrator a ROCAP about the Company's business, property, affairs and financial circumstances.

We received the Director's ROCAP on 21 December 2018.

In the ROCAP, the Director detailed the Company's assets and liabilities at book value and ERV. We note that the Director also **included Client equity positions and assets held on trust in relation to Halifax NZ. We have excluded these amounts for the purposes of our analysis of the ROCAP.**

The Administrators have not audited the Company's records or the book values. The below schedule should not be used to determine the likely return to creditors as a number of realisable values are based on the Company's records and remain subject to the review of the Administrators and, in particular:

- The Director's ROCAP does not distinguish between trust and company assets, or between trust beneficiaries or unsecured creditors.
- The Administrators are not in a position to confirm (or otherwise) certain asset values as they are commercially sensitive and are not disclosed in this report.
- The value of creditor claims remains subject to change as further claims may be received and require adjudication.
- The figures in the table below are before costs and exclude any recoveries.

Further detail on the estimated return to creditors from the Administration is contained in **Section 13**.

The following table summarises the assets and liabilities disclosed in the Director's ROCAP:

\$000s	Ref	Book Value	Director's ERV	Administrators' ERV Low	Administrators' ERV High
Assets					
Cash at bank	7.1.1	2,459	2,459	2,210	2,486
Debtors	7.1.2	1,337	1,337	-	495
Plant & equipment	7.1.3	424	246	-	10
Property on trust	7.1.4	148,910	148,910	144,718	144,718
Investments	7.1.5	185	185	-	-
Other assets	7.1.6	43	43	71	71
Total assets		153,358	153,180	146,999	147,780
Liabilities					
Employee claims	7.1.7	220	219	290	290
Unsecured creditors	7.1.8	838	838	1,013	1,013
Contingent claims	7.1.9	164,440	164,440	166,763	166,763
Total liabilities		165,498	165,497	168,066	168,066
Estimated deficiency		(12,140)	(12,317)	(21,066)	(20,789)

Notes

7.1.1 Cash

The Company held non-trust accounts with the following institutions as at the date of appointment. The below summary does not include cash held in Section 981B Accounts.

Bank	Account type	ROCAP Amount \$000s	Administrators' ERV High \$000s
ANZ/NAB/Bankwest	Company accounts	583	600
BankWest	Term deposit (solvency guarantee)	1,600	1,610
BankWest	Term deposits (other)	276	276
Total		2,459	2,486

The BankWest term deposit in the amount of \$1.6 million supported the financial solvency guarantee for Halifax's AFSL required by ASIC. On 25 January 2019, the Court granted an Order that the Company was able to utilise the term deposit in payment of trading expenses, administration costs (excluding Administrators' remuneration and legal

fees) and any further reasonable and necessary trading expenses incurred by Halifax. Further information in relation to this application is at **Section 8.3**.

The ROCAP term deposits in the amount of \$0.3 million which support bank guarantees held by the landlords of the Sydney and Auckland offices. It is not known at this stage whether these amounts are recoverable.

The balances of the funds in the Bankwest, NAB and ANZ accounts have been realised by the Administrators.

7.1.2 Debtors

The ROCAP discloses total Director loans of \$0.2 million owed equally by the Director and Former Director in the amount of \$0.1 million respectively.

On 8 March 2019, we issued correspondence to the Director demanding repayment of the loan accounts. We are yet to receive a response.

As to the amount of \$0.2m of total Director loans, see **Section 11.3.1** below which outlines a reduction in director loan accounts on 21 November 2018 in the amount of \$2.0m, which is required to be further investigated by a Liquidator.

The ROCAP also disclosed a shareholder loan to Halifax NZ in the amount of \$1.1 million. Given that Halifax NZ is in Administration, we do not consider this amount to be recoverable (although the Administrators will submit a claim in that Administration).

The balance sheet discloses a loan receivable from AMH of \$0.1 million. The Administrators issued correspondence to AMH on 5 February 2019. The Director has advised that this amount was written off prior to the appointment of the Administrators. A liquidator would need to investigate this write off further.

On appointment, 307 Investors had negative equity balances totalling \$0.3m. The Administrators intend to write to these debtors requesting repayment of these amounts.

7.1.3 Plant and equipment

In respect of plant and equipment, the ROCAP disclosed:

- A 2008 Maserati Gran Turismo Sport with an ERV of \$0.1 million. Our enquiries with its financier, Westpac has confirmed that there is no equity in the vehicle and accordingly, we have issued a notice of intention not to exercise property rights.
- Office and IT equipment with an ERV of \$0.1 million. This equipment is unlikely to have any significant realisable value.
- Improvements with an ERV of \$0.1 million. It is unlikely these assets are realisable.

A search of the database maintained by the Roads & Maritime Service, has not identified any other vehicles or vessels registered in the name of the Company in NSW.

7.1.4 Property held on Trust

The ROCAP disclosed total property held on trust as follows:

\$000s	Directors' ERV	Administrators' ERV
Cash and counterparty collateral	12,273	7,382
Cash and shares in IB Prop Account	27,284	27,291
Funds held with IB	109,353	110,045
Total held property on trust	148,910	144,718

Key points to note:

- Differences between the Director's ERV and Administrators' ERV may be explained as follows:
 - The Administrators' ERV does not include the \$1.6 million BankWest term deposit, which is incorporated under cash at bank.
 - The Administrators' ERV does not include funds held in New Zealand bank accounts.
- The above analysis does not include assets held on a 1:1 basis in the Halifax NZ IB Master account.
- The realisable value of assets held on trust is an estimate only and is subject to change and market fluctuations. Factors impacting the final number include:
 - The unrealised profit or loss position for open trades on appointment;
 - Currency and stock fluctuations; and
 - Funds which may be repatriated from Hong Kong held by Chinese merchant providers.

Refer to **Section 13** for further information on estimated outcome with respect to these amounts.

7.1.5 Investments

The ROCAP disclosed shares in Halifax NZ with an estimated value of \$0.2 million. We do not expect that this amount is recoverable.

7.1.6 Other assets

We have recovered funds from trust accounts operated by the Company's pre-appointment solicitors in the amount of \$0.1 million.

7.1.7 Employee claims

\$000s	Amount
Unpaid wages	-
Unpaid superannuation*	134
Annual leave	60
Long service leave	40
Redundancy / PILN	56
Total employee entitlements as at 23 November 2018	290

**A liquidator will conduct further investigations on the outstanding superannuation due to employees*

Employee claims are afforded priority of repayment pursuant to Section 556 of the Act, ahead of any return to unsecured creditors, however this priority relates to company assets only and not to assets held on trust for Investors.

The Act provides that excluded employees (including Company directors and their spouses) are each restricted to a total maximum priority claim of \$2,000 for unpaid wages and superannuation entitlements and \$1,500 for leave entitlements. Amounts owed to excluded employees that exceed the statutory limit, and all payments owing in respect of redundancy and payment in lieu of notice will rank as an ordinary unsecured claim.

Should the Company be placed into liquidation at the Second Meeting, employees may be eligible for financial assistance under the Fair Entitlements Guarantee Act 2012. Further information on FEG including eligibility for assistance can be found at www.employment.gov.au/feg.

7.1.8 Unsecured creditors

\$000s	Director's ERV	Administrators' ERV
Trade creditors	446	875
Statutory creditors	80	138
Total unsecured creditors	526	1,013

7.1.9 Contingent creditors

The following provides a summary of the Administrators' view of the Client equity positions as at the date of appointment. As explained above, given the deficiency in Client funds, the treatment of investor claims will be subject to approval of the Court.

Platform	Client equity position \$
IB	110,045
Halifax Pro – MT4	23,768
Halifax Pro – MT5	32,950
Equity position	166,763

**The above table excludes Halifax NZ Client equity of \$44.3 million*

In addition to the above, we are aware of the following contingent claims for legal action on foot as at the date of appointment:

- Shareholder oppression action brought by Blunsdon Capital Management Pty Ltd;
- Investor dispute action; and
- Unfair dismissal claim brought by a former employee of Halifax.

7.2 Director's opinions as to the reasons for failure

The Director has provided his views on the affairs of the Company and attributed the following key reasons (amongst others) to its failure:

1. Termination of the Saxo platform in June 2016 by Saxo

- Clients were migrated to the MT5 proprietary platform, and there was a series of data integrity issues with reconciliation of Client accounts
- Ultimately, the new platform was not well received by Clients due to flaws in its operations
- This caused a revenue decline which later had a material impact on the Company's financial position

2. Reassessment of the capital required to maintain operations

- In 2016, the Company expanded its MT4 operations and took on financial risk for its Clients' trading decisions
- Halifax could decide whether or not to hedge specific trades
- A lower than anticipated win/loss ratio and high operating costs became apparent for Chinese Investors/market

3. The Company was subject to several legal claims, including a shareholder oppression claim.

7.3 Administrator's opinions as to the reasons for failure

Our preliminary view is that, in addition to the reasons identified by the Director, the Company failed as a result of:

Reason for failure	Section ref
Poor financial records	6.1.1
Poor financial management	6.5
Breaches of Client Money Rules	4.3.4
Inadequate monitoring of investor win/loss ratio on the MT4/MT5 platform	6.3.2
A lack of adequate working capital	10.4
Trading losses caused by high platform costs and commissions	10.4
Inaccurate financial statements	6.3
Director related payments	11

8 The Administration to date

This section provides an overview of the tasks undertaken during the Administration.

Key takeaways		Ref.
1	On appointment the Administrators assumed control of the business. All Investor accounts were frozen pending a full reconciliation of assets and Client entitlements (although Investors were able to close out positions)	6.1
2	The weekly cost of continuing to trade the business is approximately \$60,000 . This includes platform costs, wages and other Operating Expenses	
3	The Administrators have generated trading revenue of \$1.7 million from 23 November 2018 to 28 February 2019	8.4
4	On 24 January 2019, orders were made by the Court to permit the Administrators' to access the \$1.6 million BankWest term deposit referred to in Section 8.3 below to meet the costs of the Administration (eg rent, wages, platform costs). These orders did not extend to the payment of the Administrators' remuneration and legal fees	

8.1 The business at commencement of the Administration

On appointment, the Administrators assumed control of the Company's business. Appropriate controls and systems were put in place with respect to securities trading, cash / banking, reporting of Client entitlement and asset positions. As a result of the appointment, all Investor accounts were frozen pending a full reconciliation of assets and Client entitlements.

Since our appointment, we have attended to the following tasks:

Operations	
	<ul style="list-style-type: none"> – Frozen all bank accounts and secured all assets of the Company – Suspended all trading (other than closing out positions) to minimise ongoing exposure – Continued the lease of the head office premises at Level 49, Governor Philip Tower, 1 Farrer Place, Sydney NSW 2000 – Liaised with the platform providers and live data providers to ensure the trading platforms are maintained to enable Clients to close out their position and ongoing reconciliation of Client positions to be undertaken – Attended to ongoing trading and cash flow management issues – Held discussions with various parties in relation to a potential DOCA – Prepared an application to Court to access a \$1.6m term deposit to fund ongoing trading and administration costs – Pursuit of funds held with Chinese merchant providers
Investigations	
	<ul style="list-style-type: none"> – Received and reviewed the Director's ROCAP – Interviewed the Director and Former Director – Interviewed various stakeholders of the Company – Interviewed the Company's employees and various former employees – Liaised with the Company's Accountants to understand the Company's financial position

- Commenced investigations into the affairs of the Company, including an analysis of the data from each trading platform to understand the quantity and quantum of investor claims and any deficiency in funds
- Liaised with the Company's pre-appointment insurer seeking copies of the terms of all relevant insurance policies as at the date of appointment
- Detailed investigations in relation to potential antecedent transaction and insolvent trading claims
- Investigations in relation to the tracing of Client funds through the Company's 41 Client and Company bank accounts involving a review of 10,000 transactions
- Identified key areas for further investigation and considered possible offences and causes of action
- Liaised with ASIC in relation to the status of investigations
- Prepared the Administrator's report to creditors

ASIC Reporting

- For the first four weeks of the Administration, we held daily meetings with ASIC in relation to our ongoing investigations into the Company. Meetings with ASIC are now occurring twice weekly
- Lodged our s438D report made by the Administrators regarding potential breaches and offences
- Investigated and responded to complaints made with AFCA
- Attended to reports and information requests from ASIC as requested

Investor communications

- Engaged Link Market Services to manage Investor correspondence
- Responded directly to 973 emails received from Investors between 23 November 2018 and 15 February 2019
- Obtained a court order to extend the convening period to 29 March 2019
- Obtained a court order for us to circulate notice of the first meeting of creditors via email
- Issued preliminary notices of appointment to all known Creditors and Investors and held the First Meeting of Creditors
- Prepared a first circular to creditors, including a notice of meeting for the First Meeting and emailed to approximately 12,500 Investors
- Responded to substantial correspondence received from the Company's Investors and escalated to us by Link Market Services
- Preparation of various Investor updates and 'FAQ' documents to be published on the Ferrier Hodgson website
- Held two COI meetings and prepared detailed reports outlining the Administrators' investigations to date
- Prepared two detailed reports to the COI

Assets / Funds Tracing

- Prepared a detailed analysis of the flow of funds from Investors to the IB, MT4 and MT5 platforms in order to determine to what extent Investor funds have been co-mingled
 - Prepared tracing of transactions from Client trust accounts for approximately 10,000 transactions
 - Undertaken review of transactions in relation to Section 981B designated Accounts
 - Prepared deficiency calculations
 - Liaised with Halifax staff in relation to reconciliation issues in IB Prop Account
-

Books and records

- Forensically imaged all of the Company's electronic records
- Undertaken key word searches on over 3 million documents and 330,000 emails
- Arranged for the delivery of all computers held at the Shanghai head office
- Forensically imaged all computers held at the Shanghai head office
- Wrote to Accountants and lawyers to obtain books and records

8.2 Operations

Key points:

- We are continuing to maintain the trading platforms, IT infrastructure and office operations at a weekly cost of approximately \$60,000.
- Expenses include MT4 and MT5 platform costs, wages rent and utilities. Weekly trading platform expenses are approximately \$37,000.
- Maintaining the status quo of the platforms is essential to reconciling the Client positions and distributing funds back to Investors.
- Following an operational review, 4 employees have been made redundant since the date of appointment and 3 employees have recently resigned.
- We have recently re-engaged the former Head of Treasury (on a casual basis). In our view, his knowledge of the operations of the business will be invaluable in assisting with our investigations and reconciliation of Client positions.

As a result of the appointment of the Administrators and in accordance with the terms of the AFSL, **all investor accounts were frozen as at the date of appointment. Investors were able to close out positions however no new trades could be entered into.**

The key operational issues encountered during the Administration period were as follows:

- Issues regarding the transfer of the MT5 licence to Halifax Vanuatu and dealing with MetaQuotes in relation to licence payments.
- Difficulties with interpreting Management Accounts and books and records.
- Liaising with ASIC and Investors in relation to the suspension of the AFSL which meant that no new trades could be entered into (however Investors could close out positions if they chose).

Halifax staff have been assisting with the following tasks:

- Assisting with tracing of cash movements between Halifax accounts;
- Review and reconciliation of Investor accounts, in particular in respect to Investor disputes;
- Prepare analysis of equity positions and movements over time;
- Prepare analysis of win/loss ratio and other critical business performance factors;
- Ongoing communication with Investors, responses to information requests and attendance to platform maintenance issues as required;
- Reconciliation of the IB Prop Account to stock positions in the MT5 platform;
- Attending to corporate actions to ensure accuracy of Investor accounts; and
- Compiling legal documentation such as CSAs.

8.3 Application to Court for access to term deposit funds

Shortly following appointment, we identified a source of funds, being the BankWest term deposit funds in the amount of \$1.6 million (**the BankWest TD**) which were held to satisfy the solvency guarantee requirement imposed by ASIC in relation to the Company's AFSL.

