

**FINANCIAL STATEMENTS**

*National Guarantee Fund Financial Statements  
for the Year Ended 30 June 2014*

**NATIONAL GUARANTEE FUND**

**ABN 69 546 559 493**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**30 JUNE 2014**

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**FOR THE YEAR ENDED**

**30 JUNE 2014**

## NATIONAL GUARANTEE FUND

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Securities Exchanges Guarantee Corporation Limited's registered office is:

Exchange Centre  
20 Bridge Street  
Sydney NSW Australia

## Trustee's Report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee of the National Guarantee Fund (the Fund), present their report together with the financial statements of the Fund for the year ended 30 June 2014 and the auditor's report thereon.

### Trustee

The trustee of the Fund is SEGC. The directors of SEGC during the financial year and at the date of this report, unless otherwise stated, were as follows:

Ms Nancy J Milne (Chairperson)  
 Ms Susan Doyle  
 Mr Ian W T McGaw  
 Ms Lynn S Ralph  
 Mr Peter H Warne

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

### Principal activity

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

SEGC administers the Fund and holds the Fund's assets on trust in accordance with Division 4 of Part 7.5 of the *Corporations Act 2001*.

In accordance with Regulation 7.5.89 of the *Corporations Regulations*, funds in excess of the minimum amount, currently \$76.0 million, are able to be paid from the Fund for certain purposes approved by the Assistant Treasurer (the Minister).

### Review and results of operations

The profit of the Fund for the year was \$3,962,957 (2013: \$3,499,139). Payments of \$4,139,840 were made to the Financial Industry Development Account (2013: \$2,987,980).

In the current financial year, revenue increased by \$319,155 from \$4,423,075 in the prior financial year to \$4,742,230. Expenses decreased from \$924,463 in the prior financial year to \$779,273, primarily due to lower in legal costs.

Net assets of \$103,729,137 remained consistent with prior year (2013: \$103,915,882).

There were no claims made during the financial year. At the date of this report, there are two outstanding compensation claims on the Fund. The Fund has not recognised any contingent liability in respect of these claims as they are still being assessed and the SEGC Board have yet to form a view on the claim validity.

### Financial Industry Development Account (FIDA)

FIDA is administered by ASX Limited (ASX) under *Corporations Regulation* Section 7.5.89.

During the year the Fund made distributions of \$4,139,840 (2013: \$2,987,980), as shown in the table below:

	2014 \$	2013 \$
ASX Investor Education Program	2,364,305	2,502,678
Share Ownership Research	12,945	271,402
Corporate Governance Research Centre	-	181,500
Transfer of Market Supervision Responsibilities (Cost Recovery)	1,389,590	(274,600)
Financial Market Research Centre	307,000	307,000
Industry Training and Education Program	66,000	-
<b>Total payments made</b>	<b>4,139,840</b>	<b>2,987,980</b>

### Trustee's Report – continued

All payments made to FIDA in the current and prior financial year were for purposes approved by the Minister or the Parliamentary Secretary to the Treasurer.

#### Significant changes in the state of affairs

In the opinion of the directors of SEGC, there were no significant changes in the state of affairs of the Fund during the current financial year ended 30 June 2014.

#### Events subsequent to balance date

No matter or circumstance has arisen since the end of the financial year to the date of these financial statements which has significantly affected, or may significantly affect the:

- (a) Fund's operations in future financial years; or
- (b) results of those operations in future financial years; or
- (c) Fund's state of affairs in future financial years.

#### Likely developments

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

#### Environmental regulation and performance

The Fund is not subject to any significant environmental regulations or laws.

#### Insurance of and indemnity for directors and officers

SEGC has incurred insurance premiums for directors and officers liability insurance. The constitution of SEGC provides that, to the extent permitted by law, the prior and current officers of SEGC are indemnified against any liability incurred in that capacity being a liability to a person other than SEGC or a related body corporate, unless the liability arises out of a lack of good faith or conduct contrary to SEGC's express instructions.

