



cutting through complexity

**BBY Limited
Broker Services Australia Pty Ltd
BBY Holdings Pty Limited
BBY Nominees Pty. Ltd
BBY Protection Nominees Pty. Ltd
Options Research Pty. Ltd
Tilbia Nominees Pty Ltd
BBY Advisory Services Pty Ltd ACN 102 761 008
BBY Hometrader Pty Ltd
SmarTrader Limited
(all Administrators Appointed)
("BBY Group Companies")**

27 May 2015

Concurrent First Meetings of Creditors

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Introduction

Chairman: Ian Hall, Joint Administrator

Stephen Vaughan, Joint Administrator

Corey McHattan, Partner – Regulatory, Ashurst

Tim Klineberg, Partner – Insolvency, Ashurst

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Agenda

- Purpose and process
- Procedural matters
- FAQs
- Background
- Voluntary Administration process
- Status of the Administration & next steps
- Committee of Creditors
- Remuneration of Administrators
- Resolutions
- Final questions
- Close

Concurrent First Meetings of Creditors

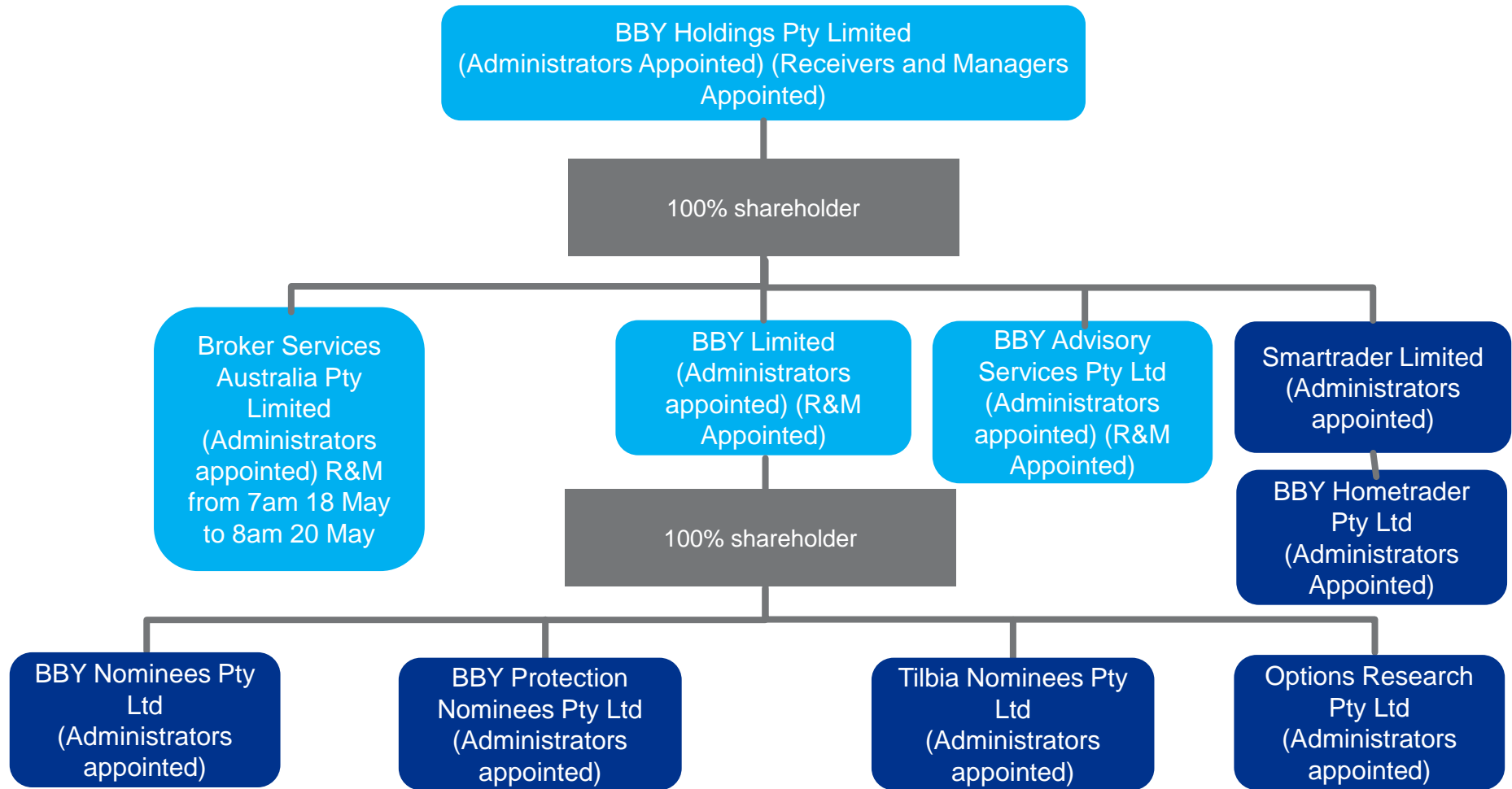
BBY Group Companies (Administrators Appointed)