Given the AFSL was suspended as a result of the appointment, we considered that these funds should be available to meet ongoing operations and administration costs. However, given the extent of the co-mingling of Investor and Company funds, we believed that it would be prudent to seek the Court's determination that these funds may be used to meet various operational expenses including payment of platform costs, suppliers, rent and wages.

The estimated weekly operating expenses as outlined in our Court application are as follows:

Weekly trading expenses	\$
Platform costs	33,710
Employment	13,926
Occupancy	4,371
Other costs (insurance, telephone, website, electricity)	6,933
Total	58,940

In early January 2019, it became evident that, in circumstances where the BankWest TD could not be utilised, there were insufficient funds held in Company bank accounts to continue to fund the ongoing operations of the Company.

On 25 January 2019, following the hearing of an application to the Court, Orders were made that the BankWest Term Deposit be used for the payment of expenses outlined above. **We note that these Orders do not extend to payment of legal fees or payment of the remuneration of the Administrators.**

Details of the Orders are available on the Ferrier Hodgson website, link as follows:

<https://www.ferrierhodgson.com/au/-/media/ferrier/files/documents/corp-recovery-matters/halifax-investment-services/federal-court-of-australia-orders-regarding-outcome-of-funding-application.pdf>

8.4 Application of term deposit funds

Operating expenses for the period 23 November 2018 to 28 February 2019:

Operational expenses paid	\$
Platform costs	(369,352)
Employment	(165,831)
Occupancy	(68,203)
Other (including insurance)	(120,148)
Total operating expenses paid	(723,534)

As outlined, these costs have been paid from the BankWest TD funds. Full particulars of the Administrators' receipts and payments are attached as **Annexure A**.

The following table provides a summary of revenue generated during the appointment period:

\$000s	Nov 18 \$	Dec 18 \$	Jan 19 \$	Feb 19 \$	Total \$
Interactive Brokers net revenue	28	28	48	36	140
Halifax Pro MT4 / MT5 realised profits	286	394	827	55	1,562
Other interest	-	-	1	1	2
MT4 / MT5 rebates	(9)	(1)	-	-	(11)
Total	305	421	876	91	1,692

Key points to note:

- Given the issues in relation to co-mingling of funds outlined above, the Administrators have not yet recognised this revenue and will not be utilising these funds at this stage. We expect that a liquidator will seek directions from the Court in relation to the correct allocation of post-appointment revenue.
- This is one of the primary reasons why the Administrators had to make the urgent application to Court in early January 2019 to access the \$1.6m BankWest term deposit to fund the trading activities of the Company through the Administration period.
- We are continuing to work with Halifax staff to understand the unrealised profit or loss position post appointment.

8.5 Investor positions

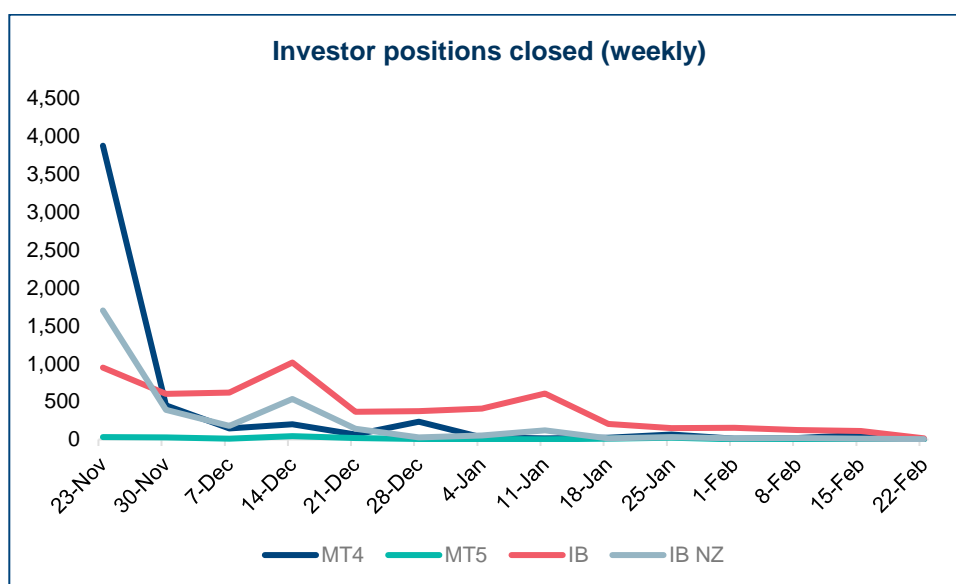
The following table provides a summary of investor positions open (by number) on the MT4 and MT5 as at 22 November 2018 and 15 February 2019.

	OTC	Stock CFD	Stocks	FX	Total
22 November 2018	756	165	2144	4,895	7,690
15 February 2019	49	105	1,969	240	2,636
% Closed	94%	36%	8%	95%	70%

In relation to Investor positions, we note the following:

- Approximately 70% of the positions on the MT4 and MT5 platforms have been closed out since appointment;
- 95% of positions on MT4 have been closed out;
- On the MT5 platform, only 18% of Investor positions have been closed out; and
- On the IB platform, approximately 10% of Investor positions have been closed out.

The following table provides an indication of the number of investor positions closed on each platform from the date of appointment to 22 February 2019:



The above graph indicates that in the weeks immediately following the appointment of the Administrators, a large number of Investors on the MT4 platform closed out their positions. This was not unexpected having regard to the nature of the products available on the MT4 platform (mainly foreign exchange products which are generally held the short term).

The positions which remain open appear to be longer term stock holdings. As such we are not anticipating significant closures without a Court order.

8.6 Link Market Services

Given the large number of Investors, we engaged Link Market Services to assist with Investor communications and dealing with PODs and proxies prior to the First Meeting of creditors. This has provided a cost effective and responsive solution to the large volume of correspondence received.

Link received an extremely high volume of enquiries throughout the Administration process, a significant proportion of which were escalated to the Administrators.

Enquiries received from 23 November 2018 to 15 February 2019 are as follows:

Enquiry type	Number
PODs processed	4,754
Proxies processed	2,659
Telephone calls	1,708
Email updates	6,218

The most commonly asked questions from Investors to date are:

- Why was Halifax placed into Administration and has fraudulent activity occurred?
- Have investor funds been kept in segregated accounts?
- Can I transfer my shares or cash to an account with an alternative broker?
- Requests to update contact details and provide account statements and information to assist with tax returns.
- Requests for information regarding particular transactions in investor accounts.
- Are the shares I purchased using my Halifax account held in my own name?
- How do I know if I am a creditor of the Australian entity or a creditor of the New Zealand entity?
- What are the next steps in the Voluntary Administration and when can I expect to receive a distribution?
- How will the Administrators work out the value of my claim given that it is constantly changing with market fluctuations?

We have updated our FAQ to address the questions outlined above. A link to the FAQ document is as follows:

<https://www.ferrierhodgson.com/au/-/media/ferrier/files/documents/corp-recovery-matters/halifax-investment-services/investor-faq-15-feb-2019.pdf>

8.7 AFCA Complaints

We have been cooperating with AFCA in respect to the complaints made by various Investors. We confirm that during the administration we have received eight complaints which the Administrators have investigated further and responded to.

The majority of the complaints related to the freezing of Investor accounts and potential detriment caused in this regard.

8.8 The sale of business process

At this stage, it is unlikely that the Administrators (or liquidators, if appointed) will be able to realise funds from the sale of the AFSL on the basis that it is suspended and may ultimately be cancelled upon the liquidation of the Company.

We are seeking advice and undertaking further investigations as to whether it will be possible or suitable to conduct a sale process for the Company's Client list and related aspects of the Company's business. We will provide Creditors with a further update in due course.

9 DOCA

This section provides Investors with our investigations into the possibility of a DOCA for Investors to share the deficiency proportionately to expedite the distribution process

Key takeaways	Ref.
1 A DOCA is not legally possible as it cannot bind trust beneficiaries or purport to deal with trust assets	9.2
2 Accordingly, the Administrators will be recommending that the Investors and Creditors of Halifax vote to place the Company into liquidation at the Second Meeting.	9.2

9.1 Initial view

At the First Meeting, we indicated to Investors that it may be possible for the Administrators (or another third party) to put forward a proposal whereby Investors agree to share the deficiency proportionately in order to expedite the distribution process via a DOCA.

9.2 Inability of a DOCA to deal with trust assets

After careful consideration of the circumstances of the Halifax Investors (and in consultation with our solicitors), we have determined that a DOCA is not achievable for the following reasons:

- The Investors of Halifax are effectively both trust beneficiaries for the amount that is held on trust for them by Halifax and also ordinary unsecured creditors of Halifax to the extent of any shortfall not recoverable from trust assets;
- The majority of assets held by Halifax are effectively held on trust for Investors;
- These trust assets are not available to meet ordinary creditor claims and must be dealt with in accordance with Part 7.8 of the Act and Part 7.8 of the Regulations;
- A DOCA cannot bind trust beneficiaries and cannot purport to deal with trust assets;
- A DOCA cannot bind non-voting or dissenting Investors (as beneficiaries) or prevent individual claims made by Investors who did not vote for the DOCA against the company; and
- Further, given no trust assets can be used to meet the claims of ordinary unsecured creditors, absent a third-party cash contribution, a DOCA cannot achieve a better outcome than a liquidation in respect of those ordinary unsecured creditors.

In summary, a DOCA will not be possible on the basis that Investors constitute trust beneficiaries rather than ordinary unsecured creditors and, on this basis, the assets held by Halifax are trust assets.

Having regard to the above, we recommend that Halifax be placed into liquidation at the Second Meeting.

9.3 Strategy to expedite the distribution process to Investors

We are conscious of pursuing a strategy that will expedite a distribution to Investors in a timely manner, as made clear by creditors at the First Meeting.

Given a DOCA is not feasible, we intend to make an application or applications to Court for directions as soon as practicable after the Company enters into liquidation. We anticipate an application will be filed within 60 days of the Company being placed into liquidation.

Further details of the proposed liquidation strategy are outlined in **Section 5**.

10 Statutory investigations

This section provides Creditors with information on the preliminary investigations undertaken by the Administrators to date, and whether there have been any potential actions identified that may be pursued by a liquidator, if appointed.

Key takeaways	Ref
1 Our investigations have determined that the Company may have been insolvent from at least 1 January 2017	10.4
2 Halifax appears to have drawn Client Monies in excess of revenue earned from at least January 2017	10.4
3 Halifax appears to have used Client Monies from at least 1 January 2017 to assist in making payments towards Operating Expenses and working capital requirements as and when they fell due	10.4
4 There are indicators of a deficiency of Client Monies on the MT4 and MT5 platform from as early as March 2017 , if not earlier	10.4
5 In our preliminary view, Halifax failed to maintain records in accordance with Section 286 of the Act from at least 1 January 2017 and a liquidator can rely on this as a presumption of insolvency	10.7
6 We estimate that the potential insolvent trading claim may amount to the value of any deficiency to Investors and Creditors (approximately \$20.4 million)	10.6.3

10.1 Nature and scope of review

The Act requires an administrator to carry out preliminary investigations into a company's business, property, affairs and financial circumstances.

We reiterate that our investigations are preliminary and have been based on incomplete information. We are awaiting receipt of books and records from the Company's Accountants.

Investigations centre on transactions entered into by the Company that a liquidator might seek to have declared void (together with orders for repayment or compensation) if the Company is wound up. Investigations allow an administrator to advise creditors what funds might become available to a liquidator such that creditors can properly assess whether to accept a DOCA proposal or resolve to wind up the Company. We investigated matters to the extent possible in the time available.

A liquidator may recover funds from certain voidable transactions or through other avenues; for example, through action seeking compensation for insolvent trading or breach of director duties.

The Administrators' knowledge of the Company's affairs comes principally from the following sources:

- Discussions with the Director and Former Director.
- The Director's ROCAP.
- Discussions with the Company's Accountant and an examination of the books and records provided by the Auditors of the Company.
- Communication with Investors, employees and former employees.
- Management Accounts, books and records, board minutes and financial statements.
- The Company's internal accounting system.
- Correspondence and discussions with the Company's Creditors.

- An examination of the Company's books and records including information obtained from taking forensic images of various computers.
- Searches obtained from relevant statutory authorities.
- Records maintained by the ATO.
- Publicly available information.
- Data from trading platforms.

10.2 Directors' and officers' responsibilities

Sections 180 to 184 of the Act set out the duties, obligations and responsibilities imposed on directors which are designed to promote good governance and ensure that directors act in the interests of the Company. These duties include:

- Duty of care and diligence;
- Duty of good faith;
- Duty not to make improper use of position; and
- Duty not to make improper use of information.

Based on our preliminary investigations, the Director and Former Director may have breached their duties as a director in:

- Failing to act in good faith;
- Failing to discharge their duties with reasonable care and diligence;
- Improperly using their position or information; and
- Failing to maintain books and records.

As a consequence of these alleged breaches, the Director and Former Director may be liable to compensate the Company or be liable under the Act's civil penalty provisions. Our investigations are continuing in this regard in conjunction with ASIC. A liquidator will be required to investigate further.

Among other transactions that require further examination, our preliminary investigations have identified at least two separate transactions in 2018 where the Director may have caused shares to be sold, with the proceeds of those transactions being deposited into Halifax's company account and used to meet operating and other expenses. The combined total of those transactions is approximately \$2.2 million. The shares in question may have been hedge assets and therefore available for sale. It is likely that further investigations will be undertaken by the liquidator to determine whether the transactions give rise to any claim by the Company.

We have also identified a number of transactions which may be considered phoenix activity, or unlawful disposal of assets in circumstances where the transactions are found to have been entered into for the purpose of transferring assets to defeat Creditor claims. Those transactions include:

- Transfer of Clients from the Company to AMH from February 2018 onwards; and
- Transfer of MT5 licence from the Company to Halifax Vanuatu in June 2018.

Further investigations in relation to potential phoenix activity and related recovery actions will be undertaken by a liquidator if the Company is placed in liquidation.

10.3 Limitations of books and records

Halifax only had wide scale access to Client Monies post 8 August 2016, at a time when it was implementing a new business structure (expansion of proprietary platforms).

The key limitations that the Administrators have identified with respect to the books and records post 1 July 2016 are detailed below:

- Deficient financial and accounting records which limits the Administrators' ability to understand the financial position of Halifax during this period;
- Limited, if any financial controls in place for the new business structure (post 8 August 2016);

- We are awaiting further books and records from the Accountants to assist us with our investigations with respect to the deficiency calculations of Client Monies.

Accordingly, further investigation will be undertaken by a liquidator to determine:

- Final conclusions on the accuracy of Management and Audited Accounts; and
- The trading position of Halifax prior to 1 January 2017.

10.4 The Company's solvency

Some actions available to a liquidator to recover funds through the voiding of certain transactions or through other legal action, such as seeking compensation from directors for insolvent trading, require the Company's solvency to be established at the relevant time.

