

**Halifax New Zealand Limited
(Administrators Appointed)
NZCN 2130897**

Voluntary Administrators' Report
pursuant to Section 239AU of the
Companies Act 1993

14 March 2019

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Glossary of terms

Term	Description
A-Book	High risk Investors making substantial profits
Act	Companies Act 1993
Administrators	Morgan Kelly, Phil Quinlan, and Stewart McCallum
AFSL	Australian Financial Services Licence
AMH	Australian Mutual Holdings Limited
ANZ	The Australia and New Zealand Banking Group Limited
ANZ Accounts	ANZ Foreign Currency Accounts and ANZ HNZ Account
ASIC	Australian Securities & Investments Commission
Australian Corporations Act	Corporations Act 2001
Australian Regulations	Corporations Regulations 2001
A\$	Australian dollar
Audited Accounts	Audited financial statements
Auditors	The Auditors of the Company as at 27 November 2018
ASIC	Australian Securities & Investments Commission
B-Book	Investors that are not classified as A-Book Investors
BBY	BBY Limited (Receivers and Managers Appointed) (In Liquidation)
c.	Circa
CC	Creditors Committee
CFD	Contract for difference
China Business	Expansion of Halifax AU 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 the Halifax Group

Term	Description
Client Money Rules	ASIC Client Money Rules 2017 (Australian legislation)
Company	Halifax New Zealand Limited (Administrators Appointed)
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	Mr Andrew Gibbs
DOCA	Deed of Company Arrangement
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EOS	Estimated outcome statement
ERV	Estimated Realisable Value
FAQ	Frequently asked questions
First Meeting	First meeting of creditors held on 7 December 2018
FMA	Financial Markets Authority
Former Directors	Mr Christopher Weir (resigned 26 November 2018) Ms Veronica Aris (resigned 25 November 2018) Mr Jeffery John Worboys (resigned 25 November 2018)
FX	Foreign exchange
FYXX	Financial year ended 31 March 20XX
Gain	Hedging provider
GST	Goods and services tax
Halifax AU Director	Mr Jeffrey Worboys
Halifax AU Former Director	Mr Matthew Barnett
Halifax America	Halifax America LLC
Halifax Asia (Australia)	Halifax Asia Pty Limited (Australia)

Term	Description
Halifax Asia (Hong Kong)	Halifax Asia Limited (Hong Kong)
Halifax AU	Halifax Investment Services Pty Ltd (Administrators Appointed)
Halifax Group	Halifax Investment Services Pty Ltd (Administrators Appointed) and Halifax New Zealand Limited (Administrators Appointed)
Halifax NZ	Halifax New Zealand Limited (Administrators Appointed)
Halifax Shanghai	Halifax Business Consulting (Shanghai Co. Ltd)
Halifax Trust Accounts	Accounts that are operated by Halifax and are designated s981B trust accounts in accordance with the Corporations Act 2001 (Australia)
Halifax Vanuatu	Halifax Capital Markets Limited (Vanuatu)
IB	Interactive Brokers
IB NZ Prop Account	Halifax NZ Company account held with IB which holds cash relating to commissions
Investors	For the purposes of this Report, Clients and Investors are used interchangeably
Invast	Hedging provider
IRD	Inland Revenue Department
k	Thousands
Leanwork	China based introducing broker
m	Millions
Management Accounts	Accounts prepared by the Company
Market Service Licence	Licence held by Halifax NZ
MetaQuotes	The licensor of the MT4 & MT5 platforms
MT4	MetaTrader4
MT5	MetaTrader5
NAB	National Australia Bank Limited

Term	Description
Non-Investor Creditors	Priority and unsecured creditors of the Company
NTA	Net tangible assets
NZ	New Zealand
NZCN	New Zealand Company Number
NZ\$	New Zealand dollars
NZDT	New Zealand Daylight Time
NZX	New Zealand Stock Exchange
OTC	Over the counter products
PMSI	Purchase Money Security Interest
POD	Proof of Debt
PPSA	Personal Property Securities Act 1999
PPSR	Personal Property Securities Register
Report	This report, prepared pursuant to Section 239AU of the Act
Saxo	Saxo Bank
SCM	Strategic Capital Management Ltd
Section 981B Account	Trust accounts pursuant to Section 981B of the Corporations Act 2001 (Australia)
SIPC	Securities Investor Protection Corporation
Term Deposit	Halifax NZ Term deposit
TWS	Trader Workstation
USD	United states dollar
Various Foreign Currency Accounts	Foreign Currency Accounts (s981b trust accounts)
Watershed Meeting	Second meeting of creditors held pursuant Section 239AT of the Act, where creditors determine the future of the Company.

Term	Description
Xero	Accounting software used to record transactions
YTD	Year to date, being 27 November 2018

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 the Company do?	<p>The Company is a financial services provider offering broking and investment services across the following platforms:</p> <ul style="list-style-type: none"> – Interactive Brokers (IB) – MetaTrader4 (MT4) – MetaTrader5 (MT5) <p>The Company was licensed to be a derivatives issuer and is primarily an introducing broker to Halifax AU earning commissions from Client referrals to Halifax AU. The Company is 70% owned by Halifax AU.</p> <p>As at 23 November 2018 the split of Investor accounts and Client equity across the Halifax Group (being Halifax AU and Halifax NZ) was as follows:</p> <table> <tr> <th>Platform</th><th>No of Investors</th><th>Equity (A\$m)</th></tr> <tr> <td>IB NZ</td><td>2,154</td><td>44.4</td></tr> <tr> <td>IB Aus</td><td>2,101</td><td>110.0</td></tr> <tr> <td>MT4</td><td>5,844</td><td>23.8</td></tr> <tr> <td>MT5</td><td>2,460</td><td>33.0</td></tr> <tr> <td>Total</td><td>12,559</td><td>211.2</td></tr> </table> <p>The Company significantly relied upon Halifax AU to provide administrative and treasury support with respect to the operation of the trading platforms and Company bank accounts.</p> <p>On 23 November 2018, Morgan Kelly, Phil Quinlan and Stewart McCallum were appointed as Voluntary Administrators of Halifax AU. As a result, Halifax NZ could not continue to operate and make payments as and when they fell due absent the financial support of Halifax AU. Accordingly, the Director resolved to appoint Voluntary Administrators to Halifax NZ on 27 November 2018.</p> <p>Given the appointees are the same, the Administrations of Halifax AU and Halifax NZ are independent of each other but have been run largely in conjunction.</p> <p>Halifax AU 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 NZ or the Company this relates to the Company in its own right.</p>	Platform	No of Investors	Equity (A\$m)	IB NZ	2,154	44.4	IB Aus	2,101	110.0	MT4	5,844	23.8	MT5	2,460	33.0	Total	12,559	211.2	3.2
Platform	No of Investors	Equity (A\$m)																		
IB NZ	2,154	44.4																		
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MT4	5,844	23.8																		
MT5	2,460	33.0																		
Total	12,559	211.2																		

Question		Section Ref
What is the purpose of this Report?	<p>Section 239AU of the Act requires the Administrators to provide a report to creditors outlining:</p> <ul style="list-style-type: none"> — Details about the business, property, affairs and financial circumstances of the entity under administration; and — The Administrators' opinions and reasons for those opinions on the options available to the creditors, being: <ul style="list-style-type: none"> — To execute a DOCA (if any); or — To bring the administration to an end; or — To place the Company in liquidation. <p>Creditors will then vote on options available for the future of the Company at the Watershed Meeting.</p>	2.3
What is the current status of the Company?	<p>Morgan Kelly, Phil Quinlan and Stewart McCallum, were appointed as joint and several Voluntary Administrators of the Company by the Director under Section 239I of the Act on 27 November 2018.</p> <p>On appointment, the Administrators assumed control of the Company's operations and notified employees, creditors, Investors and other stakeholders of their appointment. The Administrators then conducted an urgent financial and commercial review of the Company with the assistance of key personnel.</p> <p>As a result of the appointment, all Investors' accounts were 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>	2.1
What have the Administrators done so far?	<p>We have undertaken a widescale review of the Halifax Group's financial position, including:</p> <ul 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 the Halifax Group; — Investigations in relation to possible antecedent transactions and the potential misuse of Client Monies by Halifax AU; — Investigation of conduct by the Halifax AU Director and Halifax AU Former Director in relation to the use of Section 981B Halifax AU trust accounts; — Ongoing liaison with ASIC and FMA in relation to the status of our investigation and potential director offences; and — Ongoing correspondence with Investors. 	7.1

Question		Section Ref																																				
Am I an Investor or creditor?	<p>It appears as though all of the cash and equities held by the Halifax Group 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 NZ.</p> <p>Investors who have signed a CSA with Halifax NZ are considered ordinary unsecured creditors of Halifax NZ 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 AU</td><td>Halifax AU</td><td>Halifax AU</td></tr><tr><td>Halifax IB</td><td>Halifax NZ</td><td>Halifax AU</td><td>Halifax NZ</td></tr><tr><td>Halifax NZ IB</td><td>Halifax AU</td><td>Halifax NZ</td><td>Halifax AU</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 AU</td><td>Halifax AU</td><td>Halifax AU</td></tr><tr><td>MT4</td><td>Halifax NZ</td><td>Halifax AU</td><td>Halifax NZ</td></tr><tr><td>MT5</td><td>Halifax AU</td><td>Halifax AU</td><td>Halifax AU</td></tr><tr><td>MT5</td><td>Halifax NZ</td><td>Halifax AU</td><td>Halifax NZ</td></tr></table>	Platform	CSA	Beneficiary creditor of	Unsecured creditor of	Halifax IB	Halifax AU	Halifax AU	Halifax AU	Halifax IB	Halifax NZ	Halifax AU	Halifax NZ	Halifax NZ IB	Halifax AU	Halifax NZ	Halifax AU	Halifax NZ IB	Halifax NZ	Halifax NZ	Halifax NZ	MT4	Halifax AU	Halifax AU	Halifax AU	MT4	Halifax NZ	Halifax AU	Halifax NZ	MT5	Halifax AU	Halifax AU	Halifax AU	MT5	Halifax NZ	Halifax AU	Halifax NZ	2.5
Platform	CSA	Beneficiary creditor of	Unsecured creditor of																																			
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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 A\$19.7 million before costs and any antecedent 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>	11.1																																				

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 by Halifax AU to fund operational losses.</p> <p>It appears that Client Monies for both Halifax NZ and Halifax AU Investors were co-mingled and used to fund operational losses.</p> <p>A breakdown of the estimated deficiency is as follows:</p> <table><tr><th></th><th>A\$m</th></tr><tr><td>Estimated operational losses by Halifax AU</td><td>14.3</td></tr><tr><td>Funds advanced to third parties not in the ordinary course of business by Halifax AU</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 11 for further details.</p>		A\$m	Estimated operational losses by Halifax AU	14.3	Funds advanced to third parties not in the ordinary course of business by Halifax AU	2.8	Amount still under investigation	2.6	Estimated deficiency	19.7	4.4.2
	A\$m											
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Estimated deficiency	19.7											
How did Halifax's three platforms operate?	<table><tr><th>Platform</th><th>Description</th></tr><tr><td>IB (AU and NZ)</td><td><ul style="list-style-type: none">– Third party trading platform– Funds allocated 1:1– Exchange traded products only</td></tr><tr><td>MT4 and MT5</td><td><ul style="list-style-type: none">– Virtual trading platforms– Platform maintained by Halifax AU– All funds held by Halifax AU are held on trust for Investor, but funds are pooled and not segregated– Halifax AU decides whether to hedge trades</td></tr></table> <p>The IB accounts for both Halifax AU and Halifax NZ are held on a non-disclosed basis. This means:</p> <ul style="list-style-type: none">– The contractual arrangement is between the Halifax Group and IB, and not with the individual Investors and IB; and– IB does not know the identity of each of the Halifax Group's Clients.	Platform	Description	IB (AU and NZ)	<ul style="list-style-type: none">– Third party trading platform– Funds allocated 1:1– Exchange traded products only	MT4 and MT5	<ul style="list-style-type: none">– Virtual trading platforms– Platform maintained by Halifax AU– All funds held by Halifax AU are held on trust for Investor, but funds are pooled and not segregated– Halifax AU decides whether to hedge trades	3.4				
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Are Investor funds comingled across the MT4/MT5 and IB platforms?	<p>Our investigations indicate that while the IB platform may appear to be 'whole' in that it is fully funded, we have determined that 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 business.</p> <p>Refer to Section 4.5.2 for further details.</p>	4.5.2										

Question		Section Ref
I am an IB Investor, why is my position not whole?	<p>Our investigations 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>In simple terms, the monies of other Investors may have been used to credit the IB platform.</p> <p>The reason for this co-mingling appears to be improper operation of trust accounts and improper application of Client Monies by Halifax AU.</p>	4.5.3
How extensive does the co-mingling appear?	<p>Based on our preliminary investigations to date (including our review of over 10,000 transactions) it appears that:</p> <ul style="list-style-type: none"> – There is no pattern behind the transfer of funds between Client accounts (i.e. frequency, where funds were directed to, purpose); and – Substantial contraventions of the Client Money Rules by Halifax AU may have occurred. 	4.5.6
I am an IB Investor, am I able to claim under the SIPC policy?	<p>Our investigations have indicated that IB Investors are unable to claim under the SIPC policy.</p> <p>SIPC covers circumstances where a firm who is an SIPC member becomes insolvent. However, it is IB and not the Halifax Group that is the member whereas the deficiency appears to relate to transactions undertaken by, or conduct, of the Halifax Group and not IB. Accordingly, it appears that IB Investors cannot claim under the SIPC policy.</p> <p>We are considering potential claims which may be available under other insurance policies.</p> <p>Refer to Section 3.4.1.4 for further details.</p>	3.4.1.4
Why does the Director believe the Company became insolvent?	<p>The Director of the Company has provided us with the following reasons for its failure:</p> <ul style="list-style-type: none"> – The appointment of Voluntary Administrators to Halifax AU on 23 November 2018; – Halifax AU provided Halifax NZ with its main source of revenue for commissions earned; – Halifax NZ relied upon Halifax AU for administrative and treasury function support; and – As a result, Halifax NZ could not continue to operate or meet its obligations without the financial and operational support of Halifax AU. 	6.2
Why do the Administrators believe the Company became insolvent?	<p>Our investigations to date indicate that Halifax NZ became insolvent on or around 23 November 2018, being the date from which Halifax AU was unable to continue to provide financial support.</p>	6.2

Question		Section Ref
Have the Administrators explored the possibility of a DOCA, whereby Investors agree to share the deficiency proportionately to expedite the distribution process?	<p>This option has been explored in detail, however a DOCA is not feasible as:</p> <ul style="list-style-type: none"> – Investors of the Halifax Group are both trust beneficiaries for the amount that is held on trust for them in the relevant entity and unsecured creditors in the relevant entity for any shortfall. – A DOCA cannot bind trust creditors and purport to deal with trust assets. 	8.2
What is the purpose of the Watershed Meeting?	<p>To resolve the future of the Company. The options available include whether:</p> <ul style="list-style-type: none"> – The Company executes a DOCA; – The Administration should end; or – The Company be placed into liquidation. <p>We advise that for the reasons outlined in Section 8, a DOCA is not feasible nor can the Administration end in circumstances where the Company is insolvent.</p> <p>Given the Company is insolvent, the only option is for the Company to be wound up.</p>	2.8
What do creditors need to do prior to the Watershed Meeting?	<p>For the purposes of voting at the Watershed Meeting, creditors will need to complete a POD form and proxy form.</p> <p>Creditors who have already lodged a POD form do not need to complete a new POD form unless an amendment is required.</p> <p>Please forward the completed forms to: halifaxnz@linkmarketservices.com.au.</p>	2.8
Do creditors need to attend the Watershed Meeting?	<p>If you may be a creditor of Halifax NZ you are entitled to attend and vote at creditor meetings. However, you are not obliged to attend the meeting. 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 NZ is not prejudiced by your attendance or absence from the Watershed Meeting.</p>	2.8