Purpose and process

- The directors of a company can resolve to appoint Voluntary Administrators if the company is insolvent or likely to become insolvent at some future time.
- Voluntary administration is designed to resolve a company's future direction.
- An independent qualified person (the voluntary administrator) takes control of the company to try to work out a way to save either the company or its business.
- Voluntary Administrators – Stephen Vaughan & Ian Hall of KPMG
- Appointment date – 17 May 2015, 11pm
- Receivers and Managers appointed by secured creditor – 18 May 2015, 7am (prior to opening of trading)
- Nature of this meeting – 436E Corporations Act 2001 (th) “first meeting of creditors”

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)



Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Procedural matters

- Chairperson – Ian Hall, Administrator
- Attendance register, proxies and proofs of debt
- Quorum
- Notice convening Meeting
- Declaration – time & place convenient
- Purpose of meeting
- DIRRI – Declaration of Independence, Relevant Relationships & Indemnities
- Entitlement to vote
- Voting on resolutions

Concurrent First Meetings of Creditors BBY Group Companies (Administrators Appointed)

Declaration of Independence, Relevant Relationships and Indemnities

Update to DIRRI dated 20 May 2015

- We provided creditors with a DIRRI dated 20 May 2015, included in our first circular to creditors.
- Pursuant to Section 436DA(5) of the Act we have updated our DIRRI to reflect changed circumstances that have arisen during the voluntary administrations of the Companies (Administrations) to date. Copies of the updated DIRRI have been made available this morning and will be included on our web site and future correspondence.
- Since our appointment, we have liaised with representatives of the AIMS Group in respect of a prospective sale and recapitalisation of the Companies via the voluntary administration process. We and the AIMS Group have had independent legal advice throughout those discussions and have dealt at arms' length with each other.
- In the course of our discussions with AIMS Group, AIMS Group Financial Service Pty Ltd (AFG) made a limited recourse loan of \$500,000 to Stephen Vaughan in his capacity as Administrator for the specific purpose of funding wages and other costs and expenses that may be incurred during the week following the Administrations and pending a possible sale agreement being agreed. The limited recourse loan also permitted a capped amount of remuneration to be funded up to \$100,000, with remuneration being subject to approval in accordance with the Act.
- At the time of this updated DIRRI, sale negotiations were continuing between AIMS, the receivers and managers and the Administrators and AIMS has indicated that it is considering whether it may propose a Deed of Company Arrangement in respect of some of the Companies.
- We do not consider the AIMS relationship will have any impact on the performance of our statutory and fiduciary duties associated with the Administrations in an objective and impartial manner.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Procedural matters

- Chairperson – Ian Hall, Administrator
- Attendance register, proxies and proofs of debt
- Quorum
- Notice convening Meeting
- Declaration – time & place convenient
- Purpose of meeting
- DIRRI – Declaration of Independence, Relevant Relationships & Indemnities
- Entitlement to vote
- Voting on resolutions

Concurrent First Meetings of Creditors BBY Group Companies (Administrators Appointed)