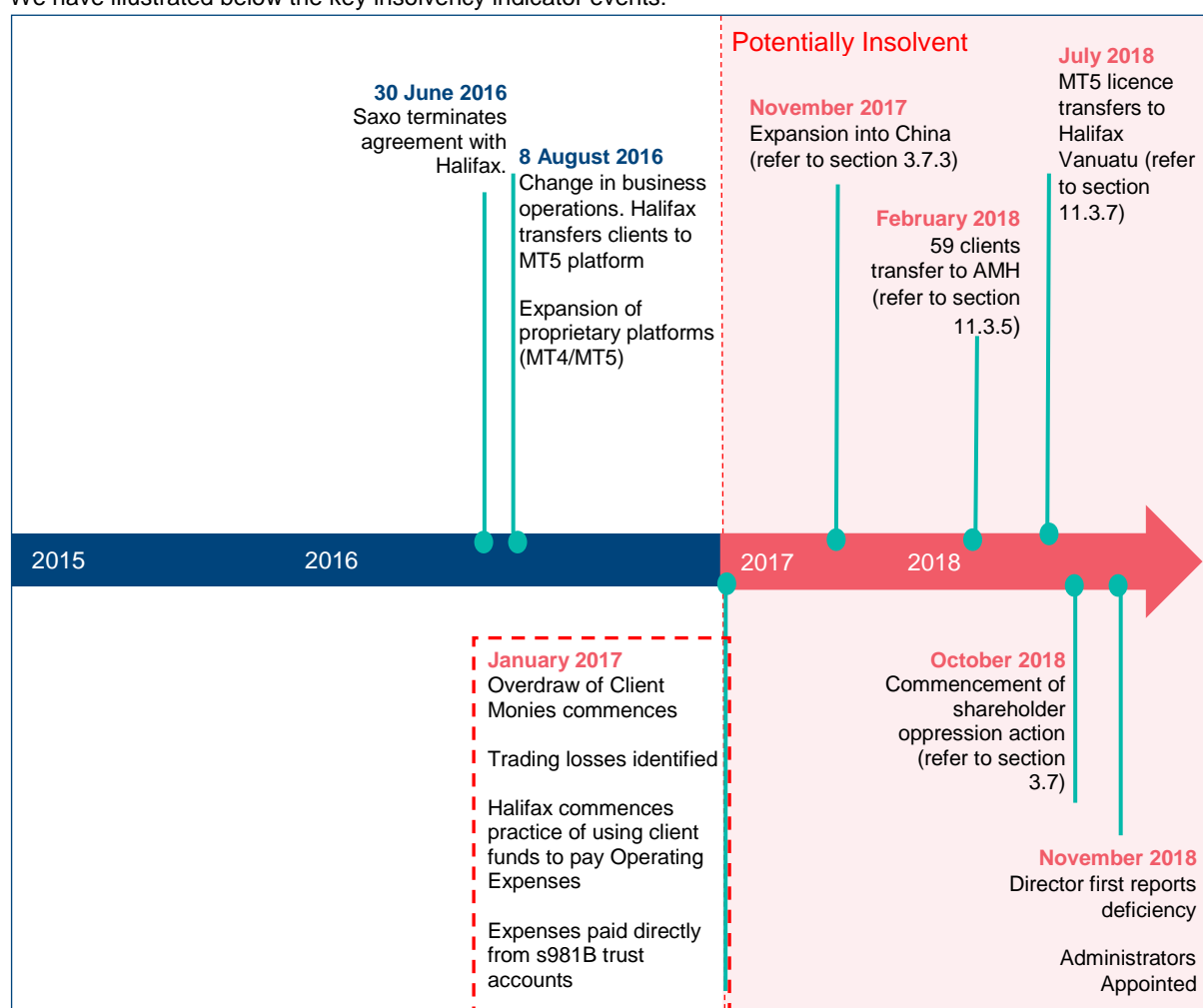
There are two primary tests used in determining a company's solvency, at a particular date, namely:

- Balance sheet test; and
- Cash flow or commercial test.

The Courts have widely used the cash flow or commercial test in determining a company's solvency at a particular date along with several other indicators.

Our preliminary investigations into the affairs of the Company indicate that the Company was likely insolvent from **at least January 2017**.

We have illustrated below the key insolvency indicator events:



We have summarised below the insolvency indicators adopted by the Courts and the ASIC together with our comments in relation to the Company:

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments												
Endemic shortage of working capital - balance sheet test															
Working capital deficiency	No	N/A	Based on the Audited Accounts, the Company recorded the following working capital ratios:												
			<table><tr><th>FY</th><th>Working capital ratio</th></tr><tr><td>F14</td><td>1.03</td></tr><tr><td>FY15</td><td>1.03</td></tr><tr><td>FY16</td><td>1.02</td></tr><tr><td>FY17</td><td>1.02</td></tr><tr><td>FY18</td><td>1.03</td></tr></table>	FY	Working capital ratio	F14	1.03	FY15	1.03	FY16	1.02	FY17	1.02	FY18	1.03
			FY	Working capital ratio											
			F14	1.03											
			FY15	1.03											
			FY16	1.02											
			FY17	1.02											
			FY18	1.03											
We do not consider that the Audited Accounts are an accurate reflection of the financial position due to the reasons outlined in Section 6.1.2 .															
Therefore the working capital ratios from the Audited Accounts cannot be relied upon to determine any working capital deficiency.															
Net asset deficiency (balance sheet)	No	N/A	Based on the Audited Accounts, the Company recorded the following net asset surplus:												
			<table><tr><th>FY</th><th>Net asset surplus \$m</th></tr><tr><td>FY14</td><td>-</td></tr><tr><td>FY15</td><td>6.75</td></tr><tr><td>FY16</td><td>4.38</td></tr><tr><td>FY17</td><td>4.89</td></tr><tr><td>FY18</td><td>5.15</td></tr></table>	FY	Net asset surplus \$m	FY14	-	FY15	6.75	FY16	4.38	FY17	4.89	FY18	5.15
			FY	Net asset surplus \$m											
			FY14	-											
			FY15	6.75											
			FY16	4.38											
			FY17	4.89											
			FY18	5.15											
The Audited Accounts may not be an accurate reflection of the financial position of the Company as they did not reflect the deficiency of Client Monies from at least FY17 and FY18.															
A liquidator will investigate further in a liquidation the Client asset position reported in the balance sheet in the Audited Accounts.															

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments																								
			<p>It appears that all Client equity positions have not been recorded in the Client liabilities for FY18. A liquidator would need to further investigate the amounts that have been reflected as the Client asset and liability position in a liquidation to determine what amounts were included.</p>																								
Net asset deficiency (Client Monies)	Yes	December 2016	<p>As detailed in Section 10.4, we are currently awaiting further books and records from the Accountants with respect to specific accounting reports prepared that detailed the Client net asset position (Accountant Reports).</p> <p>It is also important to note that when determining the net asset position, the Accountants and the Director appear to have assumed that Investors would lose 56% on future trades, therefore reducing the requirement to hold sufficient cash and assets to cover the total equity position. A liquidator will need to consider further the appropriateness of this conduct.</p> <p>Based on a limited preliminary review of the management reports maintained by the Treasury team at Halifax and the Accountant Reports prepared by the Company's Accountant, the Company recorded the following net asset position with respect to Client Monies:</p> <table><tr><th>Month</th><th>MT4/MT5 Net asset position \$m</th><th>Accountant Reports \$m</th></tr><tr><td>June 16</td><td>N/A</td><td>3.61</td></tr><tr><td>Dec 16</td><td>N/A</td><td>(17.39) – draft</td></tr><tr><td>Mar 17</td><td>(5.1)</td><td>Not received</td></tr><tr><td>Oct 17</td><td>(4.5)</td><td>Not received</td></tr><tr><td>Dec 17</td><td>(8.0)</td><td>Not received</td></tr><tr><td>Jun 18</td><td>(12.1)</td><td>0.79</td></tr><tr><td>Oct 18</td><td>(10.8)</td><td>(2.24 - 6.44)</td></tr></table>	Month	MT4/MT5 Net asset position \$m	Accountant Reports \$m	June 16	N/A	3.61	Dec 16	N/A	(17.39) – draft	Mar 17	(5.1)	Not received	Oct 17	(4.5)	Not received	Dec 17	(8.0)	Not received	Jun 18	(12.1)	0.79	Oct 18	(10.8)	(2.24 - 6.44)
Month	MT4/MT5 Net asset position \$m	Accountant Reports \$m																									
June 16	N/A	3.61																									
Dec 16	N/A	(17.39) – draft																									
Mar 17	(5.1)	Not received																									
Oct 17	(4.5)	Not received																									
Dec 17	(8.0)	Not received																									
Jun 18	(12.1)	0.79																									
Oct 18	(10.8)	(2.24 - 6.44)																									
			<p>The deficiency of Client assets appears to begin to accrue from at least December 2016.</p>																								

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments
Overdraw of Client Monies	Yes	At least January 2017	<p>The Company appears to have drawn funds in excess of revenue earned from at least January 2017. The overdrawing of Client Monies was used primarily for the following:</p> <ul style="list-style-type: none"> – Payment of Operating Expenses from the Various Foreign Currency Accounts and other accounts operated by Halifax – Payments from the Various Foreign Currency Accounts and other accounts to related entities to fund working capital requirements (e.g. start up capital for the China operations) – Revenue advances ahead of being earned were paid from the Various Foreign Currency Accounts to the Company NAB Account to assist in making payments as and when they fell due – Payment of potential voidable transactions which will be further investigated by a liquidator
Ageing of creditors	No	N/A	The books and records maintained by the Company's Accountant do not reflect an accurate representation of the ageing of creditors as we understand the Accountant prepared journal entries based on the transactions after they occurred.
Inability to extend finance facilities and breaches of covenants	No	N/A	From a preliminary review of the books and records, there does not appear to be any attempts to obtain financing from external third party lenders.
Inability to meet other financial commitments / default on finance agreements	No	N/A	From a preliminary review of the books and records, the Company did not operate any facilities with a third party.
Availability of other cash resources – cash flow test			
Profitability / trading losses	Yes	At least January 2017	<p>A preliminary review of the books and records has identified significant understatement of the Company's expenses in the accounting software (refer to Section 6.1.2).</p> <p>The Administrators have prepared an indicative reconstructed profit and loss and based on this, it appears that the Company first encountered an operating loss from at least January 2017 and continued to incur trading losses up to the appointment of the Administrators as summarised below:</p>

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments
----------------------	---------	-----------------------------	--------------------------

(\$m)	HY17	FY18	YTD19
Net loss	(4,248)	(7,195)	(2,818)

It should be noted that this reconstructed profit and loss is indicative only and based on incomplete financial information. It is not a definitive view but has been prepared and provided to give an indication of the operational performance of the Company.

Cash flow difficulties	Yes	At least January 2017	<p>Although the Company did not experience a negative cash flow, it appears that the Company was having cash flow difficulties from at least January 2017 based on the following indicators:</p> <ul style="list-style-type: none"> – Overdrawing of Client Monies from at least January 2017 to fund Operating Expenses; and – Using Client Monies to pay debts as and when they fell due from at least 1 January 2017.
Access to alternative sources of finance (including equity capital)	No	N/A	From a preliminary review of the books and records, it does not appear that Halifax had access to any alternative sources of finance.
Inability to dispose of non-core assets	No	N/A	<p>The Company held a term deposit in the amount of \$1.6m. However, the term deposit was required to maintain the AFSL and the Company could not rely on these funds to satisfy any deficiency in Client Monies at any point in time.</p> <p>Our investigations to date have not identified any further material non-core assets that could have been realised for the benefit of the Company.</p>
Dishonoured payments	No	N/A	A review of the Company's banking records do not reflect a history of dishonoured payments.
Overdue Commonwealth and State taxes	No	N/A	<p>From a review of the records provided by the ATO, the outstanding debt as at 23 November 2018 totalled \$137,982, comprised of debts outstanding with respect to the RBA account (\$50,543) and debts outstanding with respect to the income tax account (\$87,439).</p> <p>Halifax entered into a payment arrangement with the ATO where they paid a total of \$90,965 in six monthly instalments between June and November 2018. It appears that the Company complied with the terms of the payment arrangement during this time.</p>

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments
			The records of Halifax indicate that superannuation may be unpaid for various quarters in 2017. A liquidator will complete a reconciliation to determine what amounts are owed with respect to superannuation.
No forbearance from creditors / legal action threatened or commenced by creditors	No	N/A	<p>From a review of the books and records available, there do not appear to be any other major Creditors threatening legal action against Halifax for payment of outstanding invoices.</p> <p>However, we are aware that there were three independent proceedings brought against the Company prior to our appointment which will be further investigated by a liquidator.</p>

We have attached at **Annexure I** a graphical summary of key insolvency indicator events.

10.5 Preliminary conclusion as to solvency

In light of the insolvency indicators discussed above, we are of the opinion that the Company may have been insolvent from as early as January 2017 based on the following:

- Halifax appears to have used Client Monies through revenue advances in excess of revenue earned to meet its debts as and when they fell due from at least January 2017 for:
 - Payment of Operating Expenses;
 - Payment of working capital requirements for the Chinese business;
 - Revenue advances to the Company NAB Account in excess of revenue that was entitled to be drawn; and
 - Payment of potential voidable transactions that will be further investigated by a liquidator.
- The deficiency in Client Monies from at least March 2017 (if not earlier) on the MT4 & MT5 platforms;
- Trading losses; and
- The Company failed to maintain records in accordance with Section 286 of the Act from at least January 2017 and a liquidator can rely on this for a presumption of insolvency.

At this stage, the Administrators are unable to assess the likelihood that Halifax was insolvent earlier than 1 January 2017 due to incomplete financial and accounting records.

A liquidator, if appointed, would need to conduct further investigations, and possibly conduct a public examination of relevant parties, to ultimately determine whether or not the Company became insolvent at 1 January 2017 or earlier.

10.6 Potential liquidator recoveries – insolvent trading

10.6.1 Director's liability

Section 588G of the Act imposes a positive duty upon company directors to prevent insolvent trading. If a director is found to have committed an offence under Section 588G, the Court may order him or her to pay compensation to the company equal to the amount of loss or damage suffered by its creditors.

The Court may also impose upon the directors one of two types of civil penalty orders. The first can include a fine or an order prohibiting the directors from participating in the management of a company. The second, where there is criminal intent and conviction, exposes a director to imprisonment up to five years and/or a fine.

This action is not a right that is available to an administrator or a deed administrator. Applications for compensation payable to the company are usually made by a liquidator, or in specified circumstances, a creditor.

The substantive elements of Section 588G are:

- A person must be a director of a company at a time when the company incurs a debt;
- The company must be insolvent at the time or becomes insolvent by incurring the debt; and
- The director must have reasonable grounds for suspecting that the company is insolvent or would become insolvent.

10.6.2 Director's defences

The defences available to directors contained in Section 588H are:

- The directors had reasonable grounds at the time the debt was incurred to expect the company to be solvent and would remain solvent even after the debt was incurred;
- The directors relied on another competent and reliable person to provide information about whether or not the company was insolvent;
- The directors were ill or for some other good reason did not take part in the management of the company; or
- The directors took reasonable steps to prevent the incurring of the debt.

10.6.3 Pursuing an insolvent trading claim

A liquidator must form an opinion as to the date of insolvency and determine the debts incurred from that date; thereby quantifying the loss to the company.

The costs of proceeding with an insolvent trading action, which are usually considerable, particularly given the need for expert evidence as to insolvency, must be considered.

Any decision to commence an action against the Director or Former Director for insolvent trading must have regard to the following:

- The costs of litigation and the uncertainty of success inherent in any complex litigation; and
- The Director/Former Director's capacity to meet a claim for compensation.

Our preliminary view is that the Company was insolvent from at least January 2017.

In determining a course of action, a liquidator would give consideration to the costs and risks of any proceedings and the ability to fund any proceedings, including whether creditors are prepared to forgo any scheduled dividends and / or the cost of litigation funding as an alternative.

A liquidator may write to a company's directors, setting out the results of the investigations and the conclusions in relation to insolvent trading and requesting payment of compensation for debts incurred by the company at a time when it was insolvent.

Subject to a response (if any) being received, to progress the insolvent trading claims, it may be necessary to conduct public examinations. The purpose of these examinations would be to further investigate the examinable affairs of the Company and obtain further information and documentation in relation to the matters raised in this report.

The analysis of an insolvent trading claim is complex and would require a detailed calculation by a liquidator and legal advice. We estimate that an insolvent trading claim, if brought, could be based on the summary below:

	Amount (\$m)
Estimated Client deficiency as at 23 November 2019	(19.7)
Employee entitlement claims	(0.3)
Unsecured creditor claims	(1.0)
Total estimated insolvent trading claim	(20.1)

10.7 Adequacy of books and records

Section 286 of the Act requires a company to keep written financial records that correctly record and explain the company's transactions, financial position and performance and would enable true and fair financial statements to be prepared. The financial records must be retained for a period of seven years after the transactions covered by the records are completed.