Question	Section Ref
<p>What is the estimated return to Investors 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 movements in value of open positions and directions from the Court in relation to pooling and also 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.</p> <p>Investors 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:</p> <ul style="list-style-type: none"> – Future recoveries of Company assets (if any); – Any unsecured dividend payable from Halifax AU (Halifax NZ is an unsecured creditor of Halifax AU for any deficiency to beneficiary creditors from Halifax NZ trust assets); and – Future Court directions in relation to the allocation of costs to these assets. <p>The estimated return presented in Section 12 has not allocated any costs against these potential asset recoveries.</p>
<p>What will happen next?</p>	<p>The only viable option for Investors and creditors to resolve at the Watershed Meeting is that Halifax NZ be placed into liquidation.</p> <p>Following the Watershed Meeting, it is our intention to:</p> <ul style="list-style-type: none"> – Make an application to Court for directions in relation to pooling; – 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 transactions recoveries and other actions and litigation for the benefit of creditors; and – Continue ongoing investigations and report to the relevant authorities (including FMA). <p>Corresponding steps will be undertaken by the Administrators of Halifax AU. Refer to Section 4.7 for further details.</p>

Question	Section Ref
What claims will a NZ liquidator investigate?	9
<p>Whilst we 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>Our preliminary investigations have revealed that the Company may not have traded while insolvent for a material period of time (if at all). It is likely the Company became insolvent on or after 23 November 2018, being the date Administrators were appointed to Halifax AU and the Director immediately took steps to appoint Administrators to Halifax NZ.</p> <p>Further investigation by a liquidator, if appointed, would be required. The key issue will be to determine the value (if any) of potential recoveries and whether there are any proceedings that should be commenced in NZ. Further, Halifax NZ may claim the benefit of any recoveries in respect of potential voidable transactions identified by the Administrators of Halifax AU.</p> <p>A further review of the Company's knowledge of the affairs of Halifax AU would be conducted in a liquidation.</p> <p>The preliminary investigations undertaken to date in the Administration are detailed at Section 9 of this report.</p>	
How long will it take for Investors to receive a distribution?	12.7
<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 both in Australia and New Zealand 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 six months to make a distribution due to the time required to:</p> <ul style="list-style-type: none"> – Liquidate remaining stock positions; and – Adjudicate on approximately 12,600 Investor claims 	
How am I able to participate in the process and ensure that my views are heard?	4.7
<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.</p> <p>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>	

Question	Section Ref
<p>When is the Watershed Meeting?</p> <p>The Watershed Meeting is to be held:</p> <p>Date: Friday, 22nd March 2019</p> <p>Address: Sky City Grand Convention Centre, Room New Zealand 2, Level 5, 88 Federal Street, Auckland, New Zealand</p> <p>Time: 10:00am (NZDT), registration from 9:00am (NZDT)</p>	2.8
<p>Where can I get more information?</p> <p>If you require any further information, please see the Ferrier Hodgson website and/or contact Link Market Services below:</p> <p>Phone: 08 00729 276 (within New Zealand)</p> <p>Email: halifaxnz@linkmarketservices.com.au</p> <p>Website: https://www.ferrierhodgson.com/au/creditors/halifax-new-zealand-limited</p>	14

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 Investor assets held by Halifax NZ are held on trust for Investors. Halifax AU also holds assets on trust for NZ Investors who have executed a CSA with Halifax NZ	2.5
2 On this basis, Investors will have recourse to trust assets ahead of unsecured creditors (Non-Investor Creditors)	2.5
3 The Watershed Meeting will be held on Friday, 22 March 2019 at 10:00am (NZDT) at the Sky City Grand Auckland Convention Centre, Room New Zealand 2, Level 5, 88 Federal Street, Auckland, 1010, New Zealand (registration from 9:00am NZDT). 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 Watershed Meeting	2.5

2.1 Appointment of Voluntary Administrators

On 27 November 2018, Morgan Kelly, Phil Quinlan and Stewart McCallum, were appointed as joint and several Administrators of the Company by the Director under Section 239I of the Act. The appointment followed the appointment of the same Administrators to Halifax AU on 23 November 2018.

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 Investors' accounts were 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, or a company that may become insolvent in the future, superseding the powers of the directors, 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' interest, informing the creditors prior to their voting at the Watershed Meeting (please see **Section 2.8** for further details).

2.3 Purpose and basis of this report

Section 239AU of the Act requires a voluntary administrator to provide a report (the **Voluntary Administrator's Report** or this **Report**) to creditors ahead of the Watershed 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. Any additional material issues that are identified after this Report may be subject to a further written report and/or tabled at the forthcoming Watershed Meeting.

This Report has been prepared primarily from information obtained from the Company's books and records and discussions with the Director. 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 FMA;
- The New Zealand Companies Office;
- The PPSR;
- The Halifax Group's book and records;
- Discussions with the Director;
- Discussions with Halifax AU Director and Halifax AU Former Director;
- Data extracted from the relevant trading platforms;
- Data provided by IB;
- Discussions with key employees of the Company and employees and former employees of Halifax AU; and
- Other public databases.

2.4 Context of this Report

This Report is based on our preliminary investigations to date. Any additional material issues identified subsequent to the issue of this Report may be the subject of a further written report and/or tabled at the Watershed 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 Watershed 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 depending on Court directions and 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 Watershed Meeting.

All amounts in this report are presented in NZ\$ 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 the Halifax Group 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 the Halifax NZ. Accordingly, **Investor claims constitute claims as beneficiaries of a trust and not as a creditor of Halifax NZ.**

- Investors who have signed a CSA with Halifax NZ are considered ordinary unsecured creditors of Halifax NZ 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 NZ.
- Investor creditors will (to the extent of any shortfall that is not recoverable from trust assets) be referred to in this Report as **Investors**. 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 creditor of	Unsecured creditor of
Halifax IB	Halifax AU	Halifax AU	Halifax AU
Halifax IB	Halifax NZ	Halifax AU	Halifax NZ
Halifax NZ IB	Halifax AU	Halifax NZ	Halifax AU
Halifax NZ IB	Halifax NZ	Halifax NZ	Halifax NZ
MT4	Halifax AU	Halifax AU	Halifax AU
MT4	Halifax NZ	Halifax AU	Halifax NZ
MT5	Halifax AU	Halifax AU	Halifax AU
MT5	Halifax NZ	Halifax AU	Halifax NZ

Having regard to the above, only beneficiary and unsecured creditors of Halifax NZ (Investors trading on the IB (NZ) platform and who have signed a CSA with Halifax NZ) will be considered contingent unsecured creditors of Halifax NZ for voting purposes at the Watershed 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 Watershed Meeting.**

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

Investor creditors will be not prejudiced in any way by the figure provided in their POD for the Watershed 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 Administrators' Interests Statement

In accordance with Section 239AF of the Act, an Interests Statement was tabled at the First Meeting of Creditors on Friday, 7 December 2018.

The Statement disclosed information regarding the Administrators' relationships with the Company or related parties including any of its officers, shareholders or creditors.

There has been no change in the declaration since that time.

2.7 First Meeting of Creditors and Creditors' Committee

Section 239AN of the Act requires the Administrators to convene the first meeting of creditors within eight business days of being appointed.

The First Meeting of Creditors of the Company was held on Friday 7 December 2018 at which the Administrators' appointment was confirmed.

Creditors resolved at the First Meeting of Creditors to appoint 14 members to the Creditors' Committee (CC).

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

- Calculation and quantification of the deficiency;
- Investigations in relation to tracing of Client funds through Halifax Group's bank accounts;
- Investigation of potential antecedent transactions;
- Trading results during the Administration period; and
- Investigations in relation to Halifax Asia and other related entities.

On 7 February 2019, after a request received from a CC member, the Administrators resolved to accept a proposal that Neville Garda be admitted to the CC and Peter McCutcheon (lawyer representing 8 committee members) be allowed to attend CC meetings.

Meetings of the CC have been held on 13 December 2018 and 13 February 2019.

A third meeting of the CC is scheduled for Thursday 14 March 2019.

2.8 Watershed Meeting

Given the complexity of the administration and with CC approval, we made an application to the High Court of New Zealand to extend the timeframe to hold the Watershed Meeting. The Court made orders on 18 December 2018 to extend the date by which the Administrators were required under Section 239AT(1) of the Act to convene the meeting of creditors of the Company, to 29 March 2019.

Pursuant to Section 239AT of the Act, the Watershed Meeting is convened for **Friday 22 March 2019 at Sky City Grand Convention Centre, Auckland at 10:00am (NZDT), registration commencing from 9:00am (NZDT)**. At the Watershed Meeting, creditors will decide the Company's future by voting on one of the following options:

- That the administration should end and control of the Company is reverted to the Director; or
- That the Company should be placed into liquidation; or
- That the Company execute a DOCA.

Creditors have the opportunity to adjourn the Watershed Meeting for up to a period of 30 days (after the first day on which the meeting was held) to enable further investigations to be undertaken.

All Creditors are entitled to attend the Second Meeting. Creditors who wish to participate in the Watershed Meeting must complete and submit the following forms to Link Market Services by **10:00am (NZDT) on Wednesday 20 March 2019**:

Form	Comments
Appointment of proxy	<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.

Form	Comments
	<ul style="list-style-type: none"> – Please note that proxy forms submitted for the First Meeting of Creditors are not valid for the Watershed Meeting. A new proxy form must be submitted.
Informal proof of debt	<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 POD are not required to resubmit a POD form unless the amount claimed has changed. – This POD is indicative only and will not constitute a formal adjudication of Investor claims.

For those Creditors unable to attend in person, a webcast facility will be available, details will be made available at the following link: <https://webcast.openbriefing.com/5145/>

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 technology 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 special proxy or proxy to attend the meeting in person and vote on their behalf.

2.9 Remuneration

Section 239O of the Act provides that an administrator is entitled to charge reasonable remuneration for carrying out duties and exercising powers as administrator. A Court may, but only on the application of an administrator, director or officer of the company, a creditor, or a shareholder review or fix the administrators' remuneration at a level that is reasonable in the circumstances.

To date, the Administrators have drawn remuneration totalling NZ\$455,499.92 for the period from 27 November 2018 to 28 February 2019. Please refer to our Remuneration Report at Annexure E 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 information 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.

During consultations with the CC, we have disclosed certain confidential information to CC members to ensure that they are fully informed.

All information provided to CC members was disclosed under the strict terms of the undertaking as to confidentiality that each member signed prior to receiving such information.

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

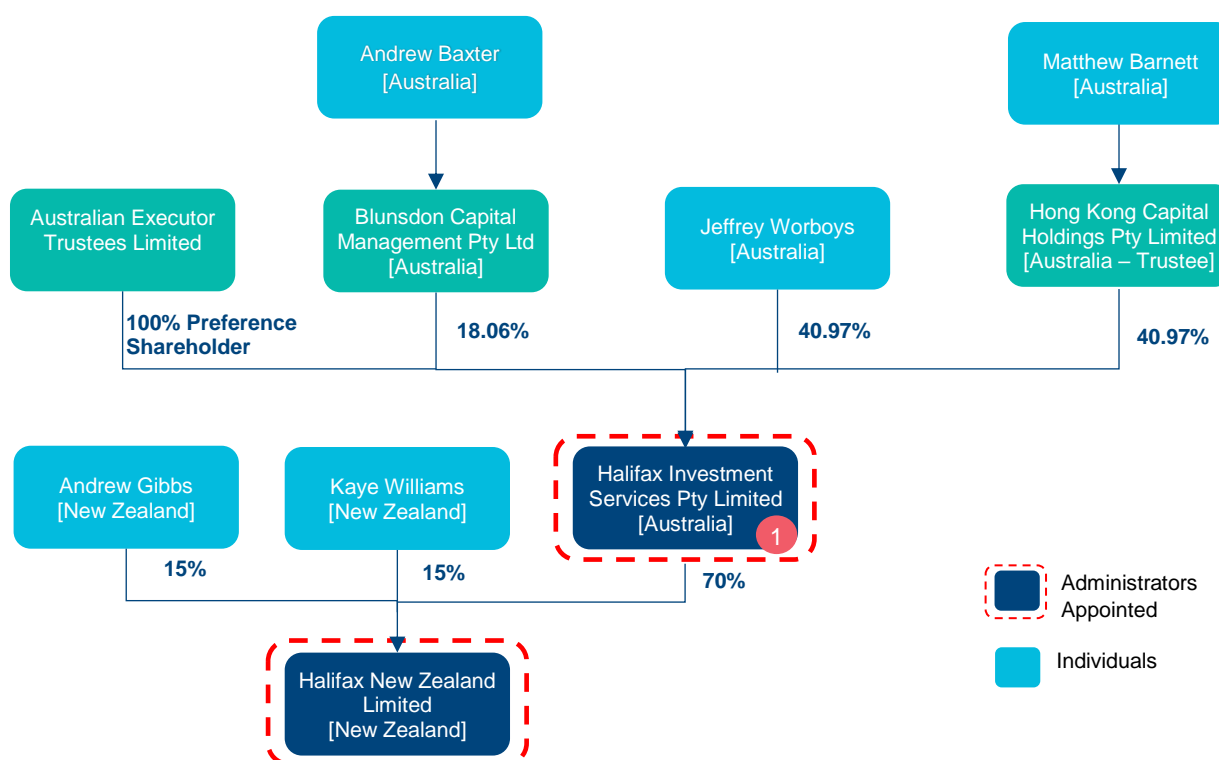
3 Company information

Halifax NZ conducted the business of a licensed financial services provider.

	Key takeaways	Ref.
1	Halifax NZ was a provider of financial services and was required to hold a derivatives licence regulated by the FMA	3.2
2	Halifax NZ operated an IB omnibus account which allowed Investors to trade via IB. Halifax NZ was an introducing broker to Halifax AU and earned commissions and rebates from Halifax AU	3.2
3	Following the appointment of Administrators to Halifax AU, the Director of Halifax NZ resolved to appoint Administrators to the Company on 27 November 2018	3.5
4	Halifax NZ operated in conjunction with Halifax AU, with Halifax AU providing treasury, IT support and Client administration functions to Halifax NZ	3.2

3.1 Halifax Group structure

A summary of the group corporate structure is below:



Source: Company records

Key points to note in related to the Halifax Group structure are:

Entity	Comments
1 Halifax Investment Services Pty Ltd (Halifax AU)	<ul style="list-style-type: none"> – Halifax AU was incorporated on 30 May 2001 and conducted the business of a licenced financial services provider which dealt in financial products – Halifax AU purchased a controlling interest of Halifax NZ in 2013 – Halifax AU provided administrative and treasury support functions to Halifax NZ – All trading platforms were operated by Halifax AU – Halifax NZ's main source of revenue resulted from commissions earned from Clients introduced to Halifax AU

3.2 Business operations

3.2.1 Halifax NZ

Halifax NZ is an Auckland based company incorporated on 21 May 2008 and previously traded as Strategic Capital Management (**SCM**). In 2013, Halifax AU purchased a controlling interest in Halifax NZ.

The Halifax NZ head office is located in Auckland. Halifax NZ operated a Trader Workstation platform NZ (**TWS**) (also referred to as IB) omnibus account which allowed Investors to trade on the IB platform where all trades and data are held on servers belonging to IB.

Halifax NZ also acted as an introducing broker to Halifax AU and was paid commissions on trades placed, meaning that Halifax NZ would introduce Clients to Halifax AU and receive commissions on trades earned from Clients as well as interest accrued on Client Monies held in Halifax NZ Client accounts.

The financial products involved were complex and involved transactions that occurred across different trading platforms that were held with both Halifax NZ and Halifax AU, on behalf of Investors within and outside of New Zealand and Australia, and through different related entities.

As a provider of financial services, Halifax NZ was required to hold a derivatives licence regulated by the FMA.

Although Halifax NZ Investors signed CSAs with Halifax NZ, it appears as though New Zealand Investors were able to trade on all platforms held by Halifax AU and Halifax NZ.

Halifax AU provided administrative and treasury functions to Halifax NZ. Halifax NZ's main source of revenue resulted from commissions earned from trades placed by Clients that were introduced to Halifax AU on all platforms. Accordingly, Halifax NZ could not continue to operate or meet its obligations without the receipt of commissions due and payable from Halifax AU to Halifax NZ.

3.2.2 Halifax Group office locations at the date of appointment

Office location	Employing entity	No. of employees
Auckland	Halifax NZ	5
Sydney	Halifax AU	15
Shanghai	Halifax AU	1
Shanghai	Halifax Business Consulting	12



Source: Prepared by the Administrators

3.3 Products

Clients invested through the Halifax Group 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 AU or Halifax NZ.

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 shares 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.