Statement by a Director

Frequently asked questions

1. Factors in the BBY Group failure?

- Significant trading losses over the last 18 months
- High overheads and operating costs
- Poor accounting and financial systems
- Increased competition leading to reduced margins

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

2. Why can't I access my funds?

- Funds are held in client money accounts (CMAs)
- CMAs are segregated from BBY "house funds" and are not subject to the security interest held by the secured creditor.
- There are no separate sub-accounts for each client.
- The administrators are working with BBY employees to reconcile CMAs.
- CMAs are not currently "whole" – waiting on return of funds from ASX, FX and Futures counterparties to finalise position.
- It is likely that directions will be required from the Court before the administrators can pay clients out of CMAs.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

3. Will the Administrators take fees from client funds?

- There was very little by way of funds available within the BBY group as at the time of the administrators' appointment. The funds which were available were generally subject to the security interest held by the Bank and have been retained by the receivers.
- The administrators may in due course need to make an application to Court to fund the costs of the administration, including to cover their costs of realising the CMAs for the benefit of the beneficiaries of those payments.
- The extent of the funding required by the administrators is dependent upon the result of the sale process any other recoveries received from the administration/liquidation of the companies.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

4. When are claims likely to be paid?

- The length of the insolvency process to follow the appointment, and the speed by which any claims can be paid to creditors will depend upon whether a sale process can be completed, the result of the second meeting of creditors, and whether any additional recoveries can be made and over what period.
- If the employee companies go into liquidation, employees will have claims under the Fair Entitlements Guarantee.
- Clients – given the trust nature of the client monies, there is likely to be some delay in paying money out of Client Money Accounts as a court application will most likely be required before payments can be made, after investigations and reconciliations are completed. The reconciliation will be made more difficult given the poor state of the Companies' books and records. This will be a key focus following this meeting of creditors.
- Other creditors – payment of any unsecured claims are dependent upon the outcome of any investigations and any recovery actions.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

5. What method will be used to calculate client money claims?

- It will most likely be necessary to seek court directions as issues include:
 - should open positions be valued as at time of the appointment of the administrators, or the time of actual close out by ASX/third parties?
 - "pooling" of Client Money Accounts within or across product lines?
 - conversion of foreign currencies back to Australian dollars?

Concurrent First Meetings of Creditors BBY Group Companies (Administrators Appointed)

6. Can I claim against the National Guarantee Fund?

We have been advised as follows from the fund:

“If you have suffered loss due to the actions of BBY or because it has become insolvent, you may have a claim on the National Guarantee Fund if you fit within one of the categories set out in Division 4 of Part 7.5 of the Corporations Regulations. For more information about the operation of the National Guarantee Fund, please refer to the NGF Information Booklet, a copy of which is available at www.segc.com.au”

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Background – Company overview

- Independent financial services group and stockbroking firm established in 1987
- One of Australia and New Zealand's largest independent stockbroker by market share (\$2.4 billion per month ASX equities turnover)
- Largest options broker by ASX market share (\$163 million per month ASX options turnover)
- Majority owned by Executive Chairman, Glenn Rosewall
- Major secured creditor holds first ranking security over four of the companies.
- 6 locations around Australia and 4 overseas (all locations other than Sydney, Melbourne and Perth have been closed since our appointment)
- Approximately 180 full time staff and contractors

Office locations

- Sydney (Head Office)
- Melbourne
- Brisbane
- Gold Coast
- Adelaide
- Perth
- Auckland
- Wellington
- New York
- London

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Business Units

Asset Management

- FX Plus
- Growth Plus
- High Conviction Plus
- Income Plus
- Momentum Plus
- Options Plus
- Trend Plus

Broker Dealer Services

- IRESS
- BBY Online Trader
- BBY Clearing

Corporate Finance

- Equity Capital Markets
- Debt Capital markets
- Mergers & Acquisitions
- Corporate Advice
- Private Equity

Institutional Sales & Trading

- Direct Market access and Order Routing
- Portfolio Trading

Private Clients

- Direct Market Access
- Equity Research
- Access to IPOs and Corporate Finance deals
- Managed discretionary accounts
- Model portfolios
- Portfolio Administration Solutions
- Self-Clearing and Settlement
- Trading Education