The failure to maintain books and records in accordance with Section 286 provides a rebuttable presumption of insolvency which might be relied upon by a liquidator in an application for compensation for insolvent trading.

We note that the information contained in the Management Accounts and Audited Accounts appears inaccurate as they do not include transactions involving payments out of various accounts which arguably affects the trading position of the Company. This is discussed further at **Section 6.3** of this report.

Based on the above and our review of the books and records received, we are of the opinion that the Company's books and records were not maintained in accordance with Section 286 of the Act from at least January 2017.

10.7.1 Falsification of books

Pursuant to Section 1307(1) of the Act, it is an offence for a person to engage in conduct that results in the concealment, destruction, mutilation or falsification of any securities of or belonging to the company or any books affecting or relating to affairs of the company.

If an offence is proven, there are criminal penalties only. However, similar or related conduct also could give rise to a contravention of Section 1307(2) of the Act and that contravention could give rise to a claim for damages. Further, conduct falling within either Section 1307(1) or Section 1307(2) may amount to breaches of directors' statutory and/or general law duties and/or provisions proscribing misleading conduct which could give rise to a recovery of funds.

Our investigations are still ongoing into any potential falsification, or misleading presentation, of books or records.

10.7.2 False or misleading statements

Pursuant to Section 1308 of the Act, a company must not advertise or publish a misleading statement regarding the amount of its capital. It is an offence for a person to make or authorise a statement that, to the person's knowledge is false or misleading in a material way.

Given the apparent material misstatement of information in the Audited Accounts, there may be potential offences under Section 1308 of the Act.

Whilst an offence does not give rise to a claim for damages or compensation, conduct falling within Section 1308 may amount to breaches of directors' statutory and/or general law duties and/or provisions proscribing misleading conduct which could give rise to a recovery of funds.

We are continuing to investigate these issues.

10.7.3 False information

Pursuant to Section 1309 of the Act, it is an offence for an officer or employee to make available or give information to a director, auditor, member, debenture holder, or trustee for debenture holders of the company that is to the knowledge of the officer or employee:

- False or misleading in a particular matter; or
- Has omitted from it a matter the omission of which renders the information misleading in a material respect.

Again, whilst an offence does not give rise to a claim for damages or compensation, conduct falling within Section 1309 may amount to breaches of directors' statutory and/or general law duties and/or provisions proscribing misleading conduct which could give rise to a recovery of funds.

We are continuing to investigate these issues.

11 Voidable transactions

This section informs creditors about potential voidable transactions that occurred prior to the appointment of the Administrators, and where the property of the Company was disposed of or dealt with, may be recovered by a liquidator.

Key takeaways		Ref.
1	We have identified potential voidable transactions in the amount of \$4.8 million	11.3
2	The majority of these transactions had the effect of conferring a benefit on the Director, Former Director or a related entity of these individuals.	11.3

A liquidator has the power to take steps to have declared void certain transactions which are either not beneficial, or are detrimental, to a company. An administrator must identify any transactions that appear to be voidable by a liquidator. Apart from seeking to have a voidable transaction declared void, a liquidator may seek related orders, including the payment of compensation.

Enclosed at **Annexure J** is a creditor information sheet published by ARITA. This information sheet details the types of transactions which a liquidator can seek to have declared void, which include:

- Unfair preference payments;
- Uncommercial transactions;webcast
- Unfair loans;
- Unreasonable director related transactions;
- Inappropriate related party transactions
- Creation of circulating security interests within 6 months of commencement of Administration; and
- Transactions for the purpose of defeating creditors

For the purposes of examining voidable transactions, the Liquidator would review transactions that occurred during the relevant time period (as prescribed under the Act), taking into consideration the “relation back day”. The relation back day for the Company is 23 November 2018 being the date the Director resolved to appoint the Voluntary Administrators as determined by Section 91 of the Act.

11.1 Summary of potential antecedent transactions

Set out below is a summary of transactions that a liquidator would be very likely to investigate further if the Company is placed into liquidation.

Date	Transaction	Section	Value
23 November 2018	Payment to Halifax America	588FB, 588FD	40,200
21 November 2018	Reduction in director loan accounts	588FB, 588FD	1,975,126
21 November 2018	Payment to ATO	588FB, 588FD	1,682,993
21 November 2018	Superannuation payments to Director and Former Director	588FB, 588FD	248,462
21 November 2018	Payout of Bentley lease	588FB, 588FD	39,377
1 July 2018	Write-off of AMH loan	588FB, 588FD	124,301

Date	Transaction	Section	Value
19 June 2018	Rent payment	588FB, 588FD	49,631
16 June 2018	Rental bond	588FB, 588FD	6,087
11 June 2018	Transfer of MT5 licence to Halifax Vanuatu	588FB, 588FD	Unknown
28 March 2018	Leave payment to the Director	588FB, 588FD	609,346
14 February 2018	Transfer of Clients to AMH	588FB, 588FD	Unknown
Total			4,775,522

11.2 Unfair preferences – Section 588FA

An unfair preference payment is a transaction, generally occurring in the six months prior to the relation back day, between the company and a creditor, resulting in the creditor receiving from the company, in relation to an unsecured debt owed to the creditor, a greater amount than it would have received in relation to the debt in a winding up of the company. This period is extended up to four years for transactions entered into with a related entity.

A transaction can only be considered an unfair preference if the company was insolvent at the time the transaction took place, or the company became insolvent as a result of the transaction.

At this stage, we have not identified any transactions which may constitute unfair preferences.

11.3 Uncommercial transactions – Section 588FB

An uncommercial transaction is a transaction which a reasonable person in the place of the company would not have entered into, taking into account the benefits and the detriment to the company, the respective benefits to the other parties involved and any other related matters.

A liquidator must investigate transactions deemed to be uncommercial, in the period two years prior to the date of administration. We comment on potential uncommercial transactions which are required to be investigated further by a Liquidator below.

11.3.1 Reduction in director loan accounts on 21 November 2018 in the amount of \$2.0 million

On 21 November 2018, the Company paid the Director and Former Director an amount of \$3.4 million in respect of wages (inclusive of PAYG and superannuation).

This payment was not (except for the PAYG tax and superannuation components) a cash payment. The transaction was processed as a journal entry in the Company's Xero file and had the effect of **reducing various director loan accounts by \$2 million** (being the net amount payable to the Director and Former Director, after PAYG tax and superannuation, as a result of the \$3.4 million wage payment).

This transaction occurred on 21 November 2018, at a time when the Director was aware that the appointment of the Administrators was imminent.

11.3.2 \$1.6 million payment to the ATO

On 21 November 2018, \$1.6 million was paid to the ATO in respect of PAYG withholding tax for the \$3.4 million wage payment outlined in **Section 11.3.1**.

11.3.3 Payment of superannuation in the amount of \$0.2 million to the Director and Former Director

On 21 November 2018, payments of \$0.1 million were made into the superannuation accounts of the Director and Former Director.

The superannuation payments constitute a portion of the \$3.4 million wage payment outlined in **Section 11.3.1**.

11.3.4 Payment to Halifax America

On 23 November 2018, a payment in the amount of \$0.04 million was made to Halifax America LLC. We understand that this payment was made in order to pay a fine imposed by the Financial Industry Regulatory Authority (FINRA).

We have not seen any evidence to demonstrate that there was any commercial benefit to the Company in entering into this transaction. Further, we understand that Halifax is a previous shareholder of Halifax America and that the Director has a financial interest in this entity.

11.3.5 Transfer of Clients to AMH

On 14 February 2018, an agreement was entered into between AMH and Halifax (**the AMH Agreement**) which provided for the transfer of Investors from Halifax to AMH.

59 Investors with a total equity balance of \$11.4 million were transferred from Halifax to AMH pursuant to the AMH Agreement. The AMH Agreement stated that AMH must pay Halifax an amount equal to all receivables which accrue to AMH from IB in relation to Clients transferred for only the first 6 months following the entry into the agreement.

No funds have been paid to Halifax by AMH in this regard.

Further, even accepting that the consideration for the agreement was the legal entitlement of Halifax to all receivables accruing to AMH from IB in the first 6 months following the entry into the agreement, there are doubts about the sufficiency of the commercial benefit to the Company in entering into this transaction.

Separately, the transaction requires consideration of the extent to which it involved a breach of directors' statutory and/or general law duties.

11.3.6 Payout of Bentley Lease

On 21 November 2018, the Director caused payment of \$0.04 million to be made to Centrepont Finance in respect of the payout of a lease for a Bentley which we understand is in the possession of the Director.

We are not aware of any commercial benefit to the Company in making this payment. We further note that the Bentley is not registered in the name of Halifax.

11.3.7 Transfer of MT5 licence to Halifax Vanuatu

On 1 July 2018, the licence for the MT5 platform operated by Halifax was transferred to Halifax Capital Markets. The Director has advised that the transfer was effected in order to confer a tax advantage on Halifax. We do not consider this explanation to be sufficient.

We are not aware of any commercial benefit to the Company in entering into this transaction.

11.3.8 Payment of annual leave and long service leave to the Director

On 29 March 2018, a payment of \$0.6 million was made to the Director. We understand this payment was in respect of annual leave and long service leave for the period from 2001 to 2018.

In our view, the calculation of entitlements which formed the basis of the payment may be overstated.

We are not aware of any commercial benefit to the Company in making this payment.

11.3.9 Write off of loan to AMH

On 1 July 2018, the Directors of Halifax executed a resolution which had the effect of writing off a loan owed by AMH to Halifax in the sum of \$0.1 million.

There does not appear to have been adequate consideration provided to Halifax for the write off of the loan and we are not aware of any commercial benefit to the Company in entering into this transaction.

11.3.10 Rent payment

On 19 June 2018, two payments totalling \$0.1 million was made in respect of pre-paid rent for a residential property which we understand was occupied by the Director. 50% of this payment was allocated to the director loan account, while the balance was processed as an expense of the Company.

The Director has advised that this payment made by Halifax on the basis that the premises was being used as a home office.

11.3.11 Rental bond

On 26 June 2018, an amount of \$0.01 million was paid in respect of a rental bond for a residential property which we understand was occupied by the Director. 50% of this payment was allocated to the director loan account, while the balance was processed as an expense of the Company

The Director has advised that this payment made by Halifax on the basis that the premises was being used as a home office.

11.3.12 Other

The above does not necessarily constitute a full listing of potential uncommercial investigations identified by the Administrators. A liquidator if appointed, would be required to undertake further investigations (including but not limited to the following):

- An analysis of all amounts paid to related parties;
- An analysis of dividends paid during the 2 years prior to the appointment of the Administrators; and
- A review of all commission paid, together with documentary evidence supporting the calculation of these payments.

11.4 Unfair loans – Section 588FD

A liquidator will investigate any loans to the company which may be considered unfair due to extortionate interest rates or charges.

Based on the books and records in our possession we have not identified any transactions which would constitute unfair loans to the Company.

11.5 Unreasonable director-related transactions – Section 588FDA

Section 588FDA of the Act refers to “unreasonable director-related transactions” and requires the liquidator to investigate such transactions, having regard to the detriment to the Company (if any) suffered as a consequence of the transaction.

The transaction must have been unreasonable, and entered into during the four years prior to the relation back day, regardless of the solvency at the time the transaction occurred. These can include remuneration, bonuses, loans, loan forgiveness and asset transfers to company officers with the four-year period ending on the relation-back date.

11.6 Arrangements to avoid employee entitlements

Part 5.8A of the Act aims to protect the entitlements of a company’s employees from agreements that deliberately defeat the recovery of those entitlements upon insolvency.

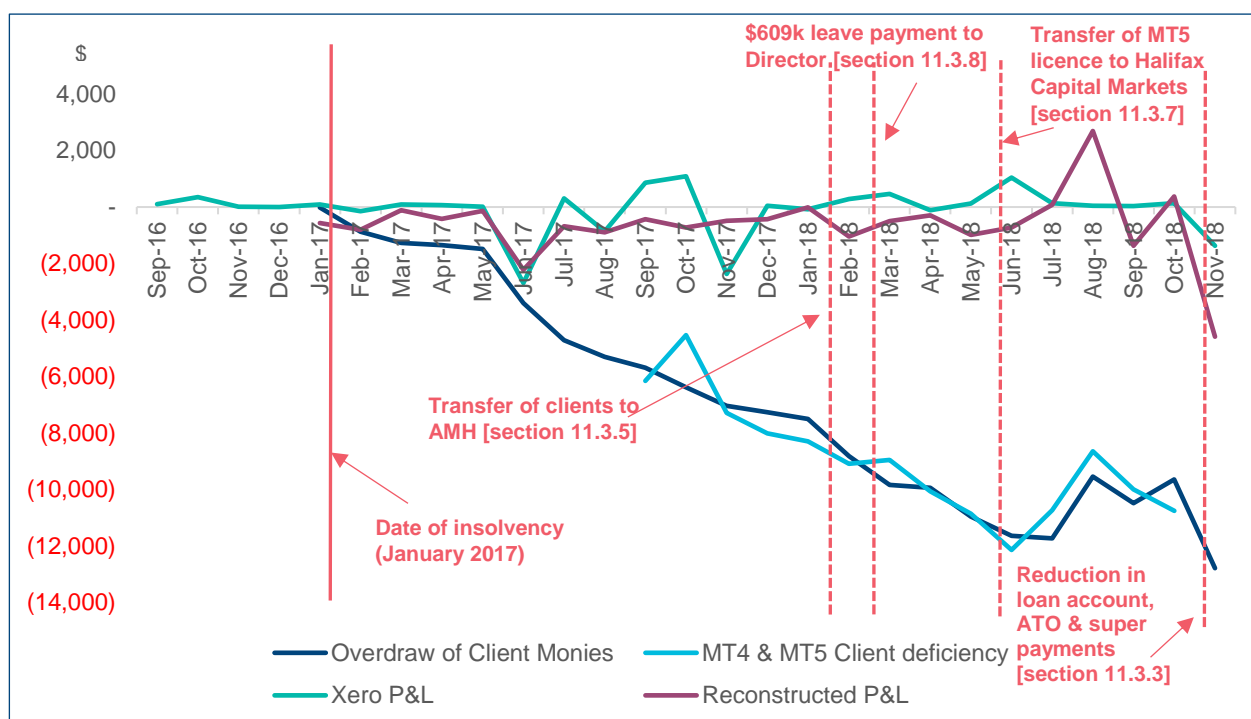
Under Section 596AB(1) of the Act, it is an offence for a person to enter into a transaction or relevant agreement with the intention of, or with intentions that include:

- Preventing recovery of employee entitlements; or
- Significantly reducing the amount of employee entitlements recoverable.

We have not identified any transactions of this nature.

11.7 Timeline of events

The following graph provides a timeline of key events leading up to the appointment of the Administrators.



11.8 Directors' ability to pay a liquidator's claims

We have requested that the Director and the Former Director provide us with a statutory declaration outlining their personal financial position. We have not yet been provided with a response, however we will provide Creditors with an update at the Second Meeting.

We are continuing to review various insurance policies in place which a liquidator, if appointed, may be able to claim against.

11.9 Reports to the ASIC

Section 438D of the Act requires us to lodge a report with the ASIC should we become aware of:

- Any offences committed by a past or present officer of the Company;
- Evidence that money or property has been misapplied or retained;
- Evidence that a party is guilty of negligence, default, breach of duty or breach of trust in relation to the Company.

On 21 February 2019, we lodged a form 438D with ASIC in relation to potential breaches of director duties under Sections 180 to 184 of the Act.

Creditors should be aware that this report lodged pursuant to Section 438D (or an investigative report lodged by a liquidator pursuant to Section 533 of the Act) is not available to the public.

We have been in regular contact with ASIC in relation to our investigations into Halifax's affairs. We have submitted to ASIC a supplementary report on the potential director misconduct that we have identified as part of our investigations.

12 Causes of the deficiency in Client funds

This section provides Investors with information on the apparent misapplication of Client Monies.