3.4 Halifax Group platform providers

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

As at 23 November 2018, the Halifax Group 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 (A\$m)
NZ Trader Workstation (TWS) (also referred to as IB)	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	44.4
Trader Workstation (TWS) (also referred to as IB)	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	110.0
MetaTrader 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	23.8
MetaTrader Halifax Plus (MT5)	Halifax AU	Virtual trading platform	<ul style="list-style-type: none"> – Foreign exchange – CFDs on indexes, metals and commodities 	<ul style="list-style-type: none"> – Commission – Interest – Profits from Investor losses if unhedged 	2,460	33.0
Total					12,559	211.2

We understand the following with respect to the relationship between Halifax Group Clients 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 NZ or Halifax AU;
- The Client could trade directly on the platform; and
- Client Monies 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 from.

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

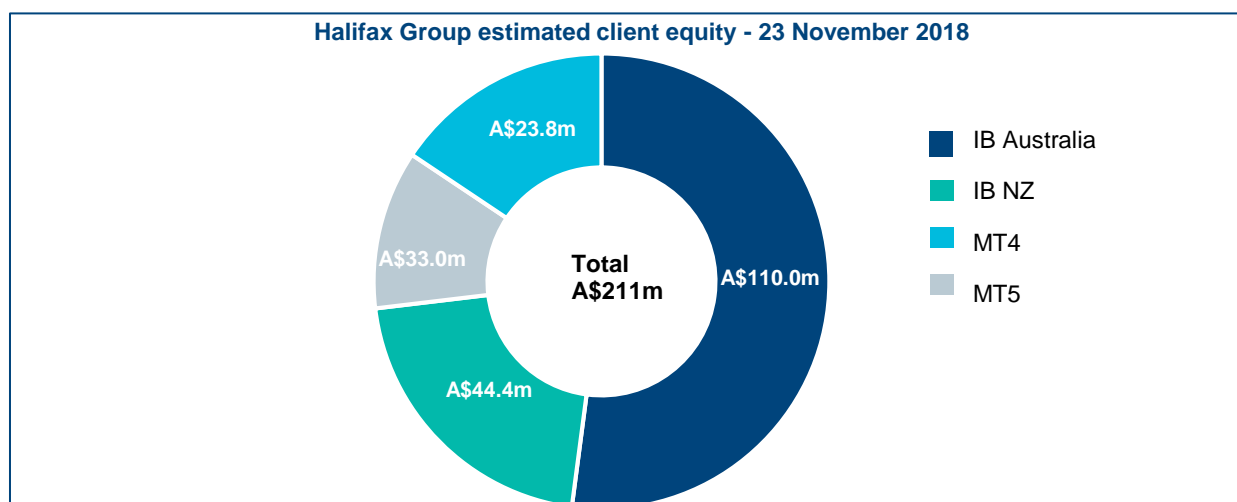
- Made by the Client picking an option on a Halifax Group website when performing the setup of a trading account; or
- By the Halifax Group directly contacting the Investor and assessing their preferences for trading.

All Clients of the Halifax Group appear to have been treated as retail Clients.

The Director of Halifax AU has advised that Investors who provided funds in excess of A\$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 A\$500,000 were held in the same manner as funds received from Investors in amounts less than A\$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 about this, 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.

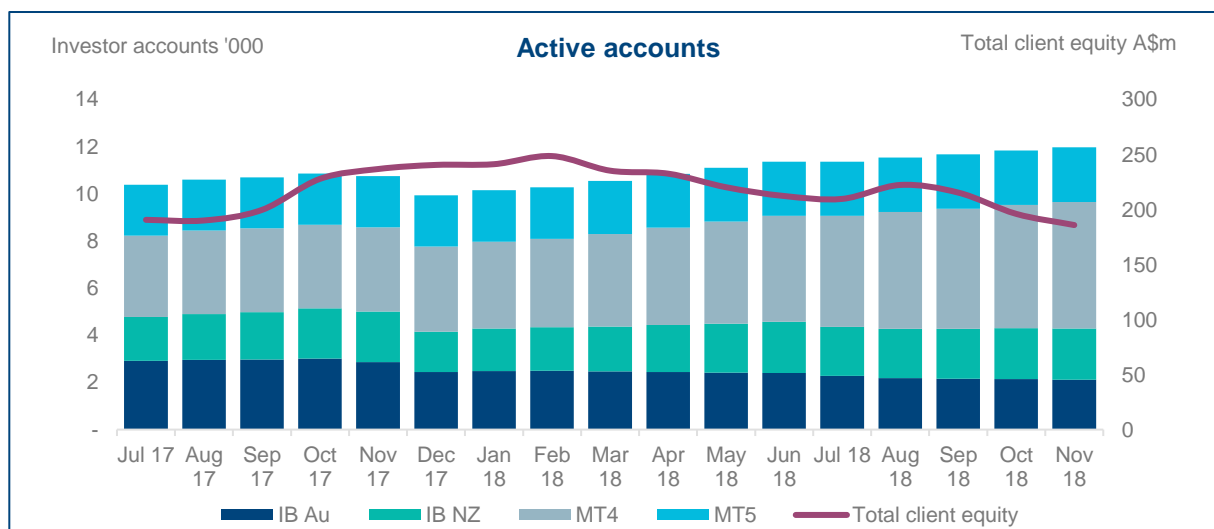
The majority of the Halifax Group's Client equity is held on the IB platform. Historically, Client Monies were paid to Halifax NZ or Halifax AU and then transferred to IB on a 1:1 basis to allow Investors to trade.

The following provides an illustration of the distribution of the Halifax Group equity (including all Halifax NZ and Halifax AU Investors) 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 and Client equity for the Halifax Group across the IB, MT4 and MT5 platforms as at 23 November 2018:



Source: Company books and records

3.4.1 Interactive Broker AU and Interactive Broker NZ Platform (also known as Trader Workstation)

The Halifax Group operated a 'white label' system whereby all trades and data in relation to the IB platform are held on servers belonging to IB. There are separate Australian and New Zealand omnibus accounts held by Halifax AU and Halifax NZ however NZ Investors trade 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 actual stock or futures contracts and supported on a 1:1 basis by cash or shares.
- The Client had a direct relationship with either Halifax AU or Halifax NZ 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 AU or Halifax NZ only deals directly with IB and not with the custodian parties engaged by IB.

The Halifax Group held accounts with IB on the following basis:

- **Non-disclosed basis:** Various accounts that allows for Clients to contract with IB via Halifax AU or Halifax NZ whereby IB does not know the full identify of the Halifax Client. Halifax AU and Halifax NZ hold 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.

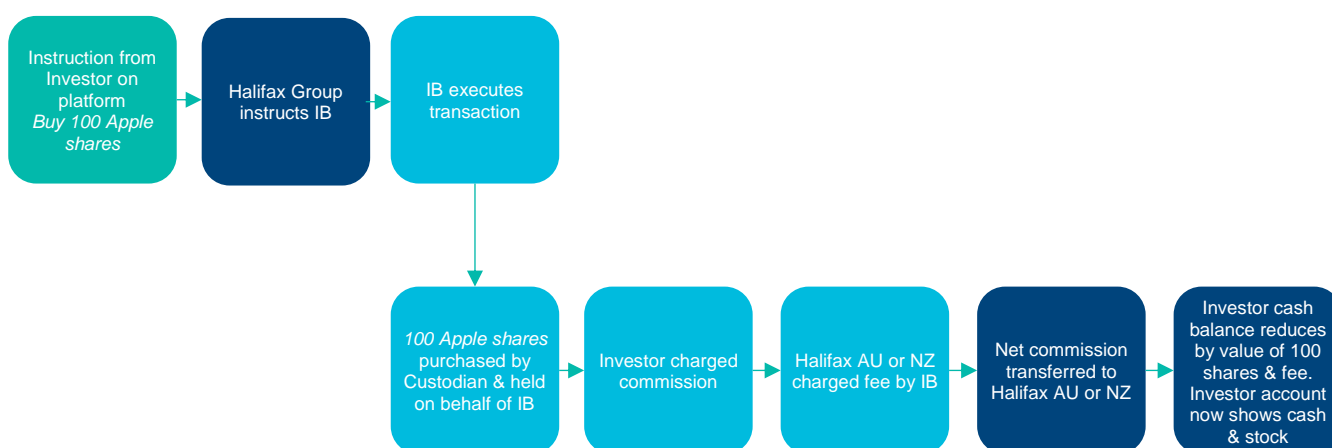
Whilst the above options were available, the Halifax Group's Clients were set up on a non-disclosed basis.

We are not aware of any Clients that were setup on a disclosed basis with IB as at the date of the Administrator's appointment.

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

3.4.1.1 Trading process – IB Client

An example of the trading process relating to an IB Client is summarised below:

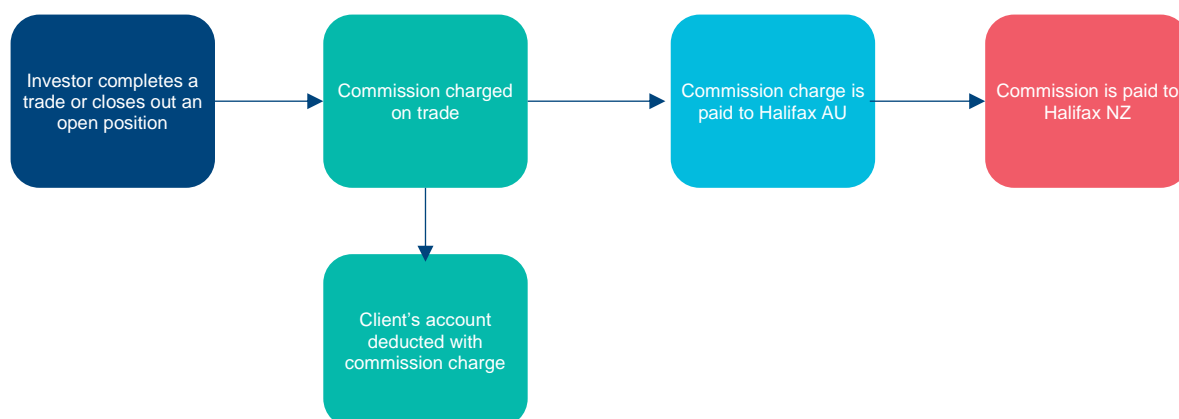


3.4.1.2 Commission revenue & interest

As illustrated above, commissions due to Halifax AU and Halifax NZ are generated through the IB Platform. This revenue is applied instantaneously upon each trade occurring and funds are deducted automatically from an Investor account.

Commissions relating to Halifax NZ are then swept to a Halifax NZ controlled account, being the IB NZ Prop Account (which holds cash with respect to commissions).

Halifax NZ also receives commissions with respect to the Investors that are introduced to Halifax AU. Halifax NZ generated revenue through commissions that were paid from Halifax AU to Halifax NZ. The process of receiving rebates and commissions was as follows:



3.4.1.3 Introducing Broker Rebates

Rebates are paid to introducing brokers, being the brokers that have introduced Clients to Halifax NZ. Rebates to introducing brokers are paid to the relevant introducing broker of a Client based on a percentage of what Halifax NZ received from IB.

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

3.4.1.4 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.
- **The Halifax Group are not an SIPC member.** The deficiency in funds appears to relate to transactions effected by the conduct of the Halifax Group and not IB. **As a result, it does not appear as though Investors can claim any coverage from SIPC.**

Further, even if the Halifax Group 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).

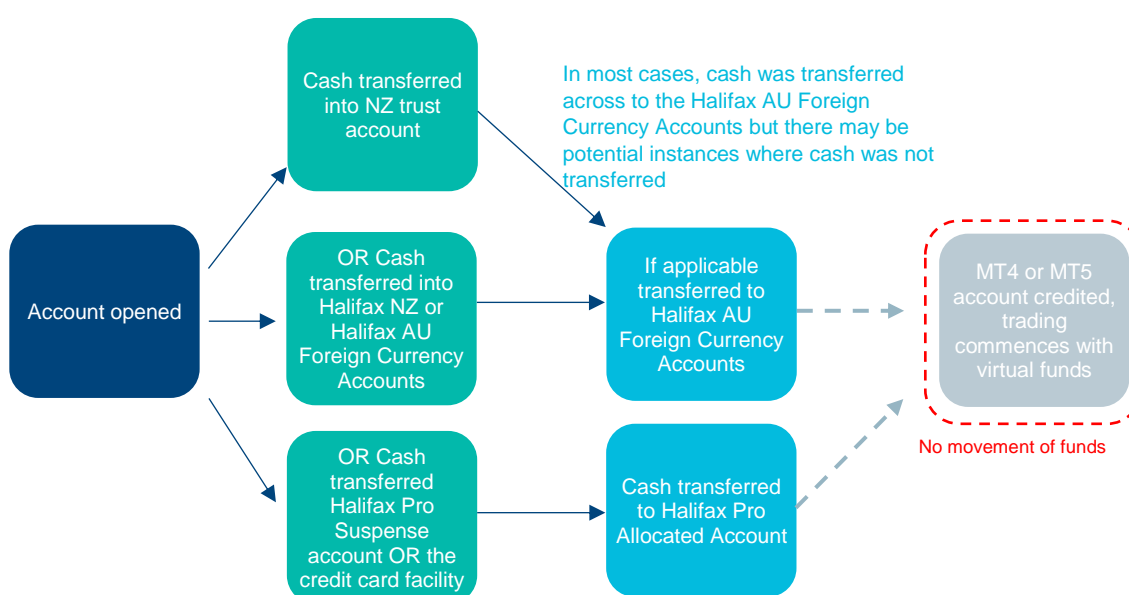
A liquidator, if appointed, would need to further investigate this relationship and any representations made by the Halifax Group and SIPC in this regard.

3.4.2 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 AU purchased the MT4 and MT5 software from MetaQuotes and paid an ongoing monthly licence fee. These platforms were also available to Halifax NZ Investors.

We understand that Halifax AU utilised the MT4 platform from at least April 2016. Halifax AU commenced utilising the MT5 platform from 8 August 2016 post the termination of the Saxo agreement (see **Section 3.5**). We understand that Halifax AU 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 AU and further illustrated below:



Key observations from the cash movement process for MT4 and MT5 Investors is 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 AU does not buy the particular commodity but rather holds the cash and records the profit or loss in the Client's account.
- Halifax AU decides whether to hedge a trade or use its own assets to underwrite a trade.

3.4.2.1 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 AU will recognise either a profit or a loss on the trade (i.e. Halifax AU will recognise a loss made by an Investor as a profit once the position is closed).

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

Halifax AU also charges the Investor a commission in the MT4/MT5 platform, which is automatically deducted from the Investor's trading account. Finally, Halifax AU earns interest on Client funds 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 on the platform in relation to OTC products (i.e. where Halifax AU is the counterparty). The Director of Halifax AU 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 AU. 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 of Halifax AU and the Director of Halifax AU 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. It does not appear that Halifax AU 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%. A liquidator will need to consider further the appropriateness of this conduct by Halifax AU.

3.4.2.2 Hedging providers

Halifax AU utilised Invast and Gain to place automatic hedges on positions for MT4 and MT5 Investors (which includes Halifax NZ Investor positions). MT4 and MT5 Investors are characterised by Halifax AU's software as either an A-Book and B-Book Investor summarised below:

Type of Investor	Description	Example	Hedging
A-Book Investors	High risk Investors making substantial profits	Professional Investor investing with sufficient 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 makes 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 AU 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 AU.

In respect to stock and CFD trading, Halifax AU hedges the virtual trades on the MT5 platform through acquiring or selling stocks in the Halifax AU'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 AU.