#### Corporate governance

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

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

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

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

## Trustee's Report – continued

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

### Non-audit services

Details of audit and non-audit services paid to the auditor of the Fund, PricewaterhouseCoopers, during the year are set out below:

	2014 \$	2013 \$
Audit of financial statements of the Fund under the <i>Corporations Act 2001</i>	11,200	11,900
<b>Total auditor's remuneration</b>	<b>11,200</b>	<b>11,900</b>

### Auditor independence

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

### Rounding of amounts to nearest thousand dollars

The Fund is of a kind referred to in Class Order 98/100 issued by ASIC, relating to the "rounding off" of amounts in the financial statements. Where indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar in accordance with that Class Order.

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



Nancy J Milne  
Chairperson

Sydney, 26 August 2014

## Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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



Matthew Lunn  
Partner  
PricewaterhouseCoopers

Sydney  
26 August 2014

**Statement of Comprehensive Income**

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Revenue</b>			
Net gain/(loss) on financial instruments held at fair value	11	1,043	(274)
Distribution income	11	3,697	4,679
Interest income		-	15
Refund of imputation credits		2	3
		<b>4,742</b>	<b>4,423</b>
<b>Expenses</b>			
Claims reversed	12	-	(100)
Operating expenses	13	779	1,024
		<b>779</b>	<b>924</b>
<b>Profit for the year</b>		<b>3,963</b>	<b>3,499</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>3,963</b>	<b>3,499</b>

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

## NATIONAL GUARANTEE FUND

### Balance Sheet

As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash	2	1	2
Receivables	4	79	8
Prepayments	5	47	40
Other financial assets – investments	2	103,824	104,047
<b>Total current assets</b>		<b>103,951</b>	<b>104,097</b>
<b>Total assets</b>			
		<b>103,951</b>	<b>104,097</b>
<b>Current liabilities</b>			
Related party payables	8	212	181
<b>Total current liabilities</b>		<b>212</b>	<b>181</b>
<b>Total liabilities</b>			
		<b>212</b>	<b>181</b>
<b>Net assets</b>			
		<b>103,739</b>	<b>103,916</b>
<b>Equity</b>			
Retained earnings		103,739	103,916
<b>Total equity</b>		<b>103,739</b>	<b>103,916</b>

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

## NATIONAL GUARANTEE FUND

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### Statement of Changes in Equity For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Opening balance 1 July</b>		<b>103,916</b>	<b>103,405</b>
Profit for the year		3,963	3,499
<b>Total comprehensive income for the year, net of tax</b>		<b>3,963</b>	<b>3,499</b>
Payments to the Financial Industry Development Account (FIDA)	3	(4,140)	(2,988)
<b>Closing balance at 30 June</b>		<b>103,739</b>	<b>103,916</b>

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

**Statement of Cash Flows**

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from the redemption of investments		4,963	8,221
Investment distribution income received		3,697	4,679
Reinvestment of distribution income		(3,697)	(4,679)
Payments to suppliers (including GST)		(824)	(1,082)
Claims paid		-	(4,165)
Interest received		-	15
<b>Net cash inflow from operating activities</b>	<b>7</b>	<b>4,139</b>	<b>2,989</b>
Payments to FIDA	3	(4,140)	(2,988)
<b>Net cash outflow from investing activities</b>		<b>(4,140)</b>	<b>(2,988)</b>
<b>Net cash outflow from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net (decrease)/increase change in cash held</b>		<b>(1)</b>	<b>1</b>
Cash at the beginning of the financial year		2	1
<b>Cash at the end of the financial year</b>		<b>1</b>	<b>2</b>

The statement of cash flows should be read in conjunction with the notes to the financial statements.

## Notes to the Financial Statements

### 1. Summary of significant accounting policies

These financial statements are for National Guarantee Fund (the Fund). The Fund is domiciled and incorporated in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below and have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorised for issuance by the directors of the trustee, Securities Exchanges Guarantee Corporation Limited (SEGC), on 26 August 2014. The directors have the power to amend and reissue the financial statements.