Key takeaways	
1	Our investigations have determined that the Company may have been insolvent from at least 1 January 2017
2	Halifax drew Client Monies in excess of revenue earned from at least January 2017
3	Client Monies were used to towards the payment of Operating Expenses totalling \$13.1m
4	The Administrators' indicative reconstructed profit & loss statement details that Halifax operated at a cumulative net loss between January 2017 to 23 November 2018 of \$14.3m
5	Section 981B Trust Accounts (holding Client Monies), do not appear to have been operated in accordance with the Client Money Rules

12.1 Potential misuse of Client monies

From a preliminary review of the books and records, we consider that the primary cause of the deficiency in Client Monies as at 23 November 2018 to be as follows:

	\$m
Estimated operational losses	14.3
Funds advanced to third parties not in the ordinary course of business	2.8
Amount still under investigation	2.6
Estimated deficiency	19.7

Our initial investigations have identified that the following issues are relevant when understanding the potential misapplication of Client Monies:

- Halifax only had wide scale access to Client Monies post June 2016, at a time when it was implementing a new business structure (expansion of proprietary platforms). Prior to this, Client funds were largely held on a 1:1 basis by third party providers.
- There were limited or no financial controls in place for this new business structure.

At a high level (and subject to further tracing to be undertaken by a liquidator), we consider the following factors contributed to the operational losses:

- Operating losses in the MT4 and MT5 platforms caused by high levels of commission, a loss making rebate structure and significant platform costs;
- Cost associated with setting up the China business;
- Significant level of commissions to China brokers (up to 90% of commission);
- Losses from the China business;
- Director related expenditure through the director loan accounts;
- Costs associated with the New Zealand business; and

- Overheads (for example salaries and wages).

12.2 Conclusion

Having regard to the above, it appears that Client Monies were used to fund costs of the operations of Halifax, the Chinese business and Halifax New Zealand as well as director related expenditure on the director loan accounts.

13 Return to creditors

This section provides Creditors with information on the estimated financial outcome to Creditors together with the anticipated timing of any dividend.

Key takeaway	
1	Claims may be valued either at the date of the appointment of Administrators or at a later date (which we have, solely for illustrative purposes presented, as 28 February 2019). This will ultimately be determined by the Court.
2	The estimated outcome presented incorporates many assumptions which are subject to significant change . The key variables subject to change are the date for valuation of claims, any market movement in open positions and the Court's determination on any appropriate pooling . As such, our estimate is only indicative at this point in time.
3	The table below outlines an estimated Low and High return for various classes of creditors in a Liquidation, valuing claims at both the date of appointment (in a high case) and 28 February 2019 (in a low case). We have assessed the estimated outcome on a pooled basis for illustrative purposes to provide an indicative return .
4	Given the deficiency in Client funds, it appears that there is likely to be a shortfall to Investors from trust assets . Inventors will have an unsecured claim in the Company in the event of a shortfall in trust assets, however any return to unsecured creditors is contingent on future recoveries of Company assets .
5	To the extent there are no realisations available for priority employee creditors, in a liquidation employees may be eligible for payment of their outstanding employee entitlements (excluding unpaid superannuation) under FEG , a scheme operated by the Department of Employment

The following should be considered a high level estimate only and subject to key assumptions outlined in Section 13.3. It is subject to significant change, in particular as a result of any future Court applications.

Claim date	28 February 2019	23 November 2018
	Low	High
Investor creditors	85%	95%
Priority employee creditors	0%	100%
Unsecured creditors	0%	36%

Given the deficiency in Client funds, it appears that there is likely to be a shortfall to Investors from trust assets. Inventors will have an unsecured claim in the Company in the event of a shortfall in trust assets, however any return to unsecured creditors is contingent on future recoveries of Company assets, including potential voidable transactions, together with any future Court directions in relation to the allocation of costs to these assets. The EOS presented in **Section 13.4** has not allocated any costs against these potential asset recoveries.

13.1 Return to Investors and creditors

As outlined in **Section 5.3**, the recent decision in BBY Limited suggests that the date of the appointment of administrators is the appropriate date at which to calculate entitlements.

However, such a position is somewhat complicated where Client positions remained open on the appointment date. In such circumstances, it may be appropriate to determine the value of the positions at the time they were closed out, unless it is reasonably practicable to carry out a calculation of the value, as at the appointment date, of positions which were open on the appointment date but which were closed out subsequently.

It appears that, with Halifax, it is reasonably practicable to carry out such a calculation of positions which were open on the appointment date but which were closed out subsequently.

Accordingly, it appears that the appointment date of 23 November 2018 is likely to be accepted by the Court as the appropriate date for crystallising the value of all investments, even in respect of Client positions that remained open on the appointment date.

However, this will ultimately be determined by the Court.

Accordingly, to provide Creditors with a view as to the likely return in a liquidation scenario, we have presented below an analysis of the return both in the event claims were assessed at the time of appointment and should they be assessed at a later date, which we have, for illustrative purposes only, presented as at 28 February 2019. As we have said, it seems to us that the former is the more likely scenario.

The variance between these scenarios is significant as the market value of open investor positions has moved materially since the appointment of Administrators. To provide an indication, outlined below is a summary of the movement from 23 November 2018 to 29 February 2019.

Platform	Equity value at 23 November 2018 (\$)	Equity value at 28 February 2019 (\$)
IB (Australia)	110.0	119.6
IB (NZ)	44.4	47.4
MT4	23.8	24.6
MT5	33.0	36.1
Total equity position	211.2	227.7

The increase in the value of open positions is the reason for this movement in value, which has the effect of reducing the overall deficiency to Investors if the Court determines claims are valued at the date of appointment.

13.2 Investors beneficiary right to trust assets

Investors are likely to first have a beneficiary claim over all trust assets held. To the extent that there is any shortfall, which seems likely, Investors would then have an unsecured claim against the entity which they have executed a CSA with. To this extent, we have only presented unsecured returns to Investors who have signed a CSA with the Company. **Investors who have signed a CSA with Halifax NZ should refer to the Administrator's report with respect to that entity which can be found on the Ferrier Hodgson website.**

13.3 Key assumptions

In preparing this estimated statement of position, we have incorporated the following key assumptions (which are subject to determination by the Court and therefore subject to change):

- **This analysis does not account for any future movement in market value of assets. As various positions are still open, any market movement may materially impact the estimated return to Investors and creditors.**
- All investors and all assets are pooled across Australia, NZ and all platforms.
- All amounts have been converted to AUD using indicative rates.
- All cash and stock values are as at 28 February 2019 and therefore will not reconcile to the values in **Section 7** which are as at the date of appointment of the Administrators.
- We have assumed all cash and stock balances are trust assets, and not available to unsecured creditors. This includes amounts held in the Company bank accounts, which on the face of it may have been subject to co-mingling with investor funds. The Court may determine that these assets are available for unsecured creditors.
- We have assumed 12 months of ongoing trading costs in a liquidation (with these costs decreasing over this period of time). The length of this process may be extended subject to the Court application.
- We have included investor and creditor claims having regard to their equity value at the date of our appointment and at 28 February 2019. These claims have not been formally adjudicated on by the Administrators and are subject to change.
- We have not accounted for any potential tax impact of gains in the value of investments since the date of our appointment.
- Administrators' and Liquidators' disbursements and legal fees are high level estimates only and subject to significant variances depending on the direction of any Court application. Further, the cost estimates only relate to investor funds tracing and distribution work. Any recovery actions may incur additional costs.
- We have assumed GST is not recoverable in respect to any expenses. We are seeking legal advice as to the recoverability of GST amounts paid.
- We have allocated all costs, including Administrator and Liquidator fees, to trust assets. Given the vast majority of work completed by the Administrators has been related to trust assets, and given that Company funds appear to be limited or non-existent (due to the co-mingling), it is likely the majority of these costs would be applied as such. However, a portion of these costs may relate to Company assets, and therefore the only assets available to satisfy these amounts would be Company assets. A further detailed analysis of all costs of the process will need to be undertaken prior to any funds being drawn. Further, all such costs are only high-level estimates at this stage, and are likely to vary materially depending on future Court directions. Should costs be allocated against Company assets, it will materially impact any potential return to unsecured creditors.
- No assumptions made regarding any future potential net recoveries from identified voidable transactions.

13.4 Estimated outcome to beneficiary creditors

The table below outlines an estimated Low and High return for beneficiary creditors in a Liquidation, valuing claims at both the date of appointment and 28 February 2019.

\$000s	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018	Liquidation ERV Low 28 February 2019	Liquidation ERV High 28 February 2019
Trust assets - Australia				
Trust cash	5,925	5,925	5,925	5,925
Company cash	2,290	2,290	2,290	2,290
Funds and stocks held by Interactive Brokers	151,724	151,724	151,724	151,724
Funds held by other third parties	-	1,467	-	1,467
Less:				
Estimated Administrators' remuneration and disbursements	(2,150)	(1,950)	(2,150)	(1,950)
Estimated Liquidators' future remuneration and disbursements	(3,300)	(2,200)	(3,300)	(2,200)
Estimated legal fees (including future fees)	(4,000)	(3,000)	(4,000)	(3,000)
Estimated trading costs for VA and liquidation	(4,400)	(3,850)	(4,400)	(3,430)
Total Australian trust assets (A)	146,089	150,406	146,089	150,406
Trust assets – New Zealand				
Trust cash	1,592	1,592	1,592	1,592
Funds and stocks held by Interactive Brokers	48,355	48,355	48,355	48,355
Less:				
Estimated NZ Administrators' remuneration and disbursements	(800)	(700)	(800)	(700)
Estimated NZ Liquidators' future remuneration and disbursements	(950)	(750)	(950)	(750)
Estimated legal fees (including future fees)	(900)	(720)	(900)	(720)
Estimated trading costs	(822)	(692)	(822)	(692)
Total New Zealand trust assets (B)	46,475	47,085	46,475	47,085

\$000s	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018	Liquidation ERV Low 28 February 2019	Liquidation ERV High 28 February 2019
Trust assets available to beneficiary creditors (A + B)	192,564	197,492	192,564	197,492
Interactive Brokers Australia Investors	110,045	110,045	119,601	119,601
Interactive Brokers NZ Investors	44,368	44,368	47,354	47,354
MT4 Investors	23,768	23,768	24,596	24,596
MT5 Investors	32,950	32,950	36,092	36,092
Total beneficiary creditors	211,130	211,130	227,643	227,643
Estimated deficiency to beneficiary creditors from trust assets (after costs)	(18,566)	(13,639)	(35,079)	(30,151)
Estimated deficiency to beneficiary creditors from trust assets (after costs)	91%	94%	85%	87%

The above calculations are an estimate only and may change due to the factors mentioned in 13.3 above.

13.5 Estimated outcome to unsecured and priority creditors

The table below outlines an estimated Low and High return for unsecured and priority creditors in a Liquidation, valuing claims at both the date of appointment and 28 February 2019.

\$000s	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018	Liquidation ERV Low 28 February 2019	Liquidation ERV High 28 February 2019
Term deposits	-	276	-	276
Debtors	-	495	-	495
Plant & equipment	-	10	-	10
Potential antecedent transactions	-	4,776	-	4,776
Total Non-Trust assets	-	5,557	-	5,557
Less: Priority employee entitlements	(319)	(290)	(319)	(290)
Funds available to unsecured creditors	(319)	5,267	(319)	5,267
Shortfall to Investors with Australian CSAs	14,165	10,407	26,914	23,133
Claim from Halifax NZ with respect to shortfall to investors with NZ CSAs	4,401	3,233	8,165	7,018
Trade creditors	1,013	1,013	1,013	1,013

\$000s	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018	Liquidation ERV Low 28 February 2019	Liquidation ERV High 28 February 2019
Contingent creditors	Unknown	Unknown	Unknown	Unknown
Total unsecured creditors	19,579	14,652	36,091	31,164
Estimated deficiency to unsecured creditors	(19,897)	(9,384)	(36,410)	(25,897)
Estimated return to unsecured creditors	0%	36%	0%	17%

The above calculations are an estimate only and may change due to the factors mentioned in 13.3 above, in particular the allocation of costs to Company assets.

13.6 Summary of returns to various classes of creditors

The table below outlines an estimated Low and High return for various classes of creditors in a Liquidation, taking into account both amounts relating to beneficiary claims, unsecured claims and priority employee claims, valuing claims at both the date of appointment and 28 February 2019.

Claim date	23 November 2018		28 February 2019	
	Low	High	Low	High
Investor creditors	91%	95%	85%	88%
Priority employee creditors	0%	100%	0%	100%
Unsecured creditors	0%	36%	0%	17%

The above calculations are an estimate only and may change due to the factors mentioned in 13.3 above, in particular the allocation of costs to Company assets.

If the Company is placed into liquidation, employees may be eligible for payment of their outstanding employee entitlements (excluding unpaid superannuation) under FEG, a scheme operated by the Department of Employment.

Employees can obtain further information on the eligibility requirements of FEG at <https://docs.jobs.gov.au/documents/eligibility-feg-assistance-fact-sheet>.

13.7 Timing of dividend

We appreciate that Clients would like to have access to funds held in accounts as soon as possible. However, due to the many complex issues and matters that will require directions from the Court as well as other recovery actions to be taken, it is difficult at this time to provide an estimate as to when Investors can expect to receive a distribution.

It is anticipated that an application will be filed with the Court within 60 days of the Company being placed in liquidation. The estimated date by when that application will be finally determined is difficult to predict and will depend on a number of variables, including the availability of the Court and the extent of matters that may be raised by various parties. We do not anticipate the application will be determined any earlier than 6-12 months after being commenced and it may take substantially longer than that to be finalised, as actions and claims by and against extant parties can impact on the timing significantly. For example, BBY Limited has taken considerably longer than that period of time to be determined (and is still ongoing in respect of certain matters).

14 Statement by Administrators

The Administrators recommend that the Company be wound up

Pursuant to IPR 75-225(3)(b), we are required to provide creditors with a statement setting out our opinion on whether it is in creditors' interests for the:

- Administration to end;
- Company to be wound up; and
- Company to execute a DOCA.

Each of these options is considered below. In forming our opinion, it is necessary to consider an estimate of the dividend creditors might expect and the likely costs under each option.

14.1 Administration to end

The Company is insolvent and unable to pay its debts as and when they fall due. Accordingly, returning control of the Company to its Directors would be inappropriate and is not recommended.

14.2 DOCA

As no DOCA has been proposed at this point in time, this option is not available to creditors. In addition, as outlined in Section 9.2, a DOCA cannot purport to deal with trust claims.

14.3 Winding up of the Company

Given a DOCA is not legally possible, it is our opinion that the Company should be placed into liquidation.

A liquidator would be in a position to conduct detailed investigations into the conduct of directors and the financial affairs of the Company. A liquidator will also be empowered to:

- Complete the sale of assets in an orderly manner.
- Assist employees in applying for FEG for the payment of certain employee entitlements that cannot otherwise be funded by the Company.
- Pursue various potential recoveries under the Act.
- Distribute recoveries made in accordance with the priority provisions of the Act.
- Report to the ASIC on the results of investigations into the Company's affairs.

15 Further information and enquiries

The ASIC has released several insolvency information sheets to assist creditors, employees and shareholders with their understanding of the insolvency process. You can access the relevant ASIC information sheets at www.asic.gov.au.

We will advise creditors in writing of any additional matters that comes to our attention after the release of this Report, which in our view is material to creditors' consideration.

Should you have any enquiries, please contact Link Market Services at halifax@linkmarketservices.com.au or 1300 910 051 (or +61 1300 910051 outside of Australia).