3.4.2.3 MT4 / MT5 rebates

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

Chinese based introducing brokers:

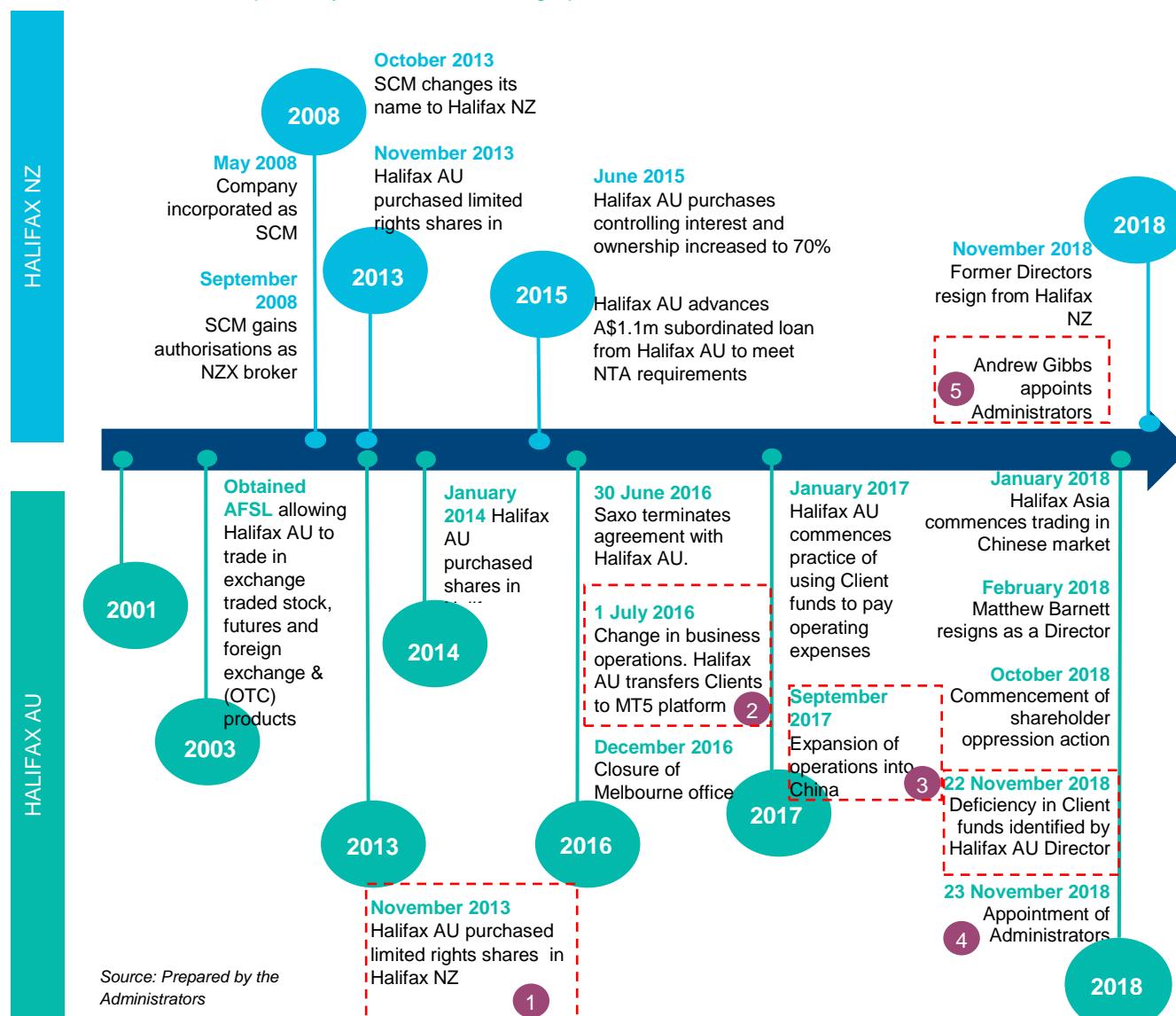
- Rebates are paid automatically through a cloud-based program called Leanwork on a dollar per trade basis regardless on whether the trade wins or loses, on the close out of a position.

- These commissions are credited to an introducing broker Client account that they hold with MT4 or MT5 instantaneously upon the Chinese Client/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 Client'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 NZ 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 AU the amount they are owed. This invoice would then be paid via EFT.

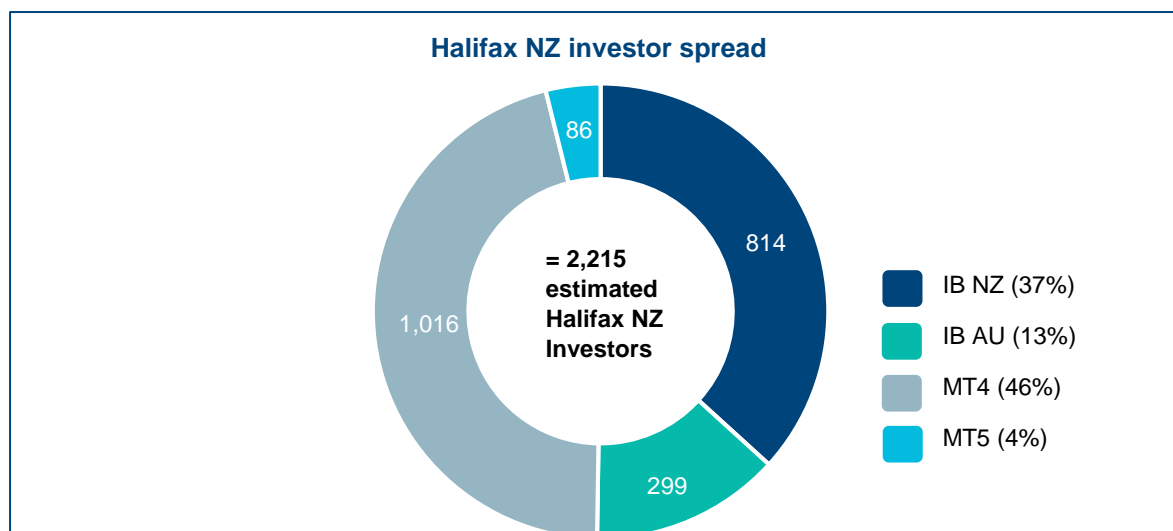
3.5 Halifax Group history and events leading up to the administration



1 Halifax NZ – November 2013

In 2013, Halifax AU purchased a controlling interest in Halifax NZ. Halifax NZ was dependent on financial support from Halifax AU.

The following provides an illustration of the distribution of Halifax NZ Investors across the IB NZ, IB AU, MT4 and MT5 platforms:



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 AU 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 held Client Monies for white label partners to manage risk. We understand that Halifax AU was required to transfer Client monies to ensure that Saxo held all Client monies on a 1:1 basis.

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

On 30 June 2016, Saxo terminated its agreement with Halifax AU with effect from 31 December 2016. At this stage, the reason for the termination is not known. The Halifax AU 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 propriety trading platform (MT5) operated by Halifax AU 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 for Halifax AU during the period 1 July 2016 to 1 January 2017 appears to be limited.

We understand that the Halifax AU Director and Halifax AU 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 AU's and Halifax NZ'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 Halifax AU Director and Halifax AU Former Director commenced the expansion of the Halifax Group 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. A majority of these deposits would be paid into Halifax AU 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 AU.

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

4 Deficiency in Client funds advised by Halifax AU – 22 November 2018

The Halifax AU Director has advised that on 22 November 2018, he requested Halifax AU's accountants to prepare an updated position on whether the Halifax Group held sufficient cash and stock in comparison to Client's equity positions. The Halifax AU Director has advised that he first became aware of a deficiency (estimated by the Halifax AU Director to be between A\$2.24m to A\$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 11**.

5 Appointment of Administrators of Halifax NZ – 27 November 2018

The Director has advised that the appointment of Administrators over Halifax AU led to the appointment of Administrators over Halifax NZ.

3.6 Statutory information

Statutory details for the Company extracted from the New Zealand Companies Office database at the time of our appointment are summarised below:

Halifax New Zealand Limited (Administrators Appointed)	
NZCN	2130897
Incorporation date	21 May 2008
Registered address / principal place of business	Floor 11, 41 Shortland Street Auckland Central, Auckland 1010

Source: New Zealand Companies Office

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

Name	Role	Appointment date	Resignation date
Andrew Gibbs	Director	21 May 2008	n/a
Matthew Barnett	Director	19 November 2014	15 May 2018
Jeffrey Worboys	Director	18 November 2014	25 November 2018
Emile Pierides	Director	18 November 2014	9 January 2017
Vincent Joseph McCartney	Director	1 February 2016	1 July 2017
Christopher John Weir	Director	1 February 2016	26 November 2018
Veronica Mary Aris	Director	7 August 2017	25 November 2018

Source: New Zealand Companies Office

The Company's shareholders as at the date of appointment were:

Registered Owner	Shares held	% Issued Capital
Halifax Investment Services Limited	140	70.0%
Kaye Williams & Andrew Gibbs (Andrew Gibbs Family Trust)	59	29.5%
Andrew Gibbs	1	0.5%
Total	200	100%

Source: New Zealand Companies Office

3.7 Registered security interests

The PPSR discloses that two parties hold registered security interests on the PPSR. Details of the security interest holders are set out below:

Security interest holder	Date created	Type of security
Halifax Investment Services Limited	10 June 2015	AIIPAAP
Financial Synergy Limited	29 August 2017	Intangibles

Source: PPSR searches undertaken on 23 November 2018

All claims will be assessed in a liquidation and if a liquidator determines that the security interests are not valid, a request will be made to the PPS register to remove the security interests.

3.8 Winding up applications

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

4 Funds Flow / Client Monies

This section of the Report provides an outline of how Investor funds flowed through the Halifax Group's structure and the extent of 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 in the amount of A\$19.7 million before costs, although that figure is subject to change with market movements post 23 November 2018	4.4.2
2 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 such a way that affects the claims of all Investors on all three platforms in both the Australian and New Zealand businesses	4.5
3 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 AU had overdrawn Client monies	4.5.4
4 Halifax AU appears to have drawn Client Monies in excess of revenue earned in the amount of approximately A\$12.8 million between January 2017 and November 2018 to meet company expenses	4.6

4.1 New Zealand licence

Halifax NZ (FSP 146605) was licensed to be a derivatives issuer in respect of a regulated offer of derivatives (including non-derivative products such as equities, bonds and exchange traded futures) that is made under the Financial Markets Conduct Act 2013. The licence commenced on 8 May 2015 and was due to expire on 8 May 2020.

A key condition of the license was that Halifax NZ would:

- Fully (i.e. 100%) hedge positions of all NZ retail Clients at all times;
- Not undertake any proprietary risk, or market making activities;
- Perform daily reconciliations;
- Segregate Client funds; and
- Not offer a white labelling service.

4.2 NZ obligations to hold Client Monies

We understand that the majority of Client Monies deposited by Halifax NZ Investors ultimately were transferred to either IB or Halifax AU. It appears as though obligations to comply with regulations with respect to holding of Client Monies follow those trust funds to the jurisdiction in which they are held.

In respect to IB, it appears as though IB continues to hold these funds 1:1. The Administrators of Halifax AU however, have identified potentially significant breaches of Australian Client Monies Rules which has led to a deficiency in Client Monies. We have outlined within this section the preliminary views of the Administrators of Halifax AU in this regard.

Further investigations would need to be undertaken by a liquidator in conjunction with the FMA to determine if Halifax NZ contravened any regulations with respect to Client Monies.

4.3 Introduction to Halifax AU funds flow

It appears as though funds from Halifax NZ Investors have been co-mingled with funds from Halifax AU Investors and as such, it is not possible to trace Investor funds in this regard.

Outlined below is the process of how funds flowed through the Halifax Group structure and the extensive co-mingling of funds across all three platforms in both the Australian and New Zealand business.

Sections 4.4 to 4.6 outline how funds were dealt with by Halifax AU with reference to Australian regulations (for example, Client Money Rules).

4.4 Client Money Rules

4.4.1 Introduction to Australian Client Money Rules

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

- Section 981A and 981B of the Australian Corporations Act outline that money received by an AFSL holder (such as Halifax AU) 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 provisions.
- From April 2018, Halifax AU were required to submit monthly reconciliations of reportable Client monies to ASIC (Rule 2.2.2).

4.4.2 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 A\$19.7 million (before costs)**.

Our initial view as to the reasons for the shortfall are that Halifax AU appears to have:

- Used Client Monies to fund operational losses; and
- Improperly operated trust accounts and improperly applied Client Monies.

Further information in relation to the causes of the deficiency is provided at **Section 11**.

4.4.3 Insolvency of Halifax AU as an AFSL Holder

Regulation 7.8.03 of the Australian Corporations Act 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 981 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 initial 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 co-mingled 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 pooling of all Investor positions (or consideration of a series of pools) and

distributing funds in proportion to Investor entitlements may be more appropriate. **Ultimately, this will be determined by the Court in due course.**

4.5 Funds Flow

4.5.1 Summary of bank accounts

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

Name	Description
Halifax NZ	
Halifax New Zealand Ltd (ANZ Company Account)	Company transaction account
ANZ Halifax NZ Bank account (trust) (ANZ HNZ Trust Account)	Used for all New Zealand Investor deposits (in NZD) and redemptions for the Halifax NZ IB account. Also used for New Zealand Investors on the Halifax AU IB account and MT4/MT5.
Halifax New Zealand Foreign Currency Accounts (NZ Foreign Currency Accounts)	Used for Investors depositing foreign currency to trade on IB, MT4 and MT5 platforms
Halifax New Zealand Interactive Brokers Master Account (HNZ IB Master Account)	Client funds held with IB
Halifax New Zealand Interactive Brokers Prop Account (HNZ IB Prop Account)	This is where Client commissions and fees are swept to by IB.
Halifax AU	
IB Suspense (Section 981B 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 (Section 981B 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 (Section 981B Account) (IB Allocated Account)	The funds in the IB Suspense account are transferred to this account once the deposit has been allocated to an Investor
BWA Halifax Pro (Section 981B 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 Investor

Name	Description
NAB Foreign Currency Accounts (Section 981B Account) (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
Halifax Investment Services Pty Ltd Interactive Brokers Master Account (Halifax AU IB Master Account)	Client funds held with IB.
Halifax Investment Services Pty Ltd Interactive Brokers Prop Account (Halifax AU IB Prop Account)	This is where Client commissions and fees are swept to by IB.

We understand from Halifax AU treasury employees that in certain circumstances, New Zealand investors were asked to deposit their funds into accounts operated by Halifax AU. We further understand that the main reason behind this was to avoid currency translation and associated costs. A liquidator would need to review this conduct in more detail.

4.5.2 Funds Flow process

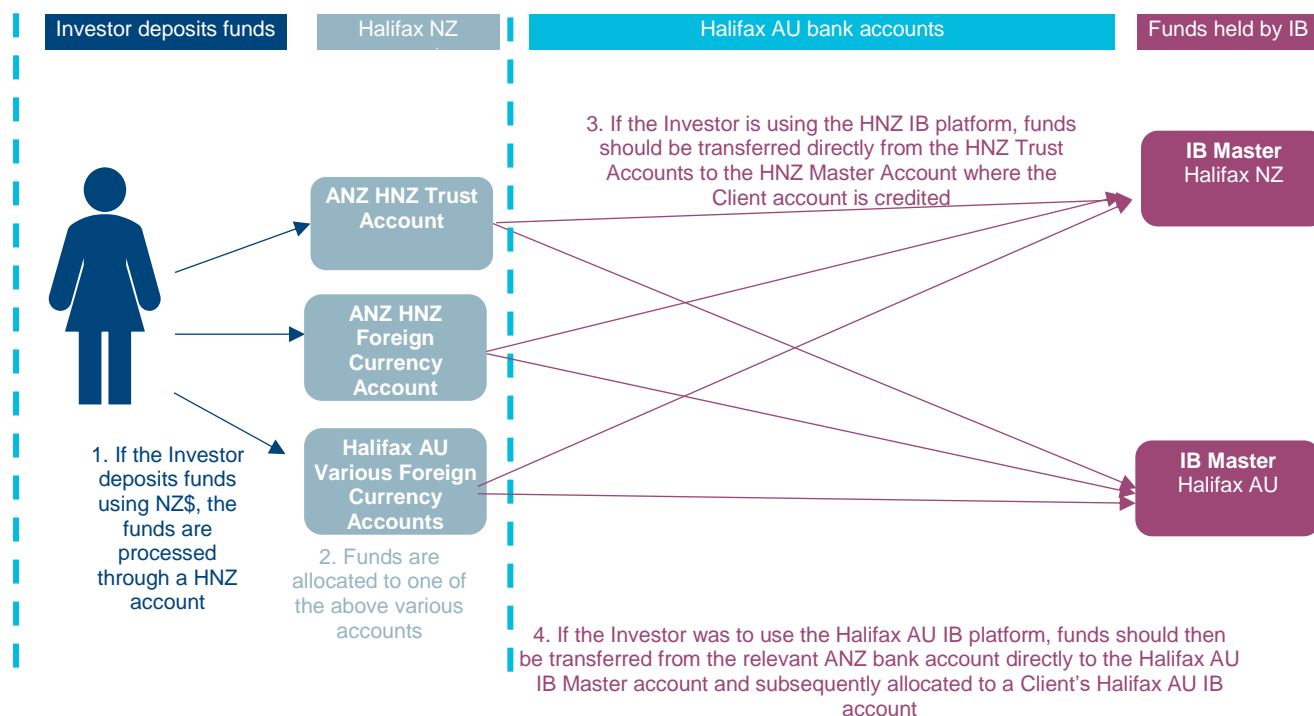
We have prepared an analysis of the funds flow process on the MT4, MT5 and IB platforms. Attached as **Annexure F** is a series of diagrams which represent (at a high level) the funds flow process and co-mingling of funds.