#### a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Fund is a not-for-profit entity for the purpose of preparing these financial statements.

#### Compliance with IFRS

The financial statements of the Fund comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Historical cost convention

The financial statements have been prepared on a historical cost basis except for investments, which have been recognised at fair value.

#### Rounding of amounts

NGF is a Fund of the kind referred to in ASIC class Order 98/100. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars, unless otherwise indicated.

#### New and amended standards adopted by the Fund

The Fund has applied the following standards and amendments for the first time in the annual reporting period that commenced 1 July 2013:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*;
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*; and
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

The impact of the above new standards and amendments on the Fund is limited to disclosure changes, and do not affect any of the amounts recognised in the current period or any prior period, and are not likely to affect amounts in future periods. The Fund has not elected to apply any pronouncements before their operative date in the annual reporting period ended 30 June 2014.

#### New accounting standards and interpretations not yet adopted

The following new or amended accounting standards and interpretations issued by the AASB have been identified as those which may have a material impact on the Fund in the period of initial application. Whilst published, these standards and interpretations were not mandatory for the annual reporting period ended 30 June 2014, and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below.

### Notes to the Financial Statements - continued

- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* address the classification, measurement and derecognition of financial assets and financial liabilities, and since December 2013, also sets out new rules for hedge accounting.

AASB 9 and related amending standards are first mandatory for the Fund's financial statements for the year ending 30 June 2019 (as prescribed by AASB 2014-1, refer below). The potential effect of the new and amending standards on the financial results of the Fund upon adoption has yet to be fully determined.

- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* makes changes to existing Standards and Interpretations across three topics. Parts A and B are a consequence of the amendments arising on the issuance of AASB CF 2013-1 *Amendments to the Australian Conceptual Framework*, which amends a number of standards and interpretations to delete references to AASB 1031 *Materiality*. Part A and B amendments are mandatory for the Fund's 30 June 2015 financial statements and are not expected to impact the Fund's current accounting policies and practices.

Part C incorporates Chapter 6 *Hedge Accounting* (issued by the IASB) into AASB 9 *Financial Instruments* and makes other amendments impacting the accounting for financial instruments. Furthermore, Part C defers the mandatory effective date of AASB 9 from 1 January 2015 to 1 January 2017. However, the effect of the more recently issued standard AASB 2014-1 *Amendments to Australian Accounting Standards* Part E is that the adoption date of AASB 9 has been deferred by a further year. This standard does not impact the Fund as it currently does not utilise hedge accounting.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

#### Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars which is the Fund's functional and presentation currency.

#### b) Revenue recognition

##### *Movements in fair value of investment units*

Investments in units of managed funds are classified as financial assets at fair value through profit or loss and are stated at fair value in accordance with AASB 13 *Fair Value Measurement*. Gains and losses that result from fair value movements in investment units are included as revenue in the statement of comprehensive income.

##### *Distributions*

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

##### *Interest*

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

##### *Refund of imputation credits*

The Australian Taxation Office (ATO) endorsed the Fund as an income tax exempt charitable entity. As a result, imputation credits arising from distributions received during the year are recognised as revenue. Imputation credits not received by the end of the financial year are recognised as receivables.

### Notes to the Financial Statements - continued

#### c) Claims

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

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

If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (section 892F of the *Corporations Act 2001*).

#### d) Income tax

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

#### e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. Where it is not recoverable, GST is recognised as part of the cost of acquisition of an asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis.

#### f) Cash and cash equivalents

Cash and cash equivalents as presented on the statement of cash flows comprise cash balances held with financial institutions.

#### g) Receivables

Receivables, which generally have terms of 30 days, are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

#### h) Other financial assets – investments

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

The fair value of the investments is established by referring to redemption prices quoted by both fund managers. The fund managers are responsible for using the relevant market bid prices of underlying instruments in the portfolios at balance date to calculate the redemption prices for the funds.