Dated this 12th day of March 2019



Morgan Kelly

Joint and Several Administrators of **Halifax Investment Services Pty Ltd**

A – Receipts & Payments

	Total \$
Receipts	
Receipt of BankWest TD	1,610,326
Cash received from pre-appointment Company bank accounts	599,917
Company funds received from solicitor's trust account	71,581
Other income	2,546
Total receipts	2,284,370
Payments	
Platform expenses	369,352
Link Market Services	166,613
Employee expenses	152,123
Occupancy	68,203
Insurance	57,702
Loan to Halifax NZ	44,661
Contractor services	13,704
Accountancy costs	5,235
Payments of necessity	1,408
Other expenses	489
Total payments	879,490
Cash at bank at 28 February 2019	1,404,880

B – Notice of meeting of creditors

Notice of meeting of creditors

Insolvency Practice Rules (Corporations) 2016 (IPR), Section 75-225

Halifax Investment Services Pty Ltd (Administrators Appointed) (the Company)
ACN 096 980 522

NOTICE is given that a meeting of creditors of the Company will be held on **Wednesday 20 March 2019 at 10:00am (AEDT), registration from 9:00am (AEDT)** at the **Wesley Conference Centre, 220 Pitt Street, SYDNEY NSW 2000**.

Agenda

1. To consider a statement by the Director about the Company's business, property, affairs and financial circumstances.
2. To consider the circumstances leading to the appointment of the Administrators to the Company, details of the proposed Deed of Company Arrangement (if any) and the various options available to creditors.
3. To consider the report of the Administrators.
4. To resolve that the Company be wound up.
5. If the Company is wound up a Committee of Inspection be appointed, the members of which are to be determined by the meeting.
6. That the Creditors have no objection to the remuneration of the Administrators, as set out in the Remuneration proposal dated 12 March 2019, for the period from 23 November 2018 to 28 February 2019 being fixed in the amount of \$1,444,681.50, plus any applicable GST.
7. That the Creditors have no objection to the internal disbursements of the Administrators, as set out in the Remuneration Proposal dated 12 March 2019, for the period from 23 November 2018 to 28 February 2019 being fixed in the amount of \$9,922.80, plus any applicable GST.
8. Any other business that may be lawfully brought forward.

For a person to be eligible to attend and vote at the meeting on your behalf, a Form 532, Appointment of Proxy, is to be completed and submitted by no later than 10:00 am (AEDT) on 18 March 2019.

Halifax Investment Services Pty Ltd (Administrators Appointed)
c/- Link Market Services Limited
PO Box 3184
Rhodes NSW 2138

Tel (within Australia): 1300 910 051
Tel (from overseas): +61 1300 910 051
Email: halifax@linkmarketservices.com.au

Note:

A company may only be represented by proxy or by an attorney appointed pursuant to IPR Sections 75-25 and 75-150 or, by a representative appointed under Section 250D of the Act.

Creditors who are unable to attend the meeting in person may view the meeting via a webcast subject to providing the relevant proof of debt and proxy documents in advance. Creditors will be able to ask questions via the webcast, however, please note that due to the technological limitations, creditors will not be able to vote via the webcast. Creditors may view the meeting by webcast and participate in voting by nominating a proxy to attend the meeting in person and vote on their behalf.

The webcast is available at the following link: <https://webcast.openbriefing.com/5144/>

Please contact Link Market Services on 1300 910 051 (within Australia), +61 1300 910 051 (from overseas) or halifax@linkmarketservices.com.au before **19 March 2019** should you wish to view the meeting via a webcast.

Dated this 12th day of March 2019



Morgan Kelly
Administrator

Note: In accordance with IPR Section 75-15(1)(c) please see effect of IPR Section 75-85 Entitlement to vote at meetings of creditors on the following page.

Effect of IPR Section 75-85 – Entitlement to vote at meetings of creditors

1. A person other than a creditor (or the creditor's proxy or attorney) is not entitled to vote at a meeting of creditors.
2. Subject to subsections (3), (4) and (5), each creditor is entitled to vote and has one vote.
3. A person is not entitled to vote as a creditor at a meeting of creditors unless:
 - (a) his or her debt or claim has been admitted wholly or in part by the external administrator; or
 - (b) he or she has lodged, with the person presiding at the meeting, or with the person named in the notice convening the meeting as the person who may receive particulars of the debt or claim:
 - (i) those particulars; or
 - (ii) if required—a formal proof of the debt or claim.
4. A creditor must not vote in respect of:
 - (a) an unliquidated debt; or
 - (b) a contingent debt; or
 - (c) an unliquidated or a contingent claim; or
 - (d) a debt the value of which is not established;
 unless a just estimate of its value has been made.
5. A creditor must not vote in respect of a debt or a claim on or secured by a bill of exchange, a promissory note or any other negotiable instrument or security held by the creditor unless he or she is willing to do the following:
 - (a) treat the liability to him or her on the instrument or security of a person covered by subsection (6) as a security in his or her hands;
 - (b) estimate its value;
 - (c) for the purposes of voting (but not for the purposes of dividend), to deduct it from his or her debt or claim.
6. A person is covered by this subsection if:
 - (a) the person's liability is a debt or a claim on, or secured by, a bill of exchange, a promissory note or any other negotiable instrument or security held by the creditor; and
 - (b) the person is either liable to the company directly, or may be liable to the company on the default of another person with respect to the liability; and
 the person is not an insolvent under administration or a person against whom a winding up order is in force.

C – Nomination Form – Committee of Inspection

Nomination Form – Committee of Inspection
only to be completed if you wish to nominate a
member to the COI (if one is appointed)

Return no later than **10.00am (AEDT) on Monday 18
March 2019** to Ferrier Hodgson:
Email: HalifaxCOI@fh.com.au

Section 80-55 of Schedule to the Corporations Act 2001

Indebted Company: Halifax Investment Services Pty Ltd (Administrators Appointed) ACN 096 980 522
Date of Appointment: 23/11/2018

A. Name and Contact Details of Person or Entity Entitled to Attend Meeting

1

(if entitled in a personal capacity, given name and surname; if a corporate entity, full name of company, etc)

2 of

(address)

3 Tel:

4 Email:

B. Nomination of Person as Member of Committee of Inspection, if one is appointed

I/We, as named in Section A above, nominate

1

(name of person nominated as member of Committee of Inspection, if one is appointed)

2

(address of person nominated as member of Committee of Inspection, if one is appointed)

3

(email address of person nominated as member of Committee of Inspection, if one is appointed)

C. Declaration in relation to Transactions with the Indebted Company

During the external administration, I/We, as named in Section A above, contemplate entering into the following transactions with the Indebted Company during the external administration¹:

☐

continuance of service and/or supply agreements as detailed below:

.....
.....

☐

potential acquisition of the business and/or assets of the Indebted Company

☐

other – please provide details below:

.....
.....

D. Signature

¹ Dated:

² Signature:

³ Name / Capacity:

Creditor Assistance Sheet: Completing a Committee of Inspection Nomination Form

Section A – Name and Contact Details of Person or Entity Entitled to Attend Meeting

1. Insert the full name of the employee, individual, sole trader, partnership or company that the debt is owed to.
2. Insert the address of the employee, individual, sole trader, partnership or company that the debt is owed to.
3. Insert the telephone number of the employee, individual, sole trader, partnership or company that the debt is owed to.
4. Insert the email address of the employee, individual, sole trader, partnership or company that the debt is owed to.

Section B – Nomination of Person as Member of Committee of Inspection, if one is appointed

1. Insert the name of the person who is being nominated by the creditor as the member of the Committee of Inspection.
2. Insert the address of the person nominated at (1).
3. Insert the email address of the person nominated at (1).

Section C – Declaration in relation to Transactions with the Indebted Company

1. Indicate the type of transactions contemplated between the person/entity named in Section A and the Indebted Company during the course of the external administration.

Section D – Signature Instructions

1. Insert the date that the nomination form is being signed.
2. The form should be signed by **one** of the following persons:
 - If the debt is owed to an employee/individual, then the individual that the debt is owed to; or
 - If the debt is owed to a sole trader, then the sole trader that the debt is owed to; or
 - If the debt is owed to a partnership, then one of the partners of the partnership; or
 - If the debt is owed to a company, then a duly authorised office of the company (normally a director or secretary of the company).
3. Insert the name of the person signing the form, and note their capacity (that is, their role):
 - If the debt is owed to a sole trader, note their capacity as proprietor, eg: "[Full name], proprietor"; or
 - If the debt is owed to a partnership, note their capacity as partner, eg: "[Full name], partner of the firm named in Section A above"; or
 - If the debt is owed to a company, note their capacity as director or secretary, eg: "[Full name], director/secretary of the company named in Section A above"]

D – Appointment of proxy

The Form 532 – Appointment of Proxy

Insolvency Practice Rules (Corporations) 2016, Section 75-25

The Form 532 – Appointment of Proxy form for each User ID will be circulated to you by Link Market Services

E – Proof of debt

The Form 535 Formal Proof of Debt or Claim Form
Corporations Act 2001, Regulation 5.6.49(2)

The Form 535 Formal Proof of Debt or Claim Form for each User ID will be circulated to you by Link Market Services

F – Remuneration proposal

*Schedule 2 to the Corporations Act 2001, Section 60-10
Insolvency Practice Rules (Corporations) 2016, Section 70-45*

Halifax Investment Services Pty Ltd (Administrators Appointed) (the Company)
ACN 096 980 522

Remuneration Proposal

This report contains the following information:

- Part 1: Declaration
- Part 2: Executive summary
- Part 3: Remuneration
- Part 4: Disbursements
- Part 5: Report on progress of the administration
- Part 6: Summary of receipts and payments
- Part 7: Questions
- Part 8: Approval from the Court of remuneration and internal disbursements
- Schedule A: Resolution 3 details

Next steps for creditors:

- Please review the contents of this report, which sets out the resolutions to be considered by creditors at the meeting of creditors on 20 March 2019.
- Refer to section 2 of the report to creditors dated 12 March 2019 for details as to how you can attend the meeting of creditors in person or by proxy in order to vote on the resolutions contained in this report.

1 Declaration

We, Morgan Kelly, Phil Quinlan and Stewart McCallum of Ferrier Hodgson, have undertaken a proper assessment of this remuneration claim for our appointment as Administrators of the Company in accordance with the Corporations Act 2001 (Cth) (**the Act**), the Australian Restructuring Insolvency & Turnaround Association (**ARITA**) Code of Professional Practice (**the Code**) and applicable professional standards.

We are satisfied that the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of the administration.

2 Executive summary

2.1 Summary of remuneration

To date, no remuneration has been approved or paid in the administration of the Company.

We will be seeking approval from the Court for the following remuneration:

Period	Amount (ex GST) \$
Voluntary administration	
Current remuneration sought:	
Resolution 3: 23 November 2018 to 28 February 2019	1,444,681.50
Total remuneration sought – voluntary administration	1,444,681.50

Please refer to Part 3 for full details of the calculation and composition of the remuneration being sought.

2.2 Summary of internal disbursements

To date, no internal disbursements have been approved and paid in the administration of the Company. This report details the internal disbursements which have been incurred:

Period	Amount (ex GST) \$
Current internal disbursements:	
<i>Resolution 4: 23 November 2018 to 28 February 2019</i>	9,922.80
Total current internal disbursements:	9,922.80

Please refer to Part 4 for full details of the calculation and composition of the internal disbursements.

3 Remuneration

3.1 Remuneration claim resolutions

We will be seeking an indication from Creditors at the Second Meeting that Creditors do not object to the remuneration of the Administrators. The view of the Creditors will then be placed before the Court in the applications to the Court in respect of remuneration. Details to support these resolutions are included in Part 3.2.

Resolution 3:

"That the Creditors have no objection to the remuneration of the Administrators, as set out in the Remuneration Proposal dated 12 March 2019, for the period from 23 November 2018 to 28 February 2019 be fixed in the amount of \$1,444,681.50, plus any applicable GST."

3.2 Summary of task areas

The following table provides a summary of remuneration incurred in key task areas:

Task area	Hours	Total (excl GST) \$
Investigation	1,068.4	560,719.00
Investors and Creditors	764.1	420,881.50
Operations	401.1	223,207.50
Assets	176.6	100,152.00
Employees	94.1	46,908.50
Administration	189.2	92,813.00
Total	2,693.70	1,444,681.50

3.3 Details of remuneration

The basis of calculating the remuneration claims are set out below, including the details of the major tasks performed and the costs associated with each of those major tasks.

3.3.1 Resolution 1: 23 November 2018 to 28 February 2019

The below table sets out time charged to each major task area performed by the Administrators and their staff for the period 23 November 2018 to 28 February 2019. Please refer to Schedule A for further details with respect to the tasks performed.

Employee	Position	Rate (ex GST)	Total													
					Investigation		Investors and Creditors		Operations		Assets		Employees		Administration	
		\$/Hour	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Quinlan, Phil	Partner	695	228	158,599	88	61,438	71	49,067	26	18,070	27	18,487	7	4,865	10	6,672
Kelly, Morgan	Partner	695	115	80,064	48	33,221	27	18,626	27	18,765	1	695	1	556	12	8,201
McCallum, Stewart	Partner	695	56	38,781	5	3,128	21	14,804	22	15,290	-	-	-	-	8	5,560
Harlond, Paul	Director	625	274	171,313	62	38,813	23	14,313	87	54,250	93	57,875	3	1,750	7	4,313
Sutherland, Ian	Director	625	274	171,125	115	71,875	90	56,313	46	28,688	3	2,000	7	4,563	12	7,688
Yang, David	Director	625	13	8,063	9	5,563	1	625	2	1,250	-	-	-	-	1	625
Livanos, Martie	Senior Manager	575	450	258,750	186	106,835	177	101,775	25	14,145	9	4,945	20	11,500	34	19,550
*Dixon, James	Senior Manager	575	13	7,188	13	7,188	-	-	-	-	-	-	-	-	-	-
*Zayas, Edgar	Senior Manager	575	10	5,463	10	5,463	-	-	-	-	-	-	-	-	-	-
Arnfield, Sarah	Manager	525	306	160,860	112	58,643	185	97,335	3	1,523	2	788	2	1,155	3	1,418
Horwill, Rhys	Manager	525	158	82,740	56	29,558	15	7,822	71	37,118	-	-	1	630	15	7,612
*Petkovic, Michael	Manager	525	4	2,100	3	1,628	-	-	1	473	-	-	-	-	-	-
*He, Jason	Manager	525	4	2,100	4	2,100	-	-	-	-	-	-	-	-	-	-
Grouhel, Michael	Assistant Manager	475	10	4,798	-	-	10	4,798	-	-	-	-	-	-	-	-
Meany, Luke	Assistant Manager	425	7	3,018	-	-	7	3,018	-	-	-	-	-	-	-	-
Ferreira, Candice	Senior Analyst	425	223	94,690	67	28,390	56	23,843	27	11,475	11	4,675	47	20,103	15	6,205
Morris, Bronte	Senior Analyst	425	94	39,823	77	32,513	3	1,233	9	3,995	1	340	-	-	4	1,743

Employee	Position	Rate (ex GST)	Total													
					Investigation		Investors and Creditors		Operations		Assets		Employees		Administration	
		\$/Hour	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
*Williams, Haydn	Senior Analyst	425	39	16,575	39	16,575	-	-	-	-	-	-	-	-	-	-
Swift, Monty	Senior Analyst	375	16	5,813	9	3,225	7	2,588	-	-	-	-	-	-	-	-
LeRoux, Astrid	Analyst	375	0	75	-	-	-	-	-	-	-	-	-	-	0	75
*Xu, Florence	Analyst	375	47	17,438	-	-	33	12,375	-	-	4	1,313	-	-	10	3,750
Kim, Corinne	Accountant	325	253	82,355	139	45,273	19	6,208	43	13,943	23	7,378	5	1,495	25	8,060
Kim, Dasol	Accountant	325	92	29,738	29	9,295	17	5,590	12	3,868	5	1,658	1	293	28	9,035
Sulinggo, Michelle	Accountant	325	10	3,218	-	-	2	553	1	358	-	-	-	-	7	2,308
Total (ex GST)			2,694	1,444,682	1,068	560,719	764	420,882	401	223,208	177	100,152	94	46,909	189	92,813
GST				144,468		56,072		42,088		22,321		10,015		4,691		9,281
Total (inc GST)				1,589,150		616,791		462,970		245,528		110,167		51,599		102,094
Average Hourly Rate				536		525		551		612		624		498		490

*Denotes Ferrier Hodgson Forensic IT staff

3.4 Total remuneration reconciliation

3.4.1 Future remuneration requests

Prior to each meeting of creditors or the Committee of Inspection (**COI**), we will provide a report on time spent and tasks undertaken, along with a general report on the progress of the administration. We will then ask Creditors (or the COI) whether there is any objection to our remuneration at the meeting. Creditors and/or the COI will have an opportunity to ask any questions they may have in respect of the cost of the administration at that meeting.