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 comingled in a way that affects 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.

4.5.3 Flow of Investor funds – IB

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



However, in practice, we understand the following appears to have occurred:

Process	Compliant	Issue
1. If the Investor deposits funds using NZ\$, the funds are processed through the ANZ HNZ Account	✓	
2. If the Investor is using a foreign currency, funds are deposited into one of the Various Foreign Currency Accounts	✓	
3. The ANZ HNZ and NZ Foreign Currency Accounts were used by Investors on the IB platform and NZ Investors on the Halifax AU MT4 and MT5 platforms	✓	
4. A pool of funds was held in the HNZ IB Master Account to allow Halifax NZ to immediately credit the IB platform for a Client. Funds were transferred to the HNZ IB Master Account (generally in round sum amounts) from various Halifax NZ and Halifax AU Client accounts as and when funds were required on the platform.	✗	Transfers to the HNZ IB Master Account were not completed on an individual or grouped basis. As a result, it not possible to directly trace an Investor's funds into the HNZ IB Platform.

	Process	Compliant	Issue
5	<p>Various transactions between HNZ IB Master Account and the following Halifax AU accounts:</p> <ul style="list-style-type: none"> — IB Allocated Account — Halifax Pro Allocated Account — Various Foreign Currency Accounts 	✗	This indicates co-mingling of funds between HNZ IB Master and Halifax AU.
6	Funds in the IB Allocated Account and Various Foreign Currency Accounts were paid to the AU IB Master Account by Halifax AU on an as needs basis.	✗	This resulted in a surplus of funds being held in the Halifax AU 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 Halifax AU IB Master Account
7	We understand that there were significant movements of funds between the IB Allocated Account and the Halifax Pro Allocated Account in Australia.	✗	<p>We are unable to trace Investor deposits into IB Allocated Accounts to payments to IB Master Account</p> <p>Payments between IB Allocated Account and Halifax Pro Allocated Account indicate a co-mingling of funds between Investors on all three platforms</p>

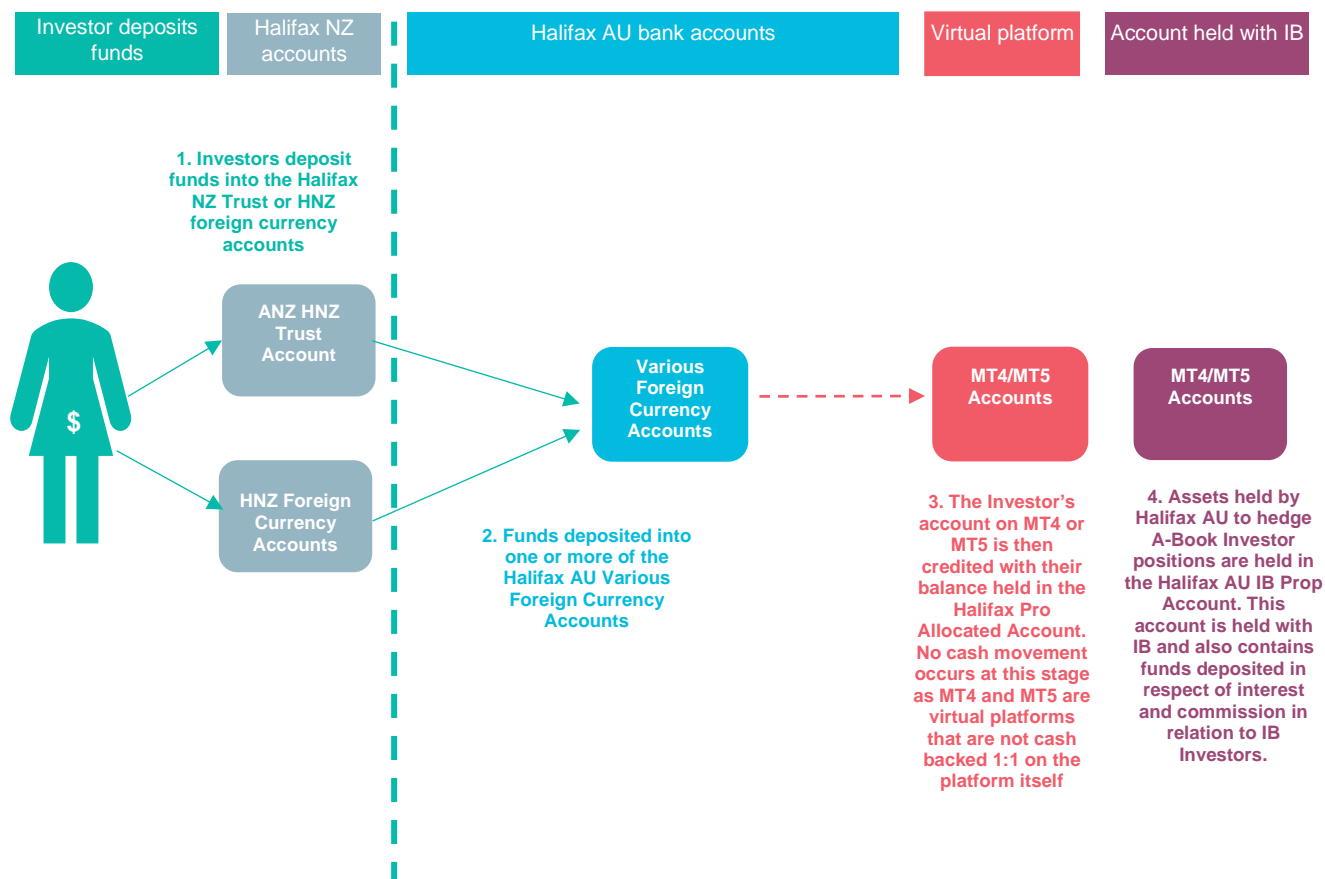
Key points:

- Both Halifax AU and Halifax NZ maintained a surplus of funds in their respective IB Master Accounts at all times. This in effect prevents the tracing of individual Investor deposits through to either the AU or NZ IB Master Accounts.
- The Halifax NZ trust accounts were used by Investors using the HNZ IB platform, the Halifax AU IB Platform and the Halifax AU MT4 and MT5 platforms, indicating that the funds were co-mingled between Investors of different platforms from the time they were deposited.
- We have identified a significant amount of round sum transactions between the Halifax NZ IB Master account and accounts controlled by Halifax AU indicating further co-mingling of funds.

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

4.5.4 Flow of Investor funds – MT4 / MT5

In relation to the deposit of funds into the MT4 and M5 platforms, we understand the following process **should** have occurred.



However, in practice, we understand the following occurred:

	Process	Compliant	Issue
1	Investors deposit funds into the Halifax NZ Trust Account	✓	
2	Halifax NZ deposit funds into the Various Foreign Currency Accounts (depending on the currency)	✓	
3	The ANZ HNZ and NZ Foreign Currency Accounts were used by Investors on the IB platform and the Halifax AU MT4 and MT5 platforms	✓	

Process	Compliant	Issue
4	On some occasions, funds were not transferred out of the ANZ HNZ Accounts to Halifax AU accounts despite the Client's MT4 or MT5 account with Halifax AU being credited with the virtual funds	✗ Whilst the Investors' equity position is held by Halifax AU, the funds supporting that position may still be held by Halifax NZ
5	If funds were transferred to the Various Foreign Currency accounts with Halifax AU, funds would <u>not</u> be transferred from these accounts to the Halifax Pro Allocated Account	✗ Halifax AU retained funds in Various Foreign Currency Accounts and are co-mingled with funds deposited by IB Investors
6	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.	✓
7	On occasion, funds would be transferred by Halifax AU from the Halifax Pro Allocated Account to the IB Allocated Account and vice versa. We understand from discussions with Halifax AU that this occurred when funds were required in either of the allocated accounts.	✗ This conduct indicates a mingling of IB and MT4/MT5 Investor funds at the Allocated account level

Key points:

- The Halifax NZ trust accounts were used by Investors using the Halifax NZ IB platform, the Halifax AU IB Platform and the Halifax AU MT4 and MT5 platforms, indicating that the funds were co-mingled between Investors of different platforms from the time they were deposited.
- On some occasions, NZ Investors with equity positions on the Halifax AU MT4 and MT5 platforms may still have their funds held by Halifax NZ.
- If funds were transferred to Halifax AU, it would generally be to the Various Foreign Currency Accounts which are also co-mingled with funds deposited by Investors or multiple platforms.
- Expenses were paid directly from the Various Foreign Currency Accounts by Halifax AU.

In addition to the above, Halifax AU 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 MT4 and MT5 platforms.
- 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 of both Halifax AU and Halifax NZ were also co-mingled in the IB Prop Account.

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

4.5.5 Redemptions

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

- ANZ HNZ Trust Account for NZD withdrawals;
- 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).

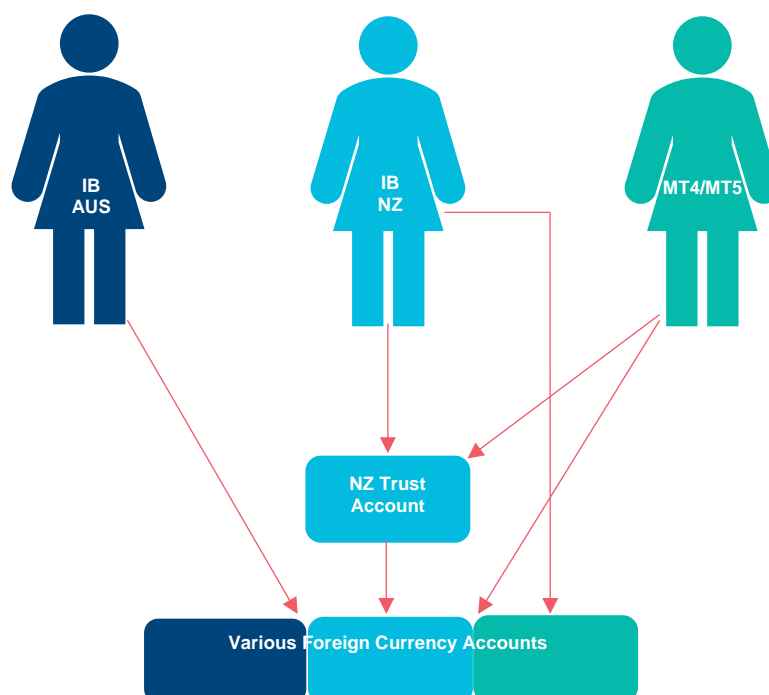
4.5.6 Co-mingling example – Australia / New Zealand and IB/MT4/MT5

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. Further, it appears that New Zealand Investor funds of different platforms may also be co-mingled.

An example of how funds from New Zealand Investors were co-mingled with Australian Investors and between platforms is as follows:

- New Zealand 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).
- New Zealand Investors that utilise MT4/MT5 would deposit funds into the ANZ HNZ Account or to the Various Foreign Currency Accounts, which are used by Investors on IB/MT4 and MT5 platforms.
- NZ IB Investors would deposit funds into either the ANZ HNZ Account or to the Various Foreign Currency Accounts, which again are used by Investors on IB/MT4 and MT5 platforms
- On this basis, funds deposited by Investors of Halifax AU and Halifax NZ were co-mingled in the Various Foreign Currency Accounts and in the ANZ NZD trust account.

The above process is presented diagrammatically as follows, blue and green boxes indicate the process of co-mingling for a New Zealand Investor using foreign currency on the MT4/5 platform.



4.6 Payment of revenue and expenses

We understand the following in relation to the receipt of revenue and payment of expenses for **Halifax AU**:

- From April 2018, approximately A\$4.8 million of funds were advanced to a Halifax AU company account in advance of revenue earned and approximately A\$7.4 million of operating expenses were paid from the Various Foreign Currency Accounts (which held Client funds and were designated Section 981B Accounts).
- Halifax AU appears to have utilised **approximately A\$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 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.
- This would indicate that Halifax AU was withdrawing funds from Investor accounts for the payment of operational expenses upon receipt of the individual invoices.
- From March 2018, operating expenses / working capital payments were paid predominantly from the Various Foreign Currency Accounts.

4.6.1 Use of funds in Client trust accounts by Halifax AU

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

Payment Type	Act 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(3)

4.6.2 Potential breaches of Clients Money Rules by Halifax AU

The investigations of the Halifax AU Administrators indicate that Halifax AU 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.
- The Administrators of Halifax AU have identified transactions between the Section 981B 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 Account, demonstrating no segregation of Client funds.

- Revenue advances were paid in excess of the revenue earned by Halifax AU, resulting in an overdraw of Client Monies;
- Rule 2.2.2 was not complied with on the basis that the Client monies reports submitted to ASIC 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 Clients Money Rules and further investigation will be required by a liquidator of Halifax AU, if appointed.

4.7 Pooling

The Administrators of Halifax AU and Halifax NZ have considered the many complex legal questions presented by the co-mingling of funds between Australian and New Zealand Investors.

An application to determine the appropriate way to deal with and distribute trust funds to Investors may be made after the Company is placed in liquidation.

It may be appropriate that Investors are **pooled** in the context of determining the entitlements of individuals to trust monies.

It will be necessary for the Administrators of Halifax AU (and potentially Halifax NZ) to **apply to the Court to 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.

At this stage, the intention will be to apply for complete pooling and distribution with losses to be shared equally as between IB, MT4 and MT5.

4.8 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 the 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, if the entities are placed into liquidation, further investigations will be undertaken and if appropriate, actions commenced in an attempt to obtain recoveries.

The liquidators, if appointed will explore the potential for any interim distribution to Investors. 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 from the date the Halifax Group is 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.

4.9 Halifax AU legal issues

Attached at **Annexure G** is Section 5 of the Halifax AU Administrators Report which provides a summary of legal issues relevant to the Halifax Group.

5 Historical financial position

This section provides a summary of the financial performance of the Company for FY17 and FY18.

Key takeaways		Ref.
1	Halifax NZ traded at a positive net profit for FY17, FY18 and YTD	5.1.1
2	Halifax NZ's main source of revenue related to commissions earned on trades placed by Clients that were introduced to Halifax AU and commissions earned relating to Clients that traded on the IB NZ platform	5.1.1

5.1 Preparation of Audited Accounts

The Company's audited financial statements were prepared up to 31 March 2018.

5.1.1 Summary profit and loss

NZ\$000s	31-Mar-17 (Audited)	31-Mar-18 (Audited)	YTD (Management)
Revenue from operating activities	1,702	2,414	1,763
Interest income	37	37	21
Total revenue	1,740	2,451	1,784
Less:			
Commissions (paid to brokers)	(191)	(402)	(228)
Depreciation and amortisation	(9)	(21)	(25)
Employee benefits	(938)	(1,482)	(1,135)
Foreign currency translation loss/(gains)	(2)	(14)	(7)
Interest	(33)	(25)	(14)
Occupancy	(135)	(119)	(75)
Other expenses	(310)	(366)	(235)
Total expenses	(1,618)	(2,429)	(1,718)
Profit before income tax expense	122	22	66
Income tax benefit/(expense)	17	(5)	-
Net profit	139	17	66

Source: Company Audited Accounts and Management Accounts

Key observations:

- **Halifax NZ appears to be reliant on Halifax AU for a substantial source of its revenue.**
- Halifax NZ operated at a positive net profit for the period between FY17 to YTD and the business model appeared to be viable.
- Revenue from operating activities increased between FY17 and FY18 which is primarily due to the increase in commission revenue earned with respect to Client trades.
- Profit before tax decreased between FY17 and FY18 primarily due to the increase in employee benefits and service contractor fees as well as the increase in commissions paid to introducing brokers.