#### i) Payables

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

#### j) Payments to Financial Industry Development Account (FIDA)

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

Notes to the Financial Statements - continued

2. Financial risk management

The Fund is directly and indirectly exposed to a variety of financial risks: market risk (including interest rate and foreign currency risk), credit risk and liquidity risk. Risk management is carried out by the Board of directors of SEGC, as trustee of the Fund, who seek to minimise potentially adverse effects of financial risks on the financial performance of the Fund. The Board has endorsed an Investment Policy Statement which is varied from time to time to meet the needs of the Fund. In developing the investment policy and investment strategy contained in the statement, the Board had regard to a number of matters, including but not limited to, the purpose of the Fund as set out in the Division 4 of Part 7.5 of the *Corporations Act 2001*. The Fund's risks are managed in accordance with this statement.

The Fund holds the following financial instruments by category:

	Fair value through profit or loss \$'000	Amortised Cost \$'000	Total \$'000
<i>As at 30 June 2014</i>			
<b>Financial assets</b>			
Cash	-	1	1
Receivables	-	79	79
Other financial assets - investments	103,824	-	103,824
<b>Total financial assets</b>	<b>103,824</b>	<b>80</b>	<b>103,904</b>
<b>Financial liabilities</b>			
Related party payables	-	212	212
<b>Total financial liabilities</b>	<b>-</b>	<b>212</b>	<b>212</b>
<i>As at 30 June 2013</i>			
<b>Financial assets</b>			
Cash	-	2	2
Receivables	-	8	8
Other financial assets - investments	104,047	-	104,047
<b>Total financial assets</b>	<b>104,047</b>	<b>10</b>	<b>104,057</b>
<b>Financial liabilities</b>			
Related party payables	-	181	181
<b>Total financial liabilities</b>	<b>-</b>	<b>181</b>	<b>181</b>

Notes to the Financial Statements - continued

a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, foreign exchange rates and other market prices. The Fund is exposed to market risks, predominantly through the investment of the Fund balance. For the years ended 30 June 2014 and 30 June 2013, the Fund balances were invested with the following professional investment portfolio managers within mandates approved by the Board:

- UBS Global Asset Management (Australia) Limited (UBS): UBS Cash Plus Fund (cash or cash-like products), and
- Schroders Investment Management Australia Limited (Schroders): Schroders Fixed Income Fund (fixed income securities).

The above investments are classified as 'other financial assets – investments' on the balance sheet.

The specific market risks that arise from the above investments and other assets and liabilities of the Fund are discussed below.

(i) Interest rate risk

The Fund has exposure to interest rate risk, which arises in relation to cash at bank and indirectly from other financial assets - investments. Cash at bank includes a small amount of cash held for operational purposes and interest rate risk on this balance is considered to be low. Other financial assets – investments, as represented by the investments held with UBS and Schroders, have significant exposure to interest rate risk, but are classified as non-interest bearing as revenue on these investments is derived from variations in unit prices rather than directly from movements in interest rates. The unit prices, which are used to value the investments however, may be impacted by interest rate variations. This interest rate risk is managed through distributing the total investment between two professional investment portfolio managers as shown above and the regular performance monitoring of both investments by the Board of SEGC. The UBS Cash Plus Fund includes investments in cash or cash-like products. The Schroders Fixed Income Fund includes a diversified range of fixed income securities.

The maximum direct and indirect exposure to interest rate risk is represented by the below financial assets:

	Interest bearing		Non-interest bearing		Total	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash	1	2	-	-	1	2
Other financial assets - investments	-	-	103,824	104,047	103,824	104,047
	<b>1</b>	<b>2</b>	<b>103,824</b>	<b>104,047</b>	<b>103,825</b>	<b>104,049</b>

The annual average interest rate for the above interest bearing assets for the year was 2.01% (2013: 2.60%). The average return on distributions from non-interest bearing financial assets - investments for the year was 4.91% (2013: 5.31%).

Notes to the Financial Statements - continued

**Fair value sensitivity analysis of interest bearing financial assets:**

An increase/decrease of 25 basis points in interest rates would impact interest earned on the Funds cash balance. This impact however, is not considered material.

Variations in interest rates may also affect the unit prices of the Fund's non-interest bearing other financial assets – investments, however the amount of the effect is unknown. See below for the fair value sensitivity analysis of these funds.

**Fair value sensitivity analysis of non-interest bearing investments:**

An increase/decrease of 25 basis points in investment redemption prices would increase/decrease the Fund's profit and loss by \$259,559 (2013: \$260,118).

**(ii) Foreign currency risk**

The Fund has indirect exposure to foreign currency risk from its other financial assets - investments. Where the managed funds have investments in underlying securities that are denominated in foreign currencies, the unit prices, which are used to value the investments, may be impacted by variations in exchange rates. The Board of SEGC manages this risk by regular review of the composition of both funds and the proportion of the total funds invested in securities denominated in foreign currencies.

**b) Liquidity risk**

Liquidity risk associated with the need to pay claims or other expenses, as determined by SEGC, is mitigated by investing in cash based funds. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund can be called upon at short notice to fund liquidity requirements as required.

The maturities of the Fund's financial assets and liabilities at 30 June are shown below.

2014	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
<b>Financial assets</b>			
Cash	1	-	1
Receivables	-	79	79
Other financial assets - investments	103,824	-	103,824
<b>Total financial assets</b>	<b>103,825</b>	<b>79</b>	<b>103,904</b>
<b>Financial liabilities</b>			
Related party payables	-	212	212
<b>Total financial liabilities</b>	<b>-</b>	<b>212</b>	<b>212</b>
<b>Net financial assets/(liabilities)</b>	<b>103,825</b>	<b>(133)</b>	<b>103,692</b>

## NATIONAL GUARANTEE FUND

### Notes to the Financial Statements - continued

2013	Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
<b>Financial assets</b>			
Cash	2	-	2
Receivables	-	8	8
Other financial assets - investments	104,047	-	104,047
<b>Total financial assets</b>	<b>104,049</b>	<b>8</b>	<b>104,057</b>
<b>Financial liabilities</b>			
Related party payables	-	181	181
<b>Total financial liabilities</b>	<b>-</b>	<b>181</b>	<b>181</b>
<b>Net financial assets/(liabilities)</b>	<b>104,049</b>	<b>(173)</b>	<b>103,876</b>

#### c) Credit risk

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

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk as at 30 June 2014 and the prior comparative period is shown below.

	2014 \$'000	2013 \$'000
Cash	1	2
Receivables	79	8
Other financial assets – investments	103,824	104,047
<b>Total</b>	<b>103,904</b>	<b>104,057</b>

Credit risk relating to other financial assets - investments is managed by investing in two separate funds which have a diversified range of investments with different counterparties. Counterparty exposure and credit quality is managed by the individual portfolio managers of each fund. There were no receivables past due or impaired at 30 June 2014 (2013: nil).

#### d) Capital management

The SEGC Board's policy is to maintain the assets of the Fund at a satisfactory level above the minimum amount to meet claims and administration costs of SEGC and the Fund. The minimum amount may be determined by the Board from time to time with the approval of the Minister in accordance with the *Corporations Act 2001*. The minimum amount of the Fund is currently \$76.0 million. The minimum amount is subject to regular review by independent professional advisers appointed by the Board of SEGC.

The Board has an investment strategy in place to invest available financial assets, amounting to \$103,823,766 (2013: \$104,047,096), into two cash and fixed income funds managed by two professional investment portfolio managers respectively at 30 June 2014 in order to preserve the minimum fund requirement as prescribed above.

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

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

Notes to the Financial Statements - continued

If the amount in the Fund exceeds the minimum amount, the Board has discretion to pay the excess or part of the excess to an account designated as the Financial Industry Development Account (FIDA), with the approval of the Minister or his delegate. FIDA is administered by ASX.

e) Fair value measurements

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The below amounts represent the Fund's financial assets measured and recognised at fair value. The Fund did not have any financial liabilities measured at fair value at 30 June 2014 (2013: nil).

	2014 \$'000	2013 \$'000
<b>Other financial assets - investments</b>		
UBS Cash Plus Fund – at quoted redemption price	51,840	51,729
Schroders Fixed Income Fund – at quoted redemption price	51,984	52,318
<b>Total other financial assets - investments</b>	<b>103,824</b>	<b>104,047</b>

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

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

There are no financial instruments designated within level 1 or 3 of the fair value hierarchy as at 30 June 2014 and 30 June 2013. The carrying amount of receivables and related party payables approximates their fair value as the impact of discounting is not significant.

3. Payments to FIDA

Subregulation 7.5.89(1) of the *Corporations Regulations 2001* confers on the Board of SEGC, being the administrator of the Fund, discretion to pay amounts from the excess above the minimum amount (currently \$76.0 million) for purposes approved by the Minister or his delegate under regulation 7.5.88 of the *Corporations Regulations 2001*. Excess money paid from the Fund must be paid into FIDA and may only be used for approved purposes.

The above refund and payments made to FIDA for other approved purposes are shown below.

	2014 \$'000	2013 \$'000
Transfer of market supervision responsibilities from ASX to ASIC*	1,390	(275)
Investor education initiatives	2,364	2,503
Share ownership survey	13	271
Corporate Governance Research Centre	-	182
Financial Markets Research Centre	307	307
Industry training and education programs	66	-
<b>Total payments to FIDA</b>	<b>4,140</b>	<b>2,988</b>

\* In the current financial year, the Fund made distributions of \$1,465,000 to FIDA in respect of costs contributed to ASIC for Enhanced Market Supervision. Of this, an amount of \$75,410 was subsequently refunded to the Fund by ASIC.

## NATIONAL GUARANTEE FUND

### Notes to the Financial Statements - continued

#### 4. Receivables

	2014 \$'000	2013 \$'000
Receivable from ASIC	75	-
Imputation credits receivable	2	3
Other receivables - GST	2	5
<b>Total receivables</b>	<b>79</b>	<b>8</b>

#### 5. Prepayments

Prepayments	47	40
<b>Total prepayments</b>	<b>47</b>	<b>40</b>

Prepayments include insurance premiums paid for directors and officers liability insurance and investment managers insurance policy.

#### 6. Commitments and contingent liabilities

As at the date of the report, there are two claims outstanding on the Fund. The Fund has not recognised any contingent liability in relation to these claims as they are still being assessed and the Board of SEGC have not formed a view on whether the claims are valid. There are no other contingent liabilities or commitments of the Fund as at 30 June 2014.

#### 7. Notes to the Statement of Cash Flows

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

<b>Net profit</b>	<b>3,963</b>	<b>3,499</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease in investments	223	3,816
(Increase)/decrease in receivables	(71)	3
Increase in prepayments	(7)	(24)
(Decrease) in provisions	-	(4,265)
Increase/(decrease) in related party payables	31	(40)
<b>Net cash provided by operating activities</b>	<b>4,139</b>	<b>2,989</b>

#### Definition of cash

For the purposes of the statement of cash flows, cash includes cash at bank. The cash balance at balance date reflects the balance in the bank account only. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund (other financial assets – investments) can be redeemed to fund working capital requirements as required.

Notes to the Financial Statements - continued

8. Related party disclosures

*Directors*

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

Ms Nancy J Milne (Chairperson)  
 Ms Susan Doyle  
 Mr Ian W T McGaw  
 Ms Lynn S Ralph  
 Mr Peter H Warne

Mr Ian W T McGaw and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX during the financial year ended 30 June 2014. Both Mr McGaw and Mr Warne were also directors of certain controlled entities of ASX during the financial year ended 30 June 2014.

*Related party transactions*

During the year, SEGC incurred operational expenses on behalf of the Fund of \$303,026 exclusive of GST (2013: \$252,937) in respect of staff, administration, occupancy and accounting services provided by ASX Operations Pty Limited (ASXO) for the administration of SEGC and the Fund. ASXO also paid other direct operating expenses during the financial year relating to services provided to the Fund by external suppliers. All expenses paid by ASXO are reimbursed by the Fund in accordance with section 889H of the *Corporations Act 2001*.

The balance owing to ASXO by SEGC at 30 June 2014 was \$127,138 (2013: \$181,728) and is expected to be paid from the Fund. This balance represents operating expenses for the quarter ended 30 June 2014, excluding an expense accrual for actuarial services performed on behalf of NGF, not incurred by ASXO at 30 June 2014. No interest is charged by ASXO on the outstanding balance owing from SEGC or the Fund.

9. Key Management Personnel compensation

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

	2014 \$	2013 \$
Short-term employee benefits	180,000	180,000
Post-employment benefits (superannuation)	13,875	15,175
<b>Total Key Management Personnel compensation</b>	<b>193,875</b>	<b>195,175</b>

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

10. Auditor's remuneration

**Audit services:**

Audit of financial statements of the Fund under the <i>Corporations Act 2001</i>	11,200	11,900
<b>Total auditor's remuneration</b>	<b>11,200</b>	<b>11,900</b>

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration has been paid by the Fund. The Fund has also paid to the auditor, PriceWaterhouseCoopers, \$2,600 for the financial statement audit of SEGC. There were no non-audit services provided by the auditor to the Fund (2013: nil).

## NATIONAL GUARANTEE FUND

### Notes to the Financial Statements - continued

11. Revenue	2014	2013
	\$'000	\$'000
<b>Net gain/(loss) on financial instruments held at fair value through profit or loss:</b>		
UBS Cash Plus Fund	(136)	104
Schroders Fixed Income Fund	1,179	(378)
<b>Total</b>	<b>1,043</b>	<b>(274)</b>
Distribution income:		
UBS Cash Plus Fund	1,896	1,975
Schroders Fixed Income Fund	1,801	2,704
<b>Total</b>	<b>3,697</b>	<b>4,679</b>

### 12. Claims

#### Claims provided for at 30 June:

Claims provision	-	-
Adjustments to prior year claims	-	(100)
<b>Total claims</b>	<b>-</b>	<b>(100)</b>

The prior year included the reversal of a claim provision that was no longer required.

### 13. Operating expenses

Staff costs	187	137
Legal costs	8	287
Administration costs	559	575
Occupancy costs	25	25
<b>Total operating expenses</b>	<b>779</b>	<b>1,024</b>

### 14. Subsequent events

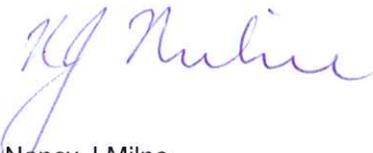
From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Fund, the results of those operations or the state of affairs of the Fund.

## Directors' Declaration

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

- a) the financial statements and notes of the Fund set out on page 7 to 21 are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the financial position of the Fund as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1(a).

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



Nancy J Milne  
Chairperson

Sydney, 26 August 2014

## **Independent auditor's report to the members of National Guarantee Fund**

### ***Report on the financial report***

We have audited the accompanying financial report of National Guarantee Fund (the Fund), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the financial report***

The directors of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of National Guarantee Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund 's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the Fund 's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*PricewaterhouseCoopers*

PricewaterhouseCoopers



Matthew Lunn  
Partner

Sydney  
26 August 2014

## **FURTHER INFORMATION**

Further information about making claims on the NGF is contained in the NGF Information Booklet for clients which is available on SEGC's website at [www.segc.com.au](http://www.segc.com.au). A hard copy of the booklet is available from SEGC on request.

This annual report can also be found on SEGC's website.

### **Registered Office**

Level 6  
16-20 Bridge Street  
SYDNEY NSW 2000  
Telephone: +61 2 9227 0424  
Fax: +61 2 9227 0436  
Email: [segc@asx.com.au](mailto:segc@asx.com.au)