3.5 Likely impact on dividends

The Administrators' remuneration and disbursements are paid as a priority out of Company assets ahead of the payment of unsecured creditors.

Shortly following the Second Meeting, an application will be made to the Court for approval of the Administrators' remuneration and disbursements, and for directions as to whether they will be paid from Company or trust assets. No expenses will be paid from trust assets in the absence of Orders from the Court.

The work undertaken by the Administrators is necessary for the orderly conduct of the administration. Any dividend will ultimately be impacted by the realisations achieved and the value of creditor claims.

4 Disbursements

4.1 Types of disbursements

Disbursements are divided into three types:

- Externally provided professional services. These are recovered at cost. An example is legal fees.
- Externally provided non-professional costs such as travel, accommodation and search fees. These disbursements are recovered at cost.
- Internal disbursements such as photocopying, printing and postage. These disbursements, if charged to the administration, would generally be charged at cost; although if a data room is utilised, the fee will comprise an initial setup fee and then a fee based on the duration and size of the data room or the number of users per month. Certain services provided by Ferrier Hodgson may require the processing of electronically stored information into specialist review platforms. Where these specialist resources are utilised, the fee will be based on units (e.g. number of computers), size (e.g. per gigabyte) and/or period of time (e.g. period of hosting). The relevant rates for internal disbursements are set out below:

Disbursement type	Charges (excl GST)
Advertising	At cost
ASIC industry funding model levy – metric events	At prescribed ASIC rates
Couriers	At cost
Data room set-up	\$450.00
Data room hosting – Option A	Variable – see separate table below
Data room hosting – Option B (incl 100GB of data)	\$84.95 per user per month
eDiscovery services	Variable
Photocopying / printing (colour)	\$0.50 per page
Photocopying / printing (mono)	\$0.20 per page
Photocopying / printing (outsourced)	At cost
Postage	At cost
Searches	At cost
Staff travel reimbursement	Up to \$100/day
Staff vehicle use	At prescribed ATO rates
Storage and storage transit	At cost
Telephone calls	At cost

Note: Above rates are applicable for the financial year ending 30 June 2019.

Data room hosting fees by size (MB)	Charges per month (excl GST)
0-300	\$950
300-1000	\$950 + \$2.50/MB
1000-5000	\$2,500 + \$1.25/MB
5000+	\$7,500 + \$0.60/MB

4.2 Disbursements paid from the administration to Ferrier Hodgson to date

There have been no disbursements paid from the administration to Ferrier Hodgson to date. Future disbursements provided by Ferrier Hodgson will be charged to the administration on the same basis as the table in Part 4.1.

4.3 Disbursement claim resolutions

We will be seeking an indication from Creditors at the Second Meeting that Creditors do not object to the internal disbursements of the Administrators. The view of the Creditors will then be placed before the Court in the applications to the Court in respect of internal disbursements. Details to support these resolutions are included in Part 4.3.1.

Resolution 4:

"That the Creditors have no objection to the internal disbursements of the Administrators, as set out in the Remuneration Proposal dated 12 March 2019, for the period from 23 November 2018 to 28 February 2019 be fixed in the amount of \$9,922.80, plus any applicable GST."

4.3.1 Retrospective internal disbursement claim

The following internal disbursements have been claimed by our firm, Ferrier Hodgson, for the period to 28 February 2019 which is the basis of the Resolution 4 claim.

Disbursements claimed	Basis	Total (excl GST) \$
Data room hosting	\$84.95/user per month	3,398.00
eDiscovery services	\$30/gb + \$180/user	5,094.00
Photocopying / printing	\$0.50 for (colour), \$0.20 (mono)	1,430.80
Total		9,922.80

5 Report on progress of the administration

The Remuneration Proposal must be read in conjunction with the Voluntary Administrators' Report to creditors dated 12 March 2019 which outlines the progress of the administration.

6 Summary of receipts and payments

A summary of receipts and payments for the period 23 November 2018 to 28 February 2019 is set out in **Annexure A** to the report to creditors dated 9 March 2019.

7 Approval of remuneration and internal disbursements

For information about how approval from the Court of the resolutions for remuneration and internal disbursements will be sought, refer to Section 2 of the report to creditors dated 12 March 2019.

8 Questions

Questions regarding the administration should be directed to Link Market Services on 1300 910 051 (within Australia), +61 1300 910 051 (from overseas) or halifax@linkmarketservices.com.au.

The partners of Ferrier Hodgson are members of ARITA. Ferrier Hodgson follows the Code. A copy of the Code may be found on the ARITA website at www.arita.com.au.

An information sheet concerning remuneration of external administrations can also be obtained from the Australian Securities & Investments Commission website at www.asic.gov.au.

Dated this 12th day of March 2019



Morgan Kelly
Administrator

Schedule A– Resolution 3

The below table contains more detailed descriptions of the tasks performed within each task area performed by the Administrators and their staff for the period 23 November 2018 to 28 February 2019, which is the basis of the Resolution 3 claim in section 3.3.1.

Task area	General description	Includes
		<ul style="list-style-type: none"> – Preliminary investigations in relation to tracing of Client funds through the Company's 41 Client and company bank accounts – Prepare analysis regarding operation of IB, MT4 and MT4 platforms – Review of the nature of the Halifax business and preparation of timeline of events leading up to appointment of Administrators – Investigation into conduct of directors and related parties – Review of specific transactions and liaising with directors regarding certain transactions – Held discussions with a number of parties in relation to a potential Deed of Company Arrangement (DOCA) – Ongoing meetings with ASIC in relation to the suspension of the Australian Financial Services Licence (AFSL) held by Halifax – Preparation of comparative financial statements – Preparation of reconstructed financial statements to take into account expenses not recorded in Xero file – Reconciliation of Client positions – Request and review ROCAP provided by Director – Forensic imaging of key personnel computers and company servers – Collection of Company books and records – Reviewing Company's books and records – Conducting and summarising statutory searches – Preparation of deficiency statement – Review of relevant pre-appointment insurance policies – Conducted interviews of key Halifax employees – Liaised with the current director regarding a Deed of Undertaking – Liaised regularly with lawyers in relation to a multitude of complex issues in relation to the Administration
Investigation		
1,068.40 hours	Conducting investigation	
\$560,719.00		
(excl GST)		

Task area	General description	Includes
	Litigation / recoveries	<ul style="list-style-type: none">– Preparation of file notes for tasks completed
		<ul style="list-style-type: none">– Identification of potential recoveries in relation to antecedent transactions and insolvent trading– Preparation of memorandums in relation to potential claims– Internal meetings to discuss potential litigation– Liaising with solicitors regarding potential recovery actions– Holding meetings with solicitors in relation to funds flow process and conduct regarding operation of trust accounts
	ASIC reporting	<ul style="list-style-type: none">– Daily and twice weekly update calls with ASIC– Preparation of section 438D report to ASIC– Preparation of section 438D supplementary report to ASIC– Preparing responses to ASIC information requests
Investors and Creditors	Creditor / Investor enquiries, requests and directions	<ul style="list-style-type: none">– Receive and respond to investor enquiries escalated by Link Market Services– Liaise with Halifax employees in relation to information requests from Investors and technical queries regarding MT4, MT5 and IB platforms– Maintaining investor query escalation schedule– Review and prepare initial correspondence to Investors, creditors and their representatives– Prepare FAQ documents (and updates to same) for Investors and creditors– Preparation of investor update for upload to Ferrier Hodgson website– Distribution of information regarding extension of convening period and access to \$1.6 million term deposit– Corresponding with Australian Financial Complaints Authority (AFCA)– Compiling information requested by creditors– Considering reasonableness of creditor / investor queries
	PPSR	<ul style="list-style-type: none">– Search of PPSR register– Undertaking investigations in relation to pre-appointment registrations– Attending to removal of registrations

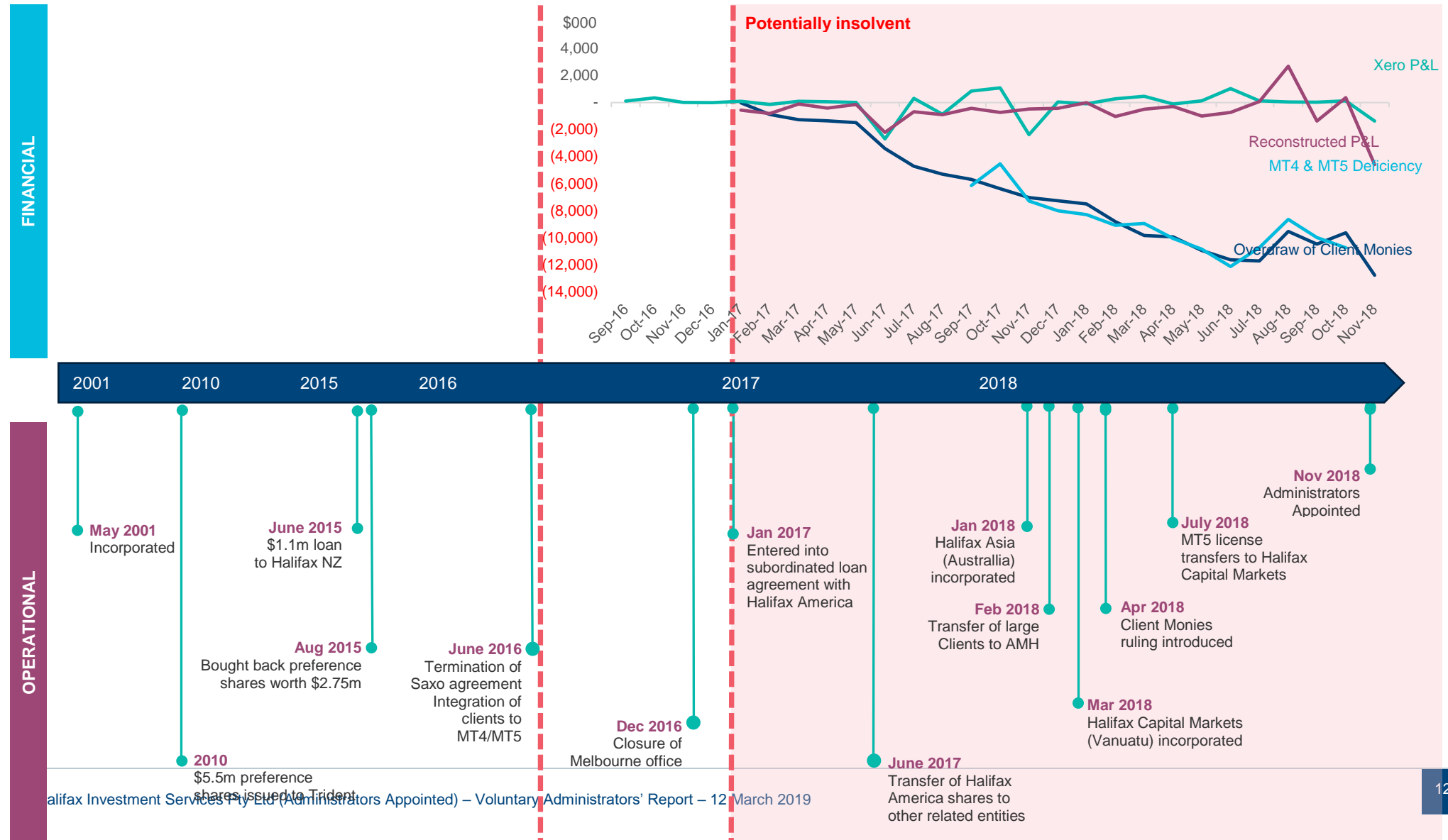
Task area	General description	Includes
		<ul style="list-style-type: none"> – Preparing summary of PPSR issues for purposes of COI meeting
	Investor / Creditor reports	<ul style="list-style-type: none"> – Preparing Voluntary Administrators' report to creditors on results of investigations to date and convening meeting – Preparing initial circular to creditors
	Dealing with proofs of debt	<ul style="list-style-type: none"> – Receipting and filing proofs of debt when not related to a dividend – Liaise with Link Market Services in relation to processing of proofs of debt and proxy forms – Consideration of values to assign for investor and non-investor creditors
	Meetings of Investors and creditors	<ul style="list-style-type: none"> – Preparation of meeting notices, proxies and advertisements – Engaging and liaising with Link Market Services – Reviewing and refining investor listing provided by Link Market Services – Forward notice of meeting to all known creditors – Liaise with Webcast provider – Liaise with meeting venue regarding meeting logistics and quotes – Preparation of presentation for first meeting of creditors – Preparation of meeting file, including agenda, certificate of postage, attendance register, list of creditors, reports to creditors, advertisement of meeting and draft minutes of meeting. – Hold first meeting of creditors on 5 December 2018 – Sign in Clients, creditors and observers through Link Market Services – Respond to stakeholder's queries and questions immediately following meeting – Preparation and lodgement of minutes of meetings with ASIC – Respond to stakeholder queries and questions immediately following meeting
	Committee of Inspection	<ul style="list-style-type: none"> – Liaise with members of the COI regarding meeting logistics – Preparation of confidentiality agreement for committee members – Hold meeting of COI on 11 January 2019 and 28 February 2019 – Preparation of meeting files and discussion points

Task area	General description	Includes
Operations 401.1 hours \$223,207.50 (excl GST)		<ul style="list-style-type: none"> – Attend COI meetings in person and via telephone – Prepare minutes of COI meetings – Respond to committee enquiries following meeting – Preparation of reports to COI and circulation of same to committee members
	Management of operations	<ul style="list-style-type: none"> – Liaise with Halifax staff in relation to generation of key reports – Liaise with MetaQuotes in relation to ongoing use of MT5 licence – Liaising with management and staff – Attendance on site – Liaising with superannuation funds regarding contributions, termination of employees employment – Liaising with OSR regarding payroll tax issues – Attended to ongoing trading and cash flow management issues – Continued to liaise with suppliers in relation to the operation of the trading platforms and other essential services – Preparing and authorising receipt vouchers – Preparing and authorising payment vouchers
	Processing receipts and payments	<ul style="list-style-type: none"> – Entering receipts and payments into accounting system
	Budgeting and financial reporting	<ul style="list-style-type: none"> – Review and update weekly cash flow – Prepare calculations in relation to deficiency in Client funds and movements since appointment of Administrators – Reviewing Company's budgets and financial statements – Finalising trading profit or loss – Meetings to discuss trading position
	Deed of Company Arrangement	<ul style="list-style-type: none"> – Liaise with various parties in relation to potential DOCA proposal – Discuss with legal advisors in relation to potential DOCA – Consider structure of a potential Administrators' DOCA
	Sale of assets	<ul style="list-style-type: none"> – Preparing an interested party schedule – Liaising with potential purchasers – Liaise with solicitors to discuss potential sale of AFSL and Client list
	Plant and equipment	<ul style="list-style-type: none"> – Reviewing asset listings
Assets 176.6 hours \$100,152.00 (excl GST)		