Online Trading

- BBY Online
- BBY Plus
- BBY China Desk
- FX Trading

Research

- Company research
- Market reports
- Advantage Receiver
- Stock profiles

Trading Education via Home Trader

- Amibroker trading simulator software

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Investment Products

**ASX, APX and
International
Equities**

**Exchange traded
options**

**Exchange Traded
Funds (ETFs)**

Warrants

**Debt and Hybrid
Securities**

FX

Precious Metals

Term Deposits

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Procedural actions since appointment

- ASIC and ASX were immediately notified of the administrators' appointment.
- Circulars have been issued to all creditors of the companies including employees, suppliers and customers.
- Court application was successful on 20 May 2015 for notice of meeting and other correspondence to be circulated by email.
- Set up 2 dedicated communication channel with clients and creditors:
 - Email: BBY@linkmarketservices.com.au
 - Hotline: 1300 784 494

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Receivers & Managers

- The secured creditor holds a registered general security interest over all of the current and future assets of BBY Limited, BBY Holdings Pty Ltd, BBY Advisory Services Pty Ltd and Broker Services Australia Pty Ltd.
- On 18 May 2015, the secured creditor appointed Brett Lord and Stephen Parbery of PPB Advisory as receivers and managers over each of those companies. Their appointment over Broker Services Australia Pty Ltd was subsequently retired by the secured creditor on 20 May 2015.
- As receivers and managers, PPB Advisory has the right to deal with all of the assets subject to the secured creditor's security in preference to the administrators. Only the administrators have the power to deal with any assets of the companies which are not subject to the security (including client monies).
- Following their appointment, the receivers have taken control of the secured assets and worked with the administrators to trade on the BBY Group with a view to achieving a sale as a going concern.
- The administrators have sought to work co-operatively with the receivers as we believe achieving a sale as a going concern is in the best interest of creditors, in particular to preserve jobs

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Sale process

- Prior to the administrators' appointment, the BBY Group was in discussions with a number of interested parties, including AIMS Financial Services Group Pty Ltd. AIMS is a diversified financial services group.
- Negotiations are on-going between the Receivers and AIMS who is interested in acquiring some of the assets of the BBY Group and we have been exploring the opportunity to do a DOCA as part of the sale process.
- The proceeds of any sale of the business will be used to reduce the secured debt.
- A sale has the potential to provide the following benefits to other creditors of the companies:
 - some employees and contractors may be offered employment by AIMS;
 - suppliers will have opportunities to enter into new supply arrangements with AIMS;
 - client will have an opportunity to continue to trade with brokers and advisors who were previously employed by BBY and who are now employed by AIMS.
- AIMS may make a DOCA proposal to the administrators as part of this sale process which we will consider and report on at the second meeting.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Employees

- Most employees were employed by Broker Services Australia Pty Ltd and BBY Advisory Services Pty Ltd. There was a services arrangement between them place under employees were made available to BBY Limited.
- Following a first tranche of redundancies on 20 May 2015, approximately 100 employees and contractors have continued to work for the BBY Group following the receivers and the administrators' appointment.
- Yesterday, all remaining employees of the companies were made redundant with terminations effective immediately.
- Eligible employees will then be entitled to lodge a claim for their entitlements with FEG if the employee companies go into liquidation. Payments may also be available from the proceeds obtained by the receivers in dealing with circulating security assets. This will includes payments for unpaid:
 - Wages, Superannuation, Long service leave, Annual leave, Redundancy

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Client accounts – Equities/ Exchange Traded Options

- We understand from the receivers the process is as follows:
 - Unsettled market equity transactions were closed out by the ASX on 19 May 2015 and 20 May 2015. This effectively meant that the transactions were cancelled.
 - ETO positions that met the transfer notification requirements of ASX were transferred by 9am 21 May 2015.
 - Remaining open ETO positions and open derivatives on the ASX that did not meet the transfer notification requirements were closed out by the ASX on 20 May 2015.
 - The closure of client positions by ASX will be settled against the nominated client accounts and/or collateral held as appropriate. At the current time, this process has not been completed and we are awaiting this information to enable us to finalise client positions in the BBY books. ASX have not finished providing all the information we need to reconcile the accounts. We understand this may take some time still.

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Client accounts – Equities/ ETOs (continued)

- The receivers are also looking into the transfer of CHESSE sponsored holding positions or Holder Identification Numbers (HINs) as a matter of priority. The timing and ability of BBY to effect transfer of sponsored holdings will be dependent upon the client's position being finalised and settlement of any debts held against the client account. The receivers have started to allow the transfer of HINs where these matters have been resolved.
- The process to follow to transfer HINs is outlined on the ASX website. In summary this requires the establishment of an active account with another sponsoring broker and a notification email to BBY meeting certain information requirements.
- Funds held by the Companies in client money accounts cannot be released at this time under order of ASIC until a full reconciliation of BBY's client money accounts has been completed. Client monies will continue to be held on trust whilst this reconciliation is performed.

Close watching brief on three entities with Australian financial services licence (AFSL):

BBY Ltd (administrators appointed) (receivers and managers appointed)

BBY Advisory Services Ltd (administrators appointed)

SmarTrader Ltd (administrators appointed)

Regular discussions and updates between ASIC, the administrators and the receivers have been held

Chi-X

Participation in Chi-X market suspended on 18 May 2015

APX

Participation in the APX market suspended on 18 May 2015

ABN AMRO Clearing Sydney Pty Ltd (domestic futures)

Based on event of default (BBY Ltd insolvency), ABN AMRO determined to close out existing open positions commencing 20 May 2015

Other key trading counterparties

Halifax Investment Services (FX)

Deutsche Bank (international futures)

ADM (international futures)

Leveraged Equities (various products)

Saxo (various products)

Interactive Brokers LLC (various products)

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Investigations

- As at this date the administrators have only been given limited access to the books and records of the companies given the receivers are in control of BBY Limited.
- The administrators have however taken steps to make a forensic image of computers and secure relevant documentation to facilitate our investigation.
- Investigations conducted to date do indicate that there may be a number of transactions which could be voidable under Part 5.7B of the *Corporations Act 2001*. Further investigations will be undertaken in respect of these transaction prior to the second meeting of creditors. It is too early in our investigations for any further detail to be provided.
- Whether it is viable to prosecute these investigations further will depend upon:
 - date of insolvency
 - available evidence
 - funding
 - prospects of recovery

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Remuneration of Administrators

- Details of proposed fee structure set out in Creditors Circular - Remuneration Advice
- Too early to provide a fee estimate but our remuneration to date is in the order of \$450k
- Approval for the administrators remuneration and expenses will be sought at the second meeting of creditors.
- May vary materially depending on complexities and timing of asset preservation, restructure, statutory investigations and any Deed proposal

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Committee of Creditors

- Creditors may resolve at the meeting to appoint a Committee of Creditors (s436E)
- Role:
 - Consult with the Administrators about matters relating to the administration; and
 - Receive and consider reports by the Administrators (but not instruct the Administrators).
- Written authority required where person seeking election on behalf of a corporate entity
- To make the committee workable a membership of 5 to 10 creditors is ideal. For employees it would be best if you could select one of your number to be your representative,

Concurrent First Meetings of Creditors

BBY Group Companies (Administrators Appointed)

Possible resolutions at first meeting of creditors

- Purpose of first creditors meeting is to determine:
 - Whether to appoint a committee of creditors, and
 - If so, who are to be the members

- Creditors may also, by resolution:
 - Remove the appointed Administrators from office; and
 - Appoint another Administrator or Administrators of their choice

IPA Code of Professional Practice 11.7.1 for Insolvency Practitioners; a member is required to provide 24 hours notice of their intention to consent to act should creditors remove the Administrators at this meeting

Should a replacement administrator be nominated, that person must have consented to act, in writing, prior to being appointed. No notice had been received



cutting through complexity

© 2015 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).