5.1.2 Summary balance sheet

NZ\$000s	31-Mar-17 (Audited)	31-Mar-18 (Audited)	YTD (Management)
Current assets			
Cash and cash equivalents	1,111	1,284	1,214
Receivables	138	187	175
Shareholder current account	264	(19)	(19)
Current tax asset	11	12	24
Deferred tax asset	17	13	13
Total current assets	1,542	1,477	1,407
Non-current assets			
Intangible assets	2	1	38
Property, plant and equipment	21	123	38
Total non-current assets	24	124	75
Total assets	1,566	1,601	1,482
Current liabilities			
Payables	134	152	112
Total current liabilities	134	152	112
Non-current liabilities			
Subordinated debt	1,112	1,112	1,112
Total liabilities	1,246	1,265	1,224
Net assets	319	336	258

Source: Company Audited Accounts and Management Accounts

Key observations:

- Cash and cash equivalents included all Company bank accounts held including a term deposit (totalling NZ\$1.12m) which maintained the financial derivatives licence with the FMA. The cash balances exclude funds held in trust accounts on behalf of Investors.
- Receivables primarily consist of the intercompany amount owing by Halifax AU with respect to commissions earned by Halifax NZ which remained outstanding as at the date Halifax AU was placed in administration.
- The property, plant and equipment of the Company decreased by c.NZ\$72k in the month leading up to appointment. The Administrators have been advised by the Director that this is due to the sale of two motor vehicles. A liquidator will conduct further investigations into these transactions in a liquidation.
- The subordinated loan represents a shareholder advance by Halifax AU to Halifax NZ in order to meet the capital adequacy requirements imposed by the FMA (i.e. the NZ\$1.12m term deposit). The terms of the funding are such that the subordinated debt has been classified as a non-current liability on the balance sheet.
- It appears that Client equity positions (and corresponding assets supporting these equity positions) with respect to IB New Zealand Investors have not been recorded on the balance sheet for FY17 and FY18. A liquidator would need to investigate further to determine if Client equity positions should have been recorded.

6 Director's Statement of Company's Position

This section provides a summary of the Director's Report submitted to the Administrators, together with a detailed explanation of the Director's reasons for failure of the Company.

6.1 Director's Statement of Company's Position

Section 239AF of the Act requires the Director to provide a statement of the Company's position to the Administrators within 5 working days after the administration of a company begins, detailing the Company's business, property, affairs, and financial circumstances.

The Director's Statement was received on 3 December 2018 and tabled at the first meeting of creditors.

The Administrators have not audited the Company's records or the book values.

6.2 Director's opinion as to the reason for failure

The Director advised that in his view the Company failed due to the appointment of Voluntary Administrators to Halifax AU on 23 November 2018 which meant that Halifax NZ could no longer rely on Halifax AU for financial support.

The Administrators agree with the Director's assessment as to the reason for the Company's failure.

7 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)	7.1
2 The weekly cost of continuing Halifax NZ operations is approximately NZ\$12,000 . This includes wages, occupancy and other operating expenses	7.3
3 The Administrators accessed the NZD\$1.1 million Term Deposit held with ANZ to meet the costs of the Administration (e.g. rent, wages, legal fees and administrator fees etc)	7.4

7.1 The business at commencement of the Administration

On appointment, the Administrators assumed control of the Halifax NZ 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 with respect to Halifax NZ:

Area	Task
Operations	– Frozen all bank accounts and secured all assets of the Halifax NZ
	– Suspended all trading (other than closing out positions) to minimise ongoing exposure
	– Continue to operate from head office premises at Level 11, 41 Shortland Street, Auckland, 1010
	– 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
	– Restructured the business operations to reflect current status of operations
	– Attended to ongoing trading and cash flow management issues
	– Held discussions with various parties in relation to a potential DOCA
	– Accessed the NZ\$1.1 million term deposit to fund ongoing operational and administration costs
Investigations	– Received and reviewed the Director's Statement of the Company's Position
	– Interviewed the Director
	– Liaised with the Accountants to understand the Company's financial position
	– Commenced investigations into the affairs of the Halifax Group, 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 Halifax NZ's pre-appointment insurer seeking copies of the terms of all relevant insurance policies as at the date of appointment
	– Investigations into potential recoveries by a liquidator of Halifax NZ
	– Liaised with FMA in relation to the status of investigations
	– Prepared the Administrator's report to creditors

Area	Task
Committee of Creditors (CC)	<ul style="list-style-type: none"> – Set up CC protocols and access to data rooms – Prepared reports for the CC – Meetings held / to be held: <ul style="list-style-type: none"> • 13 December 2018 • 13 February 2019 • 14 March 2019 – Prepared minutes of meetings
FMA Reporting	<ul style="list-style-type: none"> – For the first four weeks of the Administration, we held bi-weekly meetings with FMA in relation to the ongoing operations of the business – Meetings with FMA are now occurring bi-monthly
Investor communications	<ul style="list-style-type: none"> – Engaged Link Market Services to manage Investor correspondence – Responded directly to approximately 500 emails received from Investors between 27 November 2018 and 28 February 2019 – Obtained a court order to extend the convening period – 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 creditors meeting and emailed to approximately 4,000 Investors – Preparation of various Investor updates and 'FAQ' documents published on the Ferrier Hodgson website
Assets	<ul style="list-style-type: none"> – Prepared a detailed analysis of the flow of funds from Investors to the IB, MT4 and MT5 platforms to determine to what extent Investor funds have been comingled – Prepared a detailed analysis of the flow of funds from Halifax NZ Investors to Halifax AU – Prepared deficiency calculations
Books and records	<ul style="list-style-type: none"> – Forensically imaged all of Halifax Group's electronic records – Wrote to Accountants and lawyers to obtain books and records – Undertaken a preliminary review of books and records

7.2 Operations

Key points:

- **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.**
- Halifax AU and Halifax NZ are continuing to maintain the trading platforms, IT infrastructure and back office operations at a weekly cost of approximately A\$65,000 which is paid by Halifax AU. **The trading platforms are essential to enable Clients to close out their positions and allow ongoing reconciliation of Client positions to be undertaken.**
- Expenses include MT4 and MT5 platform costs, wages, rent and utilities which are predominantly incurred by Halifax AU in the provision of services to the Halifax Group.
- The weekly recharge for MT4/MT5 platform costs to Halifax NZ is NZ\$20,000 per month. Platform costs are apportioned based on the percentage of equity that NZ Investors hold on the MT4 and MT5 platform relative to AU Investor positions. There is no recharge in relation to IB.
- Following an operational review, one employee has been made redundant since the date of appointment.

The estimated monthly trading expenses for Halifax NZ are as follows:

Monthly trading expenses	NZ\$
Employment	19
Occupancy	9
Other costs (insurance, telephone, website, electricity)	5
Platform costs (recharged from Halifax AU)	20
Total	53

We are reviewing overheads on a recurring basis and continue to rationalise costs wherever possible. We have continued to maintain a limited operations function (for both Halifax NZ and Halifax AU) as this (and particularly the platform infrastructure) is essential to:

- Reconciling of Client positions; and
- The eventual distribution of funds to Investors.

Halifax NZ staff have assisted with:

- Tracing of cash movements between accounts held by the Halifax Group;
- Review and reconciliation of Investor accounts;
- Preparing analysis of equity positions and movements over time;
- Ongoing communication with Investors, and responses to information requests
- Attending to actions to ensure accuracy of Investor accounts; and
- Compiling legal documentation such as CSAs.

7.3 Access to term deposit funds

Shortly following appointment, we identified a source of funds, being the ANZ term deposit funds in the amount of NZ\$1.1 million (**the ANZ Term Deposit**) which were used to satisfy the NTA requirement imposed by the FMA in relation to the Company's derivative licence.

Given the derivative licence was suspended as a result of the appointment, we considered that these funds should be available to meet ongoing operational and administration costs.

On 5 March 2019, the ANZ TD funds were receipted into the Administration account.

7.4 Term Deposit funds

The ANZ TD funds will be used to discharge costs and expenses incurred in Administration as follows:

	NZ\$ Ex GST
Term deposit funds	1,100
Less:	
Platform costs (recharged from Halifax AU)	(85)
First creditor meeting costs (Link Market Services, room hire, AV hire)	(100)
Legal fees	(228)
Administrators' fees and disbursements (see Annexure A)	(420)
Total payments	(833)
TD funds remaining	267

7.5 Investor positions

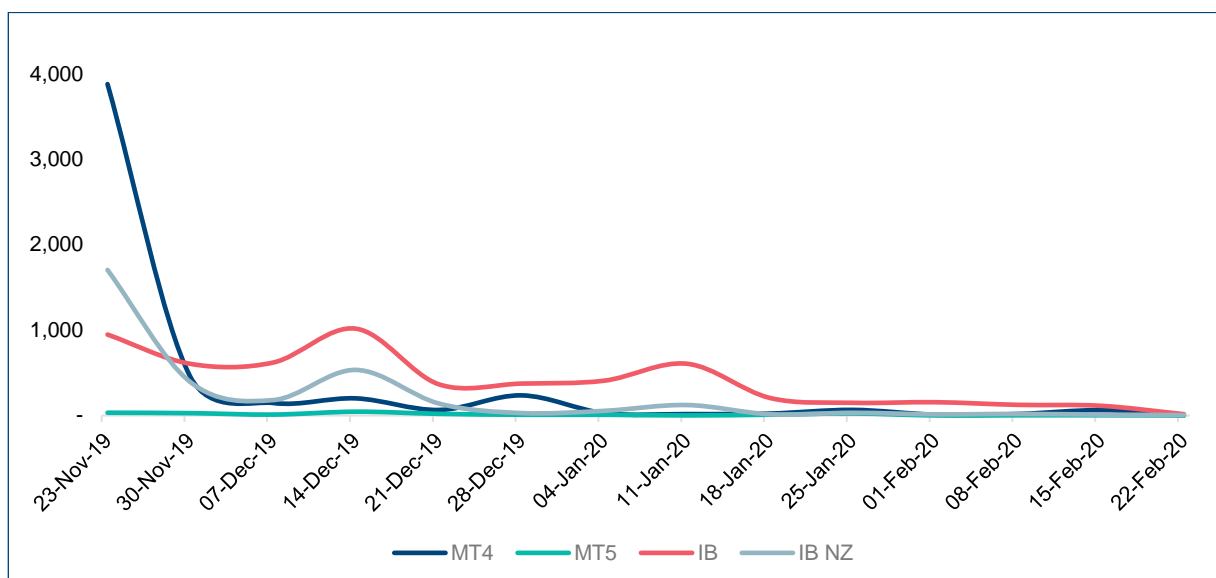
The following table provides a summary of Halifax Group Investor positions open (by number) on the MT4 and MT5 platforms as at 22 November 2018 and 15 February 2019.

	OTC	Stock CFD	Stocks	FX	Total
22 November 2018	756	165	2,144	4,895	7,690
15 February 2019	49	105	1,969	240	2,363
% 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.
- On the IB platform, 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:



Source: Company books and records

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 for the short term).

The positions which remain open appear to be longer term stock holdings. As such, we are not anticipating significant closures in the absence of a Court order in this regard.

7.6 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. 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 (for Halifax NZ and Halifax AU combined):

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 NZ 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 NZ 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/creditors/halifax-new-zealand-limited>

7.7 Client lists and licencing

At this stage, it is unlikely that the Administrators (or liquidators, if appointed) will be able to realise funds from the sale of the derivatives license on the basis that it is currently suspended and necessarily terminated upon the liquidation of Halifax NZ.

We are seeking advice as to whether it will be possible to conduct a sale process for the Client list and will provide creditors with a further update in due course.

8 DOCA

This section provides Investors with an outline of 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	8.2
2	Accordingly, the Administrators will be recommending that the Investors and Creditors of Halifax NZ vote to place the Company into liquidation at the Watershed Meeting	8.2

8.1 Initial review

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

8.2 Inability of a DOCA to deal with trust assets

After careful consideration of the circumstances of all Halifax NZ Investors (and in consultation with our solicitors), we are of the view that a DOCA is not feasible for the following reasons:

- The Investors of Halifax NZ are effectively both trust beneficiaries for the amount that is held on trust for them by Halifax NZ and also ordinary unsecured creditors of Halifax NZ to the extent of any shortfall not recoverable from trust assets;
- The majority of assets held by Halifax NZ are affectively on trust for Investors;
- 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 Halifax NZ Investors constitute trust beneficiaries rather than ordinary unsecured creditors. On this basis, the assets held by Halifax NZ are trust assets and cannot be dealt with by a DOCA.

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

9 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

- 1 Our investigations have determined that Halifax NZ may have been **insolvent from at least 23 November 2018**, being the date that Halifax AU was placed in Administration
- 2 Halifax AU may have been insolvent from **at least January 2017** as it appears to have overdrawn Client Monies in excess of revenue earned

9.1 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.

Investigations centre on transactions entered into by the Company that a liquidator might seek to void or otherwise challenge where the Company is placed into liquidation. 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. Funds recovered would be available to the general body of unsecured creditors including secured creditors but only to the extent of any shortfall incurred after realising their security.

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

- Discussions with the Director, their advisors and key staff members.
- The Director's Statement of Company's Position.
- Discussions with other relevant stakeholders.
- An examination of the books and records provided by the Auditors of the Company.
- Communication with Investors and employees.
- Management accounts, books and records, board reports and financial statements.
- The Company's internal accounting system.
- Correspondence and discussions with the Company's creditors.
- Halifax AU Director, employees and books and records.
- 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 IRD.
- Publicly available information.

There is currently no practical alternative but for Halifax NZ to be placed into liquidation at the Watershed Meeting. In this regard, the information below sets out the circumstances surrounding the failure of the Company.

9.2 Director and officers' responsibilities

Sections 131 to 138 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.

Based on our preliminary investigations, we have not identified any breaches of the Act by the Director or Former Directors. A liquidator will complete further investigations in this regard.

9.3 Solvency of Halifax NZ

In order for 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, the Company's insolvency must 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.

We have summarised below the insolvency indicators:

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 surplus:
			NZ\$
			FY17 1.4m
			FY18 1.3m
			YTD19 1.3m
			Halifax NZ held a term deposit in the amount NZ\$1.1m in support of the derivatives licence. These funds were not available to meeting working capital requirements. Excluding this amount, the Company still maintained a working capital surplus.
Net asset deficiency	No	N/A	Based on the Audited Accounts, the Company recorded the following net asset surplus:
			NZ\$
			FY17 1.2m
			FY18 1.4m
			YTD19 1.4m
			Halifax NZ held a term deposit in the amount NZ\$1.1m in support of the derivatives licence. These funds were not available to meeting working capital requirements. Excluding this amount, the Company still maintained a net asset surplus.
Ageing of creditors	No	N/A	From a preliminary review of the books and records, trade creditors were paid within trading terms and there is no evidence of significantly overdue creditors.

Insolvency indicator	Present	Date relevant to insolvency	Administrators' comments
Inability to extend finance facilities and breaches of covenants	No	N/A	We understand that the Company did not operate third-party finance facilities as at the date of appointment.
Inability to meet other financial commitments / default on finance agreements	No	N/A	We understand that the Company did not operate finance facilities as at the date of appointment.
Availability of other cash resources – cash flow test			
Profitability / trading losses	No	N/A	Based on the Audited Accounts, the Company recorded the following net profit before tax:
Cash flow difficulties	No	N/A	From a preliminary review of the books and records Accounts it does not appear that the Company was experiencing cash flow difficulties
Access to alternative sources of finance (including equity capital)	No	N/A	We are not aware of alternative sources of finance available to the company.
Inability to dispose non-core assets	No	N/A	The Company held a term deposit in the amount of NZ\$1.1m. However, these funds were required to maintain the derivatives licence and were not available to fund working capital requirements. Our investigations to date have not identified additional material non-core assets that may have been realised.
Dishonoured payments	No	N/A	A review of the Company's banking records does not reflect a history of dishonoured payments.
Overdue taxes	No	N/A	The Company's books and records do not indicate any outstanding statutory payments as at the date of our appointment.
No forbearance from creditors / legal action threatened or commenced by creditors	No	N/A	From a preliminary review of the books and records, we are not aware of any creditor forbearances or potential legal action on foot against the Company as at the date of appointment.

9.4 Our preliminary conclusion as to solvency of Halifax NZ

Having regard to the above analysis, it is our preliminary view that the Company:

- Traded profitably;

- Maintained a positive net asset position to meet the terms of its derivatives issuer licence; and
- Was unlikely to have been insolvent for any material time prior to 23 November 2018, being the date of appointment of Administrators to Halifax AU.

A liquidator, if appointed, would need to conduct further investigations, to ultimately determine whether or not the Company became insolvent at that time or earlier. In addition, a liquidator would undertake a review of the Company's knowledge of the affairs of Halifax AU.

9.5 Potential liquidator recoveries – insolvent trading (Halifax NZ)

9.5.1 Directors' liability

Section 292 of the Act makes certain transactions of a Company voidable by a liquidator if it is an insolvent transaction and entered into within the specified period. If a director is found guilty of an offence in contravening Section 292, 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.

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.

9.5.2 Directors' defences

There are certain defences available to directors under the Act. A liquidator, if appointed, would undertake further investigation to determine whether any of these defences are available to the director.

9.5.3 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 must be considered.

Given the short period of time prior to the appointment of Administrators, the quantum of any insolvent trading claim may be minimal.

9.6 Adequacy of books and records (Halifax NZ)

Section 194 of the Act requires a company to keep written financial records that correctly record the company's transactions and enable the financial statements to be readily and properly audited.

Based on our review of the books and records received, we are of the opinion that the Company's books and records were maintained to 27 November 2018 and in accordance with Section 194 of the Act.

9.7 Other matters arising from investigations

9.7.1 Falsification of records

Pursuant to Section 379 of the Act, it is an offence for a person to engage in conduct that results in the destruction, mutilation or falsification of any books or documents affecting or relating to affairs of the company.

A person convicted of an offence under this section is liable to imprisonment and a fine.

The Administrators' preliminary investigations do not reveal any evidence of falsification of records.

9.7.2 False or misleading statements

Pursuant to Section 377 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 matter.

The Administrators' preliminary investigations do not reveal any evidence of any false or misleading statements.

10 Voidable transactions

This section informs creditors about potential voidable transactions that may have 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 Based on our initial review, we have not identified any potential voidable transactions that may be recoverable by a liquidator	0
2 The Administrators of Halifax AU have identified potential voidable transactions in the amount of A\$4.8m	0

A liquidator has the power to 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.

Details of the types of transactions which a liquidator can seek to void, which include:

- Insolvent transactions;
- Voidable charges;
- Unreasonable transactions;
- Transactions for inadequate or excessive consideration with directors or certain other persons;
- Charges and securities in favour of directors and other related companies; and

For the purposes of examining voidable transactions, the liquidator would review transactions that occurred during the relevant time period (as prescribed under the Act).

10.1 Voidable transactions – Halifax NZ

10.1.1 Unfair preferences

An unfair preference payment is a transaction, generally occurring in a pre-specified period under the Act 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 liquidation of the company.

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.

Our preliminary investigations have not revealed any unfair preference payments. Although further investigations will be undertaken by a liquidator, if appointed, to determine any whether unfair preference payments were made and the likelihood of any recovery action being successful.

10.1.2 Unfair loans

A liquidator must investigate 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.

10.1.3 Unreasonable director-related transactions

Section 298 of the Act refers to transactions for inadequate or excessive consideration with directors and other certain persons. A liquidator may 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.

We have identified a reduction in the Director loan account in the amount of \$0.1 million on 27 November 2018.

A liquidator, if appointed, would need to conduct further investigations in relation to this transaction.

10.1.4 Summary of potential liquidator recoveries

At this stage, the Administrators consider that there will be limited to no potential recoveries from antecedent transactions by a liquidator in the event that the Company is placed into liquidation.

10.1.5 Directors' ability to pay a liquidator's claims

Given the limited quantum of potential antecedent transactions, the Administrators have not undertaken an assessment as to the financial capacity of the Director to meet any potential liquidator action. A liquidator, if appointed, will need to conduct further investigations in this regard.

10.1.6 Reports to the FMA

From our preliminary investigations, we have not identified any offences by Halifax NZ's Director that require reporting to the FMA pursuant to Section 239AI of the Act.

10.2 Voidable transactions – Halifax AU

The Administrators of Halifax AU have conducted their preliminary investigations and have identified potential voidable transactions in the amount of at least A\$4.8m. A liquidator, if appointed, will be required to undertake further investigations in this regard.

Halifax NZ is an unsecured creditor of Halifax AU for any deficiency to beneficiary creditors from Halifax NZ trust assets and would therefore likely be able to prove in any unsecured dividend.

Further information is outlined in **Section 12**.

11 Causes of the deficiency in Client funds

This section provides Investors with information on the apparent misapplication

Key takeaways	
1	Halifax NZ provided Client funds to IB and Halifax AU . It appears as though a deficiency has arisen in Halifax AU which affects the entitlement of Halifax NZ Investor claims to these funds across all platforms both with Halifax AU and IB
2	<p>The Administrators of Halifax AU have determined that this deficiency may have arisen as a result of Client Monies being used to fund:</p> <ul style="list-style-type: none"> - Operational losses for Halifax AU; and - Potential voidable transactions.

11.1 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 in the Halifax Group to be as follows:

	A\$m
Estimated operational losses for Halifax AU	14.3
Funds advanced to third parties by Halifax AU not in the ordinary course of business	2.8
Amount still under investigation	2.6
Estimated deficiency in Client funds	19.7

The Halifax AU Administrators' Report available on the Ferrier Hodgson website provides further details as to the other key issues which are relevant to understanding the reasons behind the potential misuse of Client Monies by Halifax AU.

12 Return to creditors

This section provides information on the estimated 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 to Halifax AU or at a later date (which we have indicatively 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 Courts determination on any appropriate pooling . As such, it is only indicative at this point
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 (including between Australia and NZ) 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. Investors 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 and any direction by the Court on allocation of costs against those assets

The following should be considered a high level estimate only and subject to key assumptions outlined in **Section 12.3**. It is subject to significant change, in particular as a result of any future Court applications:

	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018
Investor creditors	85%	94%
Priority creditors	Unknown	Unknown
Unsecured creditors	Unknown	Unknown

12.1 Return to Investors and creditors

The recent decision in BBY in Australia 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 AU, 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 for Halifax AU (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 Investors and creditors with an illustrative and indicative view as to the likely return in a liquidation scenario, we have presented below an analysis of the return to Investors both in the event claims were assessed at the time of appointment of Administrators to Halifax AU 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 28 February 2019.

Platform	Equity value at 23 November 2018 (A\$m)	Equity value at 28 February 2019 (A\$m)
IB AU	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.

12.2 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, Investors may 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 Halifax NZ. **Investors who have signed a CSA with Halifax AU should refer to the Administrator's report with respect to that entity, which can be found on the Ferrier Hodgson website.**

12.3 Key assumptions

In preparing this outcome statement, 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 will 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.
- 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 the appointment of Administrators to Halifax AU 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.
- 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, 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.

- We have not included the claim from Halifax AU which is subordinated below Investor claims.

12.4 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 of Administrators to Halifax AU and 28 February 2019:

A\$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 – 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 (A)	46,475	47,085	46,475	47,085
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)

A\$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
Total Australian trust assets (B)	146,089	150,406	146,089	150,406
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 Section 12.3 above.

12.5 Estimated outcome to unsecured and priority creditors

The table below outlines an estimated Low and High ERV for Company assets which may be available to satisfy priority and unsecured creditor claims in a Liquidation.

A\$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	1,208	1,208	1,208	1,208
Debtors	-	20	-	20
Plant & equipment	-	5	-	5
Total Non-Trust assets	1,208	1,233	1,208	1,233

It is likely that a Court would determine that certain costs including trading costs, Administrator/Liquidator and legal fees would be applied against these Company assets. To the extent this occurs, such costs are likely to substantially or fully utilise all Company assets available. The creditors to which the remaining Company assets may be available are detailed below:

A\$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
Priority employee entitlements	(57)	(57)	(57)	(57)
IRD preferential claim	(51)	(51)	(51)	(51)
Total priority claims	(108)	(108)	(108)	(108)
Shortfall to Investors with NZ CSAs	(4,401)	(3,233)	(8,165)	(7,018)
Claim from Halifax AU with respect to shortfall to Investors with AU CSAs	(14,165)	(10,407)	(26,914)	(23,133)
Trade creditors	(7)	(7)	(7)	(7)
Contingent creditors	Unknown	Unknown	Unknown	Unknown
Total unsecured creditors	(18,573)	(13,647)	(35,086)	(30,158)

The above calculations are an estimate only and may change due to the factors mentioned in Section 12.3 above.

12.6 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 of Administrators to Halifax AU and 28 February 2019:

	Liquidation ERV Low 23 November 2018	Liquidation ERV High 23 November 2018	Liquidation ERV Low 28 February 2019	Liquidation ERV High 28 February 2019
Investor creditors	91%	94%	85%	88%
Priority employee creditors	Unknown	Unknown	Unknown	Unknown
Unsecured creditors	Unknown	Unknown	Unknown	Unknown

The above calculations are an estimate only and may change due to the factors mentioned in Section 12.3 above.

12.7 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.

13 Statement by Administrators

The Administrators recommend that the Company be placed into liquidation.

At the Watershed Meeting, creditors will vote and determine the future of the Company according to three alternative outcomes, being the:

- Company to execute a DOCA;
- Administration to end; or
- Company be placed into liquidation.

Each of these options are considered below with the Creditors' best interests in mind. In forming our opinion, it is necessary to consider an estimate of the dividend creditors might expect and the likely costs under each option.

13.1 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 Director would be not be in the best interests of creditors and is not recommended.

13.2 DOCA

As no DOCA has been proposed at this point in time, this option is not available to creditors.

13.3 Liquidation of the Company

In the absence of a DOCA proposal, 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.
- Pursue various potential recoveries under the Act.
- Distribute recoveries made in accordance with the priority provisions of the Act.
- Report to the FMA on the results of further investigations into the Company's affairs.

A resolution may be passed to place the Company into liquidation. Should such a resolution be passed, unless there are any other nominations for the role of liquidator, Morgan Kelly, Phil Quinlan and Stewart McCallum, (the Administrators), will become the liquidators of the Company (Section 239ABY of the Act).

14 Further information and enquiries

We will advise creditors in writing of any additional matters that come 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 halifaxnz@linkmarketservices.com.au or 08 00729 276 (in New Zealand).

Dated this 14th day of March 2019



Morgan Kelly

Joint and Several Voluntary Administrator of **Halifax New Zealand Limited (Administrators Appointed)**

A – Receipts and payments

	NZ\$
Receipts	
Term deposit	1,113,565
Pre-appointment cash at bank	78,869
Other	19,344
Total receipts	1,211,778
Payments	
Administrator fees	455,500
Legal fees	197,804
Employee expenses	24,839
GST on payments	30,943
Subcontractors	24,544
Occupancy	7,577
Total payments	741,207
Cash at bank as at 14 March 2019	470,571

B – Notice of meeting of creditors

Notice of a Watershed Meeting of Creditors

Halifax New Zealand Limited (Administrators Appointed) (the Company)
NZCN 2130897

NOTICE is given pursuant to sections 239AT and 239AU(1)(a) of the Companies Act 1993 that a meeting of the creditors of the Company will be held on **Friday, 22 March 2019 at 10:00am (NZDT)** at **SkyCity Grand Auckland Convention Centre, Room New Zealand 2, Level 5, 88 Federal Street, Auckland, 1010, New Zealand.**

The purpose of the meeting is to:

1. To consider the directors' Statement of Company Position.
2. To consider the circumstances leading up to the administration and the various options available to creditors.
3. To consider the report of the Administrators.
4. To resolve that the Company be placed in liquidation.
5. 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, an Appointment of Proxy form, is to be completed and submitted by no later than **10:00am (NZDT) on Wednesday, 20 March 2019**, to:

Halifax New Zealand Limited (Administrators Appointed)
c/- Link Market Services Limited
PO Box 3184, Rhodes NSW 2138

Tel: 08 0072 9276 (within New Zealand)
Email: halifaxnz@linkmarketservices.com.au

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 technology 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 special proxy or proxy to attend the meeting in person and vote on their behalf.

The webcast is available at the following link: <https://webcast.openbriefing.com/5145/>

Dated this 14th day of March 2019



Morgan Kelly
Administrator

Note:

Under the Companies Act 1993 a creditor is not entitled to vote at a meeting by proxy unless they have delivered to the administrators a copy of the proxy not less than 2 working days before the start of the meeting (Fifth Schedule, clause 6(4))

C – Appointment of proxy

An Appointment of Proxy form for each user ID will be circulated to you by Link Market Services

D – Proof of debt

Ferrier
Hodgson

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

E – Remuneration report

This report contains the following information:

- Part 1: Declaration
- Part 2: Executive summary
- Part 3: Disbursements

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 law 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.

The figures outlined in this report have been converted to New Zealand Dollars at a rate of AU\$1 = NZ\$1.04.

2 Executive summary

2.1 Summary of remuneration sought for the Company

To date, A\$433,476.50 (NZ\$455,499.92) has been paid in the administration of the Company in respect of remuneration. This report provides further detail in relation to remuneration drawn to date.

Period	AUD \$	NZ \$
Voluntary administration		
27 November 2018 to 28 February 2019	433,476.50	455,499.92
Total current remuneration	433,476.50	455,499.92

2.2 Summary of remuneration sought for the Company

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

Task area	Hours	AUD \$	NZD \$
Investigation	120.2	69,740.50	73,283.77
Investors and Creditors	293.0	153,071.00	160,848.00
Operations	228.7	135,017.50	141,877.27
Assets	24.3	12,525.00	13,161.35
Employees	8.4	3,993.00	4,195.87
Administration	116.1	59,129.50	62,133.66
Total	790.7	433,476.50	455,499.92

2.2.1 27 November 2019 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 27 November 2018 to 28 February 2019. Please refer to Schedule A for further details with respect to the tasks performed.

Employee	Position	Rate \$/Hour	Total													
			Hrs	\$	Investigation		Investors and Creditors		Operations		Assets		Employees		Administration	
					Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Quinlan, Phil	Partner	695	13.9	9,661	1	348	7	4,935	1	695	1	348	-	-	5	3,336
Kelly, Morgan	Partner	695	78.8	54,766	17	11,746	26	17,862	14	9,730	1	348	0	278	21	14,804
McCallum, Stewart	Partner	695	4.0	2,780	-	-	4	2,780	-	-	-	-	-	-	-	-
Hunter, Craig, C.	Executive Director	650	215.2	139,880	41	26,455	38	24,830	127	82,290	4	2,795	1	780	4	2,730
Harlond, Paul	Director	625	1.7	1,063	-	-	-	-	0	188	1	625	-	-	0	250
Sutherland, Ian	Director	625	11.2	7,000	4	2,500	4	2,750	-	-	0	250	-	-	2	1,500
Arnold, Scott	Director	625	7.9	4,938	8	4,938	-	-	-	-	-	-	-	-	-	-
Livanos, Martie	Senior Manager	575	36.7	21,103	-	-	22	12,593	2	1,323	1	345	0	58	12	6,785
Arnfield, Sarah	Manager	525	18.8	9,870	2	1,050	15	8,085	-	-	-	-	-	-	1	735
Horwill, Rhys	Manager	525	8.5	4,463	-	-	-	-	7	3,833	0	105	-	-	1	525
Tsaptalis, Nicholas	Manager	525	138.9	72,923	25	13,020	44	22,943	50	26,093	7	3,675	1	263	13	6,930
Ferreira, Candice	Senior Analyst	425	4.7	1,998	-	-	2	935	1	510	-	-	-	-	1	553
Williams, Haydn	Senior Analyst	425	3.5	1,488	4	1,488	-	-	-	-	-	-	-	-	-	-
Bailey, Harrison	Senior Analyst	425	207.8	88,315	17	7,353	130	55,165	18	7,693	9	3,613	6	2,550	28	11,943
Xu, Florence	Analyst	375	10.5	3,938	-	-	-	-	-	-	-	-	-	-	11	3,938
Kim, Corinne	Accountant	325	23.3	7,573	3	845	0	65	8	2,665	1	423	0	65	11	3,510
Kim, Dasol	Accountant	325	5.3	1,723	-	-	0	130	-	-	-	-	-	-	5	1,593
Total			790.70	433,477	120	69,741	293	153,071	229	135,018	24	12,525	8	3,993	116	59,130
NZ\$				455,500		73,284		160,848		141,877		13,161		4,196		62,134

3 Disbursements

3.1 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 (A\$ excl GST)
Advertising	At cost
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 (A\$ excl GST)
0-300	\$950
300-1000	\$950 + \$2.50/MB
1000-5000	\$2,500 + \$1.25/MB
5000+	\$7,500 + \$0.60/MB

3.2 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 0.

Task area	General description	Includes
Investigation 120.2 hours A\$69,740.50 [NZ\$73,283.77]	Conducting investigation	<ul style="list-style-type: none"> – Preliminary investigations in relation to tracing of Client funds through the Company's Client and company bank accounts – Review of the nature of the Halifax NZ 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 the director in relation to a potential Deed of Company Arrangement (DOCA) – Ongoing meetings with the FMA – Preparation of comparative financial statements – Reconciliation of Client positions – Request and review Directors Statement of Companies Position 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 – Liaised regularly with lawyers in relation to a multitude of complex issues in relation to the Administration
	Litigation / recoveries	<ul style="list-style-type: none"> – Liaising with solicitors regarding potential recovery actions – Holding meetings with solicitors in relation to funds flow process and conduct regarding operation of trust accounts
	FMA reporting	<ul style="list-style-type: none"> – Regular reporting to the FMA – Prepare reports for FMA updating status of investigations

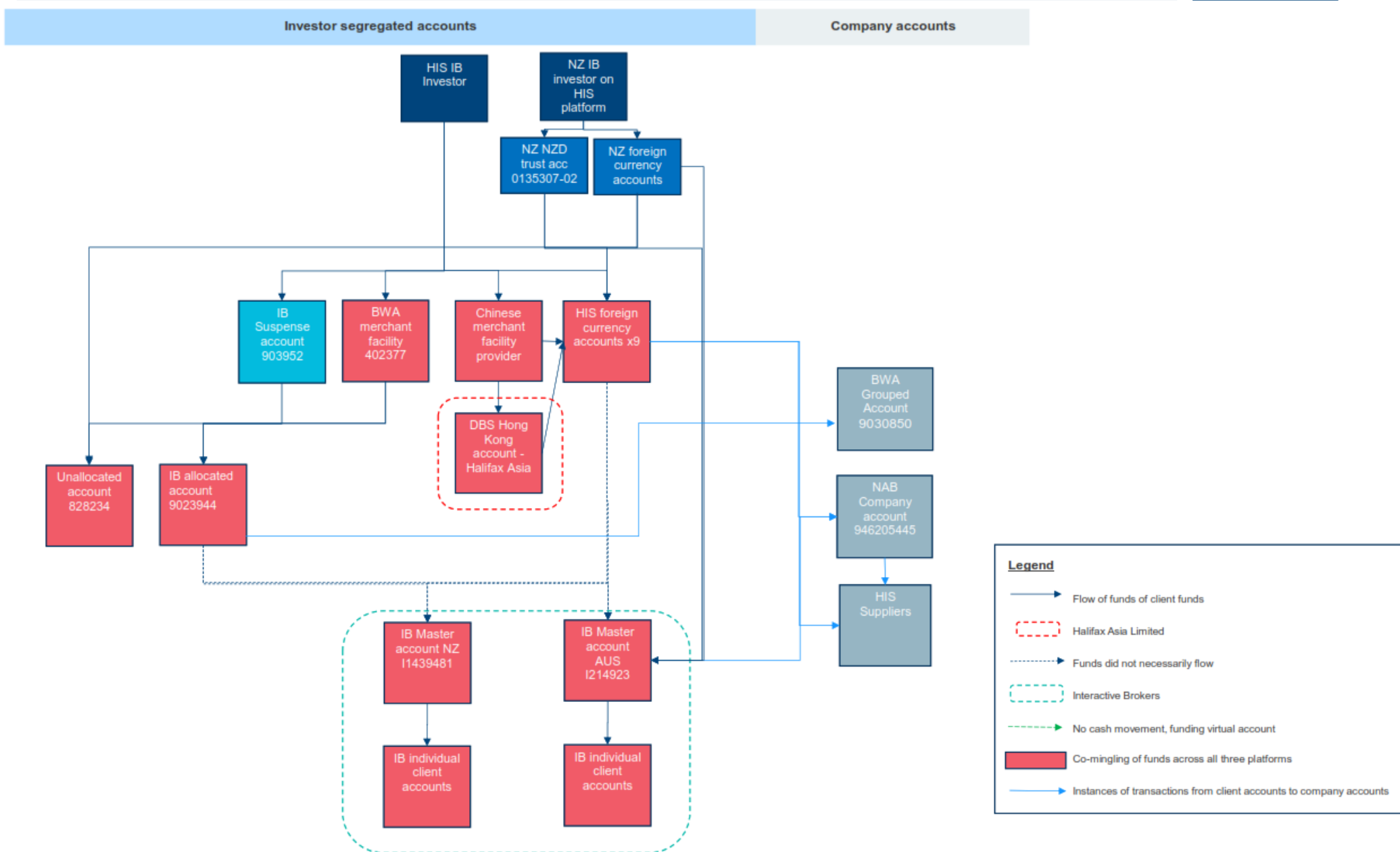
Task area	General description	Includes
Investors and Creditors 293.0 hours A\$153,071.00 [NZ\$160,848.00]	Creditor / Investor enquiries, requests and directions	– Receive and respond to Investor enquiries escalated by Link Market Services
		– Liaise with Halifax employees in relation to information requests 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
		– Compiling information requested by creditors
		– Considering reasonableness of creditor / Investor queries
		– Search of PPSR register
	PPSR	– Undertaking investigations in relation to pre-appointment registrations
		– Preparing Voluntary Administrators' report to creditors on results of investigations to date and convening meeting
		– Preparing initial circular to creditors
		– 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
		– 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
	Dealing with proofs of debt	– Liaise with Webcast provider
		– Liaise with meeting venue regarding meeting logistics and quotes
	Meetings of Investors and creditors	

Task area	General description	Includes
Operations 228.7 hours A\$135,017.50 [NZ\$141,877.27]	Committee of Creditors	<ul style="list-style-type: none"> – 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 7 December 2018 – Sign in Clients, creditors and observers through Link Market Services – Respond to stakeholder's queries and questions immediately following meeting – Respond to stakeholder queries and questions immediately following meeting
		<ul style="list-style-type: none"> – Liaise with 15 members of the Committee of Creditors regarding meetings – Preparation of confidentiality agreement for committee members – Set up data room for documents – Preparation of reports to the Committee and circulation of same to committee members – Hold meeting of Committee on 13 January 2019 and 13 February 2019 – Preparation for committee meetings – Prepare minutes of Committee meetings – Respond to committee enquiries following meeting
		<ul style="list-style-type: none"> – Liaise with Halifax staff in relation to generation of key reports – Liaising with management and staff – Attendance on site – Liaising with Inland Revenue regarding payroll tax issues – Attended to ongoing trading and cash flow management issues – 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"> – Prepare cash flow – Review and update weekly cash flow

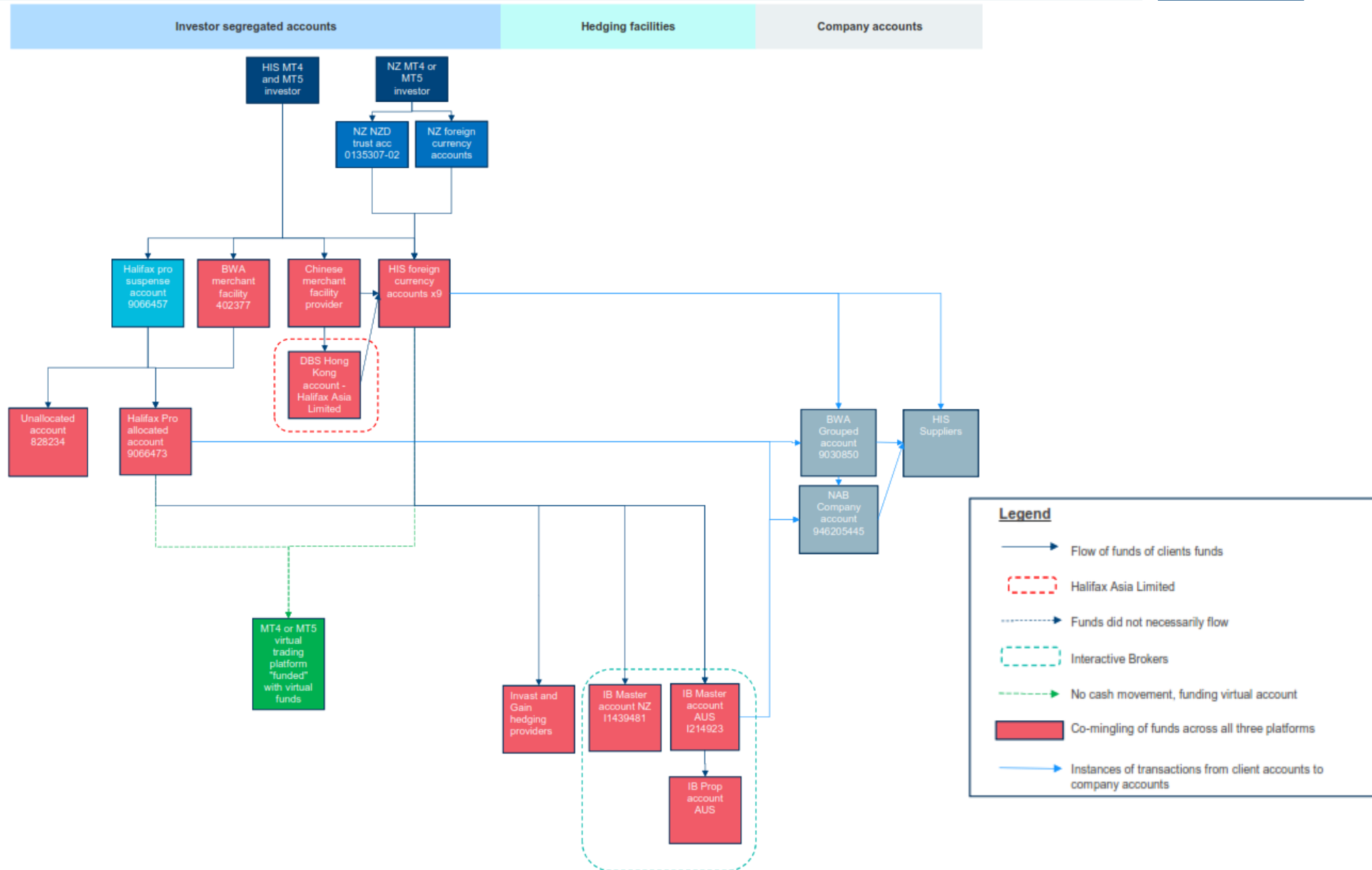
Task area	General description	Includes
		<ul style="list-style-type: none"> – Prepare calculations in relation to deficiency in Client funds and movements since appointment of Administrators – Reviewing Company's budgets and financial statements – Finalising trading profit or loss – Meetings to discuss 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
	Plant and equipment	<ul style="list-style-type: none"> – Reviewing asset listings
	Debtors	<ul style="list-style-type: none"> – Reviewing and assessing debtor ledger – Pursuit of negative equity balances – Review and pursue director loan account balances
Assets	Other assets	<ul style="list-style-type: none"> – Tasks associated with realising other assets
24.3 hours		
A\$12,525.00		
[NZ\$13,161.35]	Bank accounts	<ul style="list-style-type: none"> – Investigation in relation to bank accounts held by Halifax NZ – Open new bank accounts – Set up Administrators as authorised signatories
	Trust Assets	<ul style="list-style-type: none"> – Meetings with management and Halifax NZ employees to discuss nature of shareholdings held on trust by custodians – 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 Auckland and Wellington head office
Employees		<ul style="list-style-type: none"> – Receive and follow up employee enquiries via telephone
8.4 hours	Employee enquiries	<ul style="list-style-type: none"> – Review and prepare correspondence to creditors and their representatives via facsimile, email and post
A\$3,993.00		<ul style="list-style-type: none"> – Preparation of letters to employees advising of their entitlements and options available
[NZ\$4,195.87]		

Task area	General description	Includes
Administration 116.1 hours A\$59,129.50 [NZ\$62,133.66]		<ul style="list-style-type: none"> – 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 – Reviewing employee files and Company's books and records – Reconciling superannuation accounts – Liaising with solicitors regarding entitlements
	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 accounts – Requesting bank statements – Bank account reconciliations – Correspondence with bank regarding specific transfers
	Companies Office forms	<ul style="list-style-type: none"> – Preparing and lodging statutory forms and meeting notices
	Planning / review	<ul style="list-style-type: none"> – Discussions regarding status / strategy of administration
	Document maintenance / file review / checklist	<ul style="list-style-type: none"> – Filing of documents – File reviews – Updating checklists
	Correspondence	<ul style="list-style-type: none"> – General correspondence

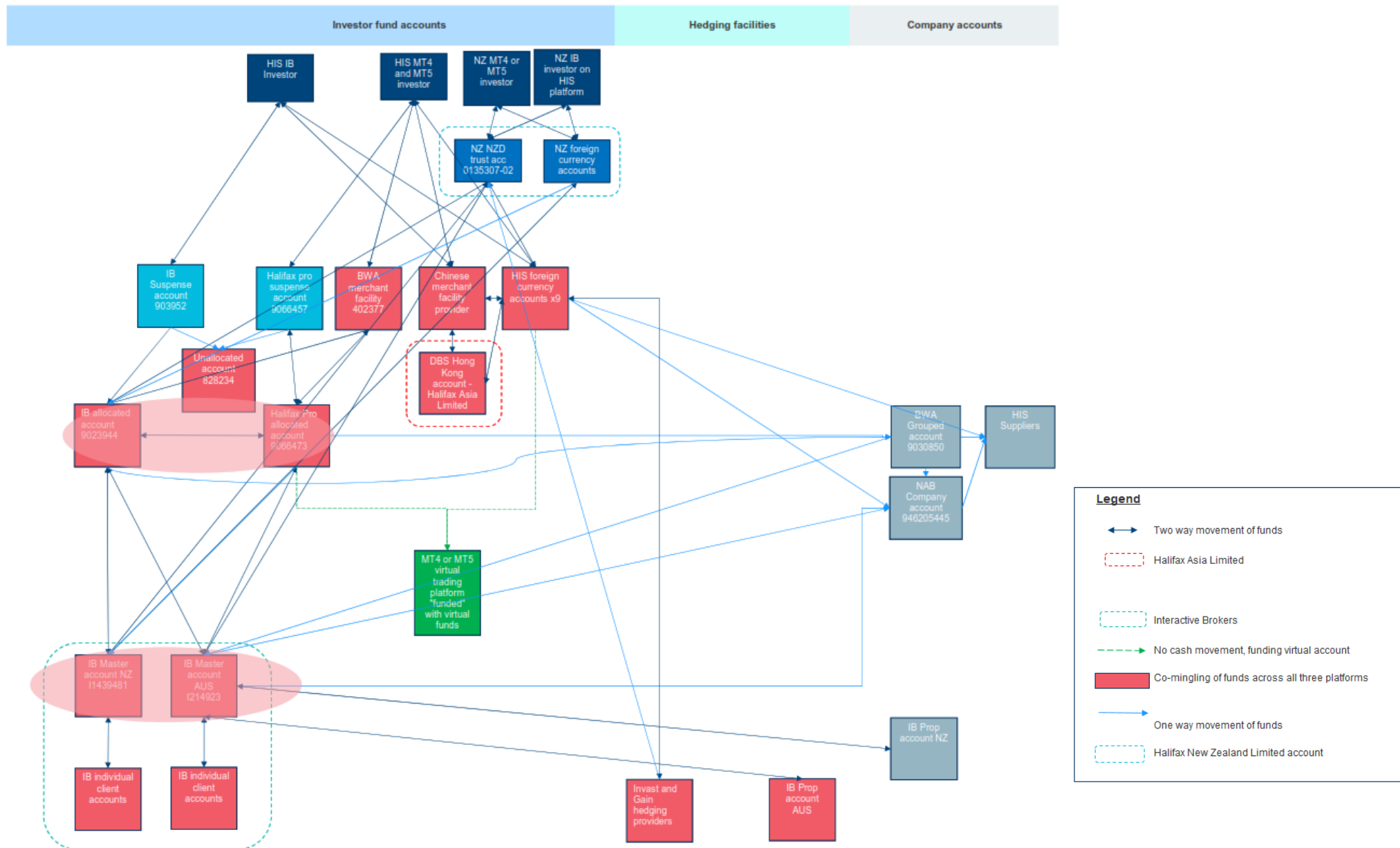
Annexure F – Funds flow for IB investors



Annexure F – Funds flow for MT4 and MT5 investors



Annexure F – Combined funds flow



G– Section 5 of Halifax AU Voluntary Administrators' Report regarding legal issues

**Ferrier
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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).