Task area	General description	Includes
		<ul style="list-style-type: none"> – Reviewing information in relation to transfer of plant and equipment to related entity
	Debtors	<ul style="list-style-type: none"> – Reviewing and assessing debtor ledger – Pursuit of negative equity balances – Review and pursue director loan account balances
	Other assets	<ul style="list-style-type: none"> – Tasks associated with realising other assets including office equipment and vehicles – Pursue recovery of assets from China business
	Bank accounts	<ul style="list-style-type: none"> – Investigation in relation to bank accounts held by Halifax and Halifax Asia (Hong Kong) – Liaise with Director in relation to repatriation of funds from Halifax Asia – Preparation for application to Court to access term deposit
	Trust Assets	<ul style="list-style-type: none"> – Meetings with management and Halifax employees to discuss nature of share holdings held on trust by custodians – Reviewing reports and discussions with Halifax staff in relation to reconciliation of MT5 Prop Account – Discussions with legal advisors in relation to trust asset issues and ability to bind beneficiaries with a DOCA
	Leasing	<ul style="list-style-type: none"> – Reviewing leasing documents – Meetings, phone calls and email correspondence with landlord regarding Sydney head office – Disclaim vehicle following assessment of available equity
Employees	Employee enquiries	<ul style="list-style-type: none"> – Receive and follow up employee enquiries via telephone – Maintain employee enquiry register – Review and prepare correspondence to creditors and their representatives via facsimile, email and post – Preparation of letters to employees advising of their entitlements and options available – Receive and prepare correspondence in response to employees' objections to leave entitlements – Liaise with employees in relation to ongoing requirements of the business
	Calculation of entitlements	<ul style="list-style-type: none"> – Calculating employee entitlements

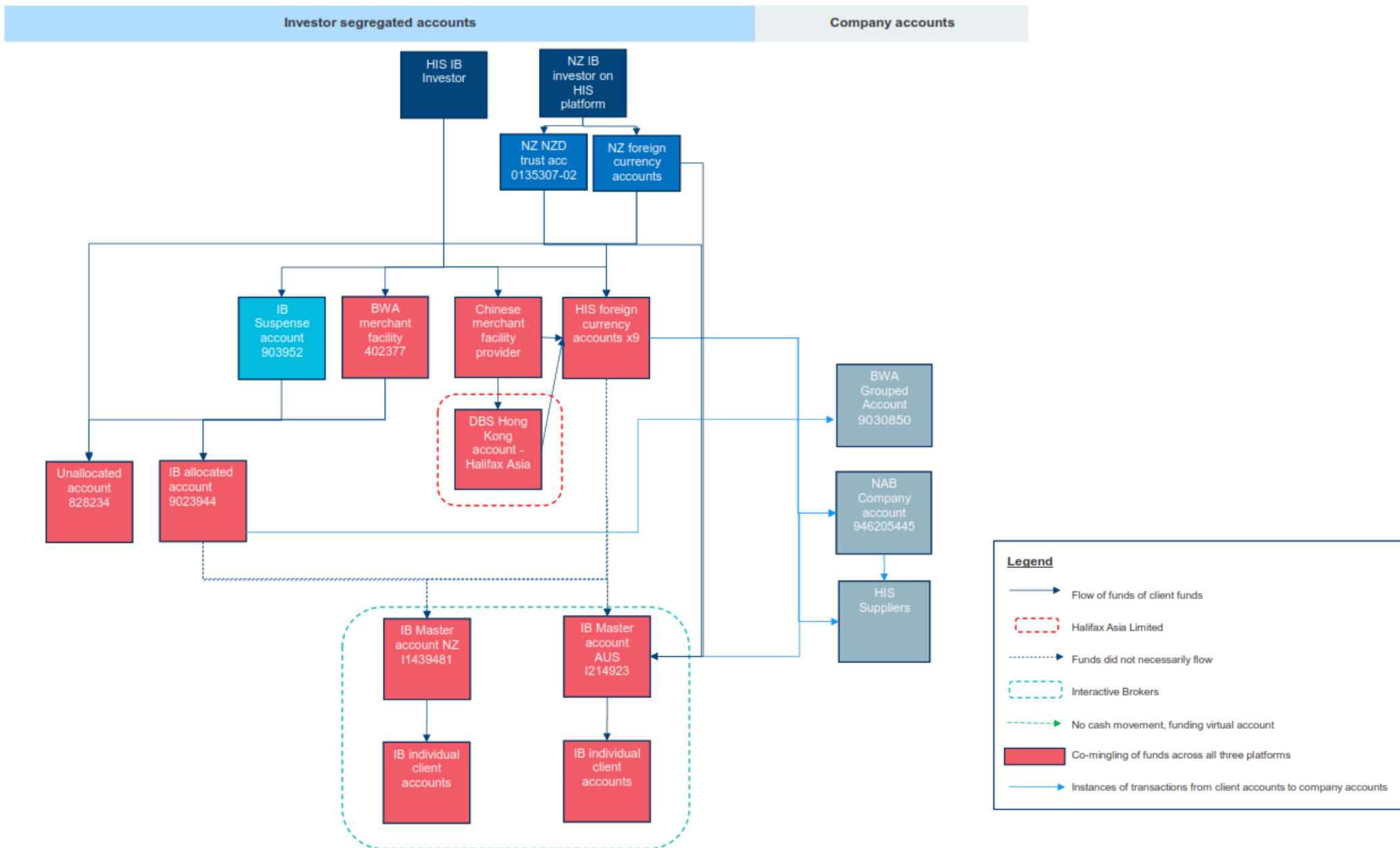
Task area	General description	Includes
Administration 189.2 hours \$92,738.00 (excl GST)		<ul style="list-style-type: none"> – Reviewing employee files and Company's books and records – Reconciling superannuation accounts – Reviewing awards – Liaising with solicitors regarding entitlements
	Document maintenance / file review / checklist	<ul style="list-style-type: none"> – Filing of documents – File reviews – Updating checklists
	Insurance	<ul style="list-style-type: none"> – Identification of potential issues requiring attention of insurance specialists – Correspondence with insurer regarding initial and ongoing insurance requirements – Reviewing insurance policies – Correspondence with previous brokers
	Bank account administration	<ul style="list-style-type: none"> – Preparing correspondence opening and closing accounts – Requesting bank statements – Bank account reconciliations – Correspondence with bank regarding specific transfers
	ASIC forms	<ul style="list-style-type: none"> – Preparing and lodging ASIC forms including 505, meeting notices and 438D – Correspondence with ASIC regarding statutory forms
	ATO and other statutory reporting	<ul style="list-style-type: none"> – Notification of appointment – Preparing BASs
	Planning / review	<ul style="list-style-type: none"> – Discussions regarding status / strategy of administration
	Correspondence	<ul style="list-style-type: none"> – General correspondence

G – Timeline of key events



H – Funds flow

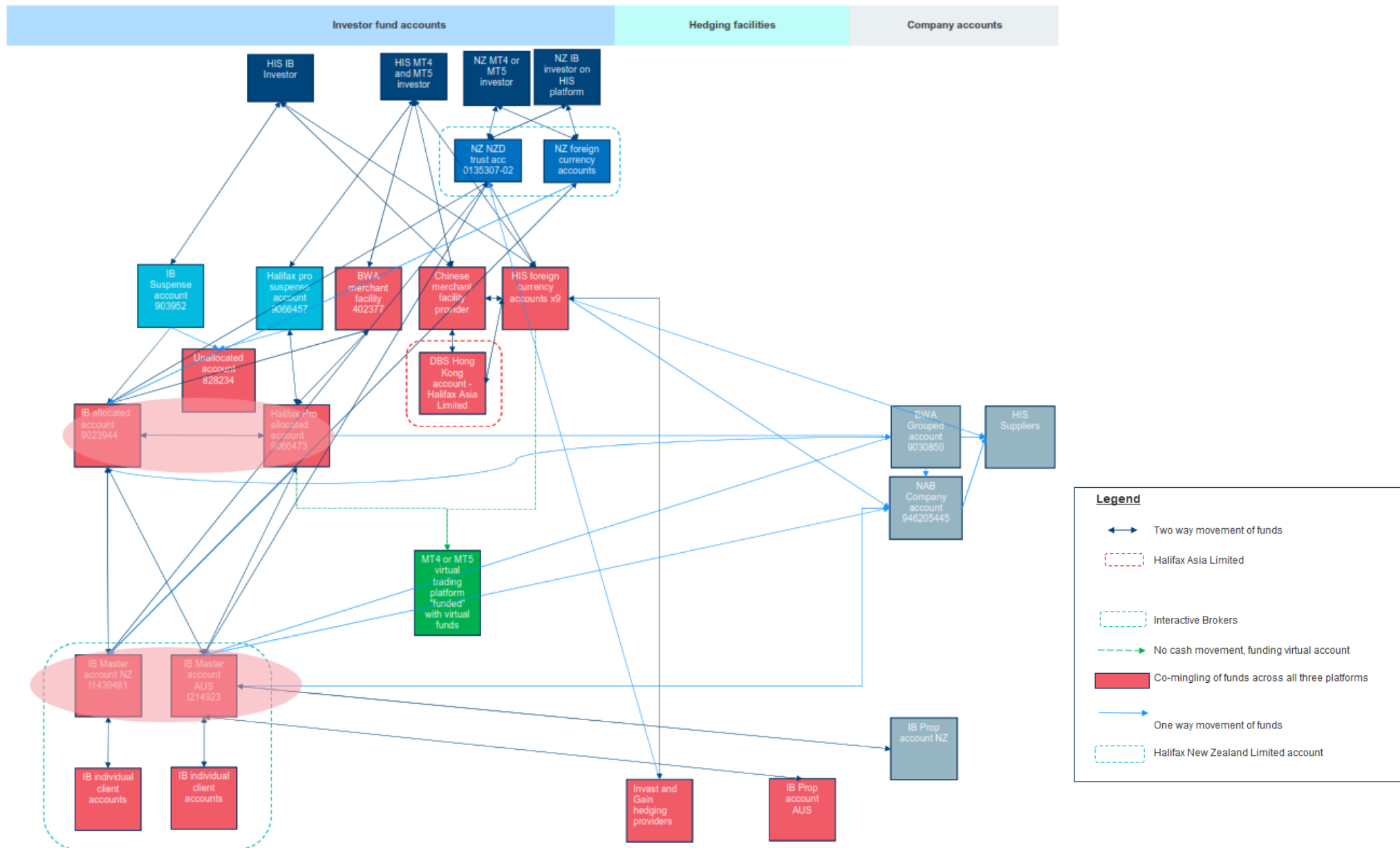
Annexure H – Funds flow for IB investors



Ferrier
Hodgson



Annexure H – Combined funds flow



I – Indicators of Insolvency

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Working capital deficiency	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Balance sheet deficiency	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
NTA deficiency - identified by the Accountants	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
NTA deficiency - identified by Treasury	?	?	?	?	?	?	?	?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Overdrawing of Client monies	?	?	?	?	?	?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Ageing of creditors	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Inability to extend finance facilities	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Inability meet financial commitments	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Trading losses - Xero & Audited Accounts	x	√	x	x	x	x	x	√	x	x	x	√	x	√	x	x	√	x	√	x	x	√	x	x	x	x	x	x	√
Trading losses - reconstructed	?	?	?	?	?	?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Cash flow difficulties	?	?	?	?	?	?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Access to alternative sources of finance	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Inability to dispose of non-core assets	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Dishonoured payments	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Overdue statutory payments	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
No forbearance /legal action commenced	x	x	x	x	x	x	x	x	x	x	x	x	√	x	x	x	x	x	x	x	x	x	x	x	x	√	√	√	√
Incomplete financial records	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√

x Indicator not noted ? Unknown/ further investigation required √ Indicator noted

Creditor Information Sheet

Offences, Recoverable transactions and Insolvent Trading



Offences

A summary of offences that may be identified by the administrator:

Section	Offence
180	Failure by officer to exercise a reasonable degree of care and diligence in the exercise of his powers and the discharge of his duties.
181	Failure to act in good faith.
182	Making improper use of position as an officer or employee, to gain, directly or indirectly, an advantage.
183	Making improper use of information acquired by virtue of his position.
184	Reckless or intentional dishonesty in failing to exercise duties in good faith for proper purpose. Use of position or information dishonestly to gain advantage or cause detriment.
206A	Contravening an order against taking part in management of a corporation.
206A, B	Taking part in management of corporation while being an insolvent under an administration.
206A, B	Acting as a director or promoter or taking part in the management of a company within five years after conviction or imprisonment for various offences.
209(3)	Dishonest failure to observe requirements on making loans to directors or related companies.
254T	Paying dividends except out of profits.
286	Failure to keep proper accounting records.
312	Obstruction of auditor.
314-7	Failure to comply with requirements for financial statement preparation.
437C	Performing or exercising a function or power as officer while a company is under administration.
437D(5)	Unauthorised dealing with company's property during administration.
438B(4)	Failure by directors to assist administrator, deliver records and provide information.
438C(5)	Failure to deliver up books and records to administrator.
590	Failure to disclose property, concealed or removed property, concealed a debt due to the company, altered books of the company, fraudulently obtained credit on behalf of the company, material omission from Report as to Affairs or false representation to creditors.

Voidable Transactions

Preferences

A preference is a transaction such as a payment between the company and one or more of its creditors, in which the creditor receiving the payment is preferred over the general body of creditors. The relevant time period is six months before the commencement of the liquidation. The company must have been insolvent at the time of the transaction, or become insolvent as a result of the transaction.

Where a creditor receives a preferred payment, the payment is voidable as against a liquidator and is liable to be paid back to the liquidator subject to the creditor being able to successfully maintain any of the defences available to the creditor under either the Corporations Act.

Uncommercial Transaction

An uncommercial transaction is one that it may be expected that a reasonable person in the company's circumstances would not have entered into having regard to:

- the benefit or detriment to the company;
- the respective benefits to other parties; and
- any other relevant matter.

To be voidable, an uncommercial transaction must have occurred during the two years before the liquidation.

However, if a related entity is a party to the transaction, the time period is four years and if the intention of the transaction is to defeat creditors, the time period is ten years.



The company must have been insolvent at the time of the transaction, or become insolvent as a result of the transaction.

Unfair Loan

A loan is unfair if and only if the interest was extortionate when the loan was made or has since become extortionate. There is no time limit on unfair loans – they only have to have been entered into any time on or before the day when the winding up began.

Arrangements to avoid employee entitlements

If an employee suffers loss because a person (including a director) enters into an arrangement or transaction to avoid the payment of employee entitlements, the liquidator or the employee may seek to recover compensation from that person. It will only be necessary to satisfy the court that there was a breach on the balance of probabilities. There is no time limit on when the transaction occurred.

Unreasonable payments to directors

Liquidators have the power to reclaim "unreasonable payments" made to directors by companies prior to liquidation. The provision relates to transactions made to, on behalf of, or for the benefit of, a director or close associate of a director. To fall within the scope of the section, the transaction must have been unreasonable, and have been entered into during the 4 years leading up to a company's liquidation, regardless of its solvency at the time the transaction occurred.

Voidable charges

Certain charges are voidable by a liquidator:

- Circulating security interest created with six months of the liquidation unless it secures a subsequent advance;
- Unregistered charges; and
- Charges in favour of related parties who attempt to enforce the charge within 6 months of its creation.

Insolvent Trading

In the following circumstances, directors may be personally liable for insolvent trading by the company:

- a person is a director at the time a company incurs a debt;
- the company is insolvent at the time of incurring the debt or becomes insolvent because of incurring the debt;
- at the time the debt was incurred, there were reasonable grounds to suspect that the company was insolvent;
- the director was aware such grounds for suspicion existed; and
- a reasonable person in a like position would have been so aware.

The law provides that the liquidator, and in certain circumstances the creditor who suffered the loss, may recover from the director, an amount equal to the loss or damage suffered. Similar provisions exist to pursue holding companies for debts incurred by their subsidiaries.

A defence is available under the law where the director can establish:

- there were reasonable grounds to expect that the company was solvent and they actually did so expect;
- they did not take part in management for illness or some other good reason; or,
- they took all reasonable steps to prevent the company incurring the debt.

The proceeds of any recovery for insolvent trading by a liquidator are available for distribution to the unsecured creditors before the secured creditors.

Important note: This information sheet contains a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances.