Outcomes: Financial summary and expenditure

Appropriations and revenue

ASIC received $324 million in appropriation revenue, compared with $370 million in 2009–10, and it received $24 million in other revenue, compared with $11 million in 2009–10.

The reduction in appropriation revenue from Government in 2010–11 is the result of the revised cash funding arrangements that were introduced for Commonwealth agencies by the Government from 1 July 2010.

Under the new arrangements, funding for depreciation and amortisation ceased and a new appropriation referred to as a departmental capital budget (DCB) was introduced from 1 July 2010.

However, the DCB is reflected as an equity contribution, not income, giving rise to a reduction in income over that received in 2009–10.

This change in funding and the accounting treatment is discussed in more detail in Note 3 of ASIC's Financial Statements.

Revenue for the Commonwealth

ASIC collected $622 million for the Commonwealth in fees and charges, up 7% in 2010–11, largely due to the fee indexation increase (based on the CPI) for fees and charges levied under the Corporations Act, fees and charges levied under the National Credit Act from 1 July 2010, and also new fees collected by ASIC since 1 August 2010 from market operators.

ASIC expenses

ASIC expenses were $385 million in 2010–11, which is slightly lower than last year.

ASIC's operating expenses, together with fees and charges raised for the Commonwealth, are summarised in the following table.

ASIC's use of taxpayers' money for the outcomes approved by Parliament

	2010–11	2009–10	2008–09
Operating expenses			
Total	$385m	$387m	$295m
Annual change on previous year	–1%	+31%	+8%
Fees and charges raised for the Commonwealth	$622m	$582m	$552m
Annual change on previous year	+7%	+5%	+1%

Outcomes and expenditure

Parliament funds ASIC to achieve the following outcomes:

- improved confidence in financial market integrity and protection of investors and consumers through research, policy, education, compliance and deterrence that mitigates emerging risks
- streamlined and cost-effective interaction and access to information for business and the public through registry, licensing and business facilitation services.

ASIC outcomes and expenditure by year are summarised in the following table.

Additional funding for future years for specific initiatives

In the Portfolio Budget Statements for 2011–12, ASIC received additional funding of:

- $28.849 million for the continuation of GFC funding
- $23.057 million for competition in equities and securities markets across the next four years
- $13.2 million for the implementation and ongoing costs of the Stronger Super initiatives across the next four years.

See ASIC's financial statements on page 88.

ASIC outcomes and expenditure by year

Outcome	2010–11	2009–10	2008-09
Improved confidence in financial market integrity and protection of investors and consumers through research, policy, education, compliance and deterrence that mitigates emerging risks	$297m	$302m	$240m
Streamlined and cost-effective interaction and access to information for business and the public through registry, licensing and business facilitation services	$88m	$85m	$54m

Internal service costs are apportioned to these outcomes (see page 79).

Women in ASIC is a comprehensive support program designed to improve the experience of all women within ASIC, enabling them to better work towards their career goals while maintaining balance in their lives. The program forms a key part of ASIC's ongoing commitment to promoting and supporting diversity within the workplace. Women in ASIC includes seminars that raise awareness about gender politics in the workplace. Pictured at a Women in ASIC event this year are (L–R) ASIC in the Community manager Luke Branagan, former Smith Family chief executive Elaine Henry, ASIC Commission counsel Louise Macaulay, then ASIC Chairman Tony D'Aloisio and Carole Renouf, National Breast Cancer Foundation chief executive.

Outcomes: Financial market integrity and protection of investors and consumers

Engagement

Bringing together major stakeholders at Summer School

ASIC's annual Summer School is one of the means by which ASIC engages its regulated populations. It also provides a forum for maintaining the level of understanding of regulation in Australian financial services and corporations.

This year's Summer School – entitled *The new regulatory landscape* – was held in Sydney in February, and attracted 314 delegates, 46 external speakers and panellists, and 77 ASIC leaders and delegates. The event also marked ASIC's 20th anniversary and that of its predecessor, the Australian Securities Commission.

Priority 5 – Lift operational effectiveness and service levels for all stakeholders

Measuring stakeholder perceptions

ASIC conducts stakeholder surveys of its regulated populations and other groups to obtain a broad measure of perceptions of ASIC's performance.

Two recent surveys have been conducted, one in 2008 and the other in 2010. There were 1,551 respondents to the 2010 survey. The reports on both surveys have been published on ASIC's website.

The 2010 survey found that, generally, respondents believed ASIC had performed well during the GFC and were positive about the outcomes of ASIC's regulatory work.

Priority 5 – Lift operational effectiveness and service levels for all stakeholders

In March ASIC celebrated its 20th anniversary with a series of events at its offices around Australia. Pictured at the Melbourne celebration are ASIC workers (L–R) Scott Rea, Karen Fostiropoulos, John Sculli and Glen Cochrane.

Guidance

Facilitating the restructuring and release of frozen funds

During the first phase of the GFC, frozen funds reached a high in November 2009, when ASIC estimated that 87 schemes with $25.36 billion of funds under management were frozen.

At 30 June 2011, frozen funds totalled $17.2 billion and comprised:

- **mortgage funds** – $10.3 billion of funds under management
- **property funds** – $3.6 billion of funds under management
- **hedge funds** – one hedge fund reported to be frozen with $0.056 billion of funds under management
- **cash-enhanced funds** – 10 funds with $3.2 billion of funds under management.

Hardship relief – where it is granted – is a means of allowing investors to withdraw sums from frozen funds. Between late 2008 and mid-2011, 7,674 applications representing $261.4 million were received by schemes, and 5,693 applications representing $127.4 million have been paid (0.67% of frozen funds paid in hardship relief).

ASIC has encouraged fund managers to make regular withdrawal offers to members. Many mortgage funds are making scheduled, capped withdrawal offers – for example, 5% on a quarterly basis or 2% on a monthly basis. Some are making all cash available to members on a pro-rata basis. Those adopting the latter approach have returned capital to members more quickly.

ASIC has granted conditional relief to responsible entities to allow 'rolling' withdrawal offers. Under a rolling withdrawal, a responsible entity makes an offer for a calendar year to all members; a responsible entity nominates the dates upon which the offer will be paid (for example, at the end of each quarter); and a member may lodge a withdrawal request at any time, but can only participate in a future withdrawal.

The relief is subject to the responsible entity meeting a number of conditions, including communications to members.

For the restructuring of frozen funds, the results for the year for non-contributory aggressive mortgage schemes were:

- one scheme was wound up
- one scheme voluntarily divested its assets so it could be wound up
- three schemes were restructured with member approval
- two schemes improved the quality of their disclosure
- two schemes replaced their responsible entities
- one responsible entity had its AFS licence cancelled.

Priority 4 – Manage the domestic and international implications of the GFC

Outcomes: Financial market integrity and protection of investors and consumers continued

Addressing agribusiness managed investment schemes

ASIC estimates that $4.08 billion in investors' funds were affected by collapsed agribusiness MISs during and immediately after the early phase of the GFC. Approximately 138 individual schemes were involved. The actual level of losses experienced by investors in these schemes cannot be estimated because, in many cases, the returns to investors from proposed restructures or sale of assets is yet to occur.

The collapses highlighted the need to improve the quality of information that investors receive on such agribusiness MISs. In particular, ASIC aims to improve the quality of risk disclosure by responsible entities.

Consultation Paper 133 *Agribusiness managed investment schemes: Improving disclosure for retail investors* was released in April 2010. As a result of that consultation, ASIC plans to release regulatory guidance that would apply to responsible entities.

Priority 4 – Manage the domestic and international implications of the GFC

Developing new guidance for companies

Three major initiatives relating to companies this year were:

- **prospectuses:** following an extensive review, ASIC is consulting on proposed guidance to make prospectuses easier for retail investors to understand and to help them make informed investment decisions
- **related party transactions:** in March, ASIC released new regulatory guidance on related party transactions to reflect changes in the law. The new guidance is aimed at bringing a substantial improvement in the way public companies and registered MISs conduct related party transactions
- **expert reports:** in March, ASIC released new guidance aimed at ensuring that reports prepared by experts – for change-of-control transactions, related party and other transactions – are useful for investors.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Establishing a regulatory framework for competition in exchange markets

In March 2010, the Government announced it would allow competition between securities exchange operators in Australia. ASIC developed a market competition and structure program to establish the relevant regulatory and supervisory frameworks to implement this policy.

Following extensive consultation, in April 2011 ASIC published market integrity rules and regulatory guidance to prepare for the introduction of competition in equity exchange markets. The rules give effect to the Government's policy to support competition between securities exchanges in Australia. Overall, these changes will promote exchange innovation, lower transaction costs for market participants, leverage Australia's pool of superannuation savings, and improve liquidity and access to capital for companies.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Improving superannuation product disclosure

Following a review of superannuation Product Disclosure Statements (PDSs), ASIC published Report 214 *Review of superannuation PDSs*, to advise issuers on how they could improve disclosure to enable consumers to make informed investment decisions.

The report also discussed the shorter PDS regime, which is being phased in over 2011–12. To facilitate a smooth transition, ASIC set up a dedicated email address for queries, is updating existing regulatory guidance and other documents, and is responding to applications for relief about the new provisions.

In a separate project, ASIC reviewed the business models of three of the largest 'trustees for hire' in the Australian superannuation market, helping them improve disclosure, compliance and governance.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Clarifying disclosure for OTC derivatives and hedge funds

In 2010–11, ASIC released Regulatory Guide 212 *Client money relating to dealing in OTC derivatives*. ASIC also issued Consultation Paper 147 *Hedge funds: Improving disclosure for retail investors*, which outlined proposals to improve disclosure requirements for retail investors who invest in hedge funds.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Reforming OTC derivatives, G20 initiatives

ASIC is a member of the Council of Financial Regulators – the coordinating body for Australia's main financial regulators – which is developing Australia's response to the G20 leaders' commitments on OTC derivatives. OTC derivatives are privately negotiated financial instruments that derive their value from something else (such as an interest or exchange rate).

The G20 leaders have stated that all standardised OTC derivatives should be traded on exchanges or platforms, where appropriate, and cleared through central counterparties by the end of 2012. Further, all OTC derivatives should be reported to trade repositories. The Financial Stability Board is overseeing the implementation of these commitments.

In June 2011, the Council of Financial Regulators released a discussion and comment paper on implementing clearing of derivatives through central counterparties.

Priority 3 – Facilitate international capital flows and international cooperation

Outcomes: Financial market integrity and protection of investors and consumers continued

Proposing revisions to the ePayments Code A draft of a revised ePayments Code (the industry code of conduct relating to funds transfer and payment services) was published in May 2011. The revised code is aimed at a much wider range of payment services, and covers important new topics such as mistaken internet banking payments. The final version of the code was published in September 2011.	**Priority 1 – Assist and protect retail investors and consumers in the financial economy**
Improving compliance reporting for credit rating agencies In June 2011, ASIC released Consultation Paper 160 *Credit rating agencies: IOSCO Code Annual Compliance Report*. Credit rating agencies (CRAs) have specially tailored conditions on their AFS licences that require them to lodge an annual IOSCO compliance report with ASIC. In the consultation, ASIC is seeking views on the form and content of those reports.	**Priority 2 – Build confidence in the integrity of Australia's capital markets**
Achieving better disclosure of substantial holdings During the year, ASIC released guidance aimed at achieving better disclosure of substantial holdings in listed entities arising from securities lending and prime broking activities. This is set out in Regulatory Guide 222 *Substantial holding disclosure: Securities lending and prime broking* and relief contained in Class Order [CO 11/272] *Substantial holding disclosure: Securities lending and prime broking*.	**Priority 2 – Build confidence in the integrity of Australia's capital markets**
International Joint Forum initiatives Under ASIC's leadership, the international Joint Forum progressed projects on securitisation (intended to build on IOSCO guidance to support revival of securitisation markets), research into capital and liquidity support measures used by financial conglomerates during periods of stress, and work on developing principles to guide the supervision of financial conglomerates. Each of these projects will provide the Joint Forum's parent committees with cross-sectoral insights to support key regulatory initiatives in each sector and improve understanding of sectoral approaches and perspectives.	**Priority 3 – Facilitate international capital flows and international cooperation**

Consistent global implementation of IOSCO guidance

During 2009 and 2010, IOSCO developed guidance on issues highlighted by the GFC, including the regulation of short selling, CRAs, hedge funds, securitisation and credit default swaps.

The Financial Stability Board and the G20 have emphasised the importance of consistent implementation of these and other initiatives in minimising the risk of regulatory arbitrage.

ASIC has participated in the following IOSCO projects intended to drive consistent implementation of this guidance:

- revisions to the IOSCO *Methodology for assessing implementation of the IOSCO objectives and principles of securities regulation* to reflect IOSCO's work in response to the GFC. This document provides guidance to IOSCO members on how to implement IOSCO objectives and principles, and is used as the basis for International Monetary Fund assessments of national securities regulation
- reports monitoring implementation of IOSCO recommendations on securitisation and hedge funds regulation in response to the GFC. ASIC also participated in a Joint Forum project on asset securitisation, which highlighted the importance of implementing IOSCO guidance in supporting sustained revival of these markets.

Priority 4 – Manage the domestic and international implications of the GFC

Licensing consumer credit providers

On 1 July 2010, ASIC began regulating consumer credit under the National Credit Act. The National Credit Act establishes a nationwide regime for licensing consumer credit businesses and sets industry standards that are applied by ASIC. The National Credit Act required ASIC to license consumer credit businesses nationally in a two-stage process. Since July 2010, ASIC has issued 6,081 Australian credit licences and authorised 24,005 credit representatives. ASIC also published extensive guidance for credit businesses.

Surveillance and deterrence activities under the credit legislation are underway. As part of those activities, ASIC reviewed more than 5,000 advertisements to ensure the businesses were registered, authorised or licensed to engage in credit activities. Of those, 297 businesses were identified for follow-up. Credit infringement notices were issued to businesses that were advertising credit activities when they were not registered, authorised or licensed to engage in such activities.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Facilitating the FoFA reforms

Under the umbrella of its FoFA reforms, the Government is setting out to improve the quality of advice that consumers receive, and to improve access to that advice. In line with this, in August 2011 the Assistant Treasurer, the Hon Bill Shorten MP, released for consultation the first tranche of draft legislation that would enact the reforms.

To support these reforms, in April 2011 ASIC put forward a new approach to adviser training and assessment for consultation. The approach is aimed at improving outcomes for consumers by raising the standard of training among advisers and ensuring standards are uniform across the sector.

In a separate program, one of ASIC's focus areas for surveillance was the financial advice sector. Using information obtained from the 20 largest AFS licensees, ASIC developed risk indicators to identify the priority regulatory and policy issues in the financial advice sector. ASIC reviewed 743 pieces of financial advice and caused a further 1,102 pieces of advice to be reviewed by licensees or independent experts.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Fostering better understanding of CFDs

ASIC has been focusing on products and services where it can be demonstrated that retail consumers lack an in-depth understanding of risk. Among these are CFDs. A study by ASIC of the CFD market found many retail investors were confused about how these products worked and did not understand the significant trading risks associated with them. This led ASIC to propose disclosure benchmarks for CFD issuers to help retail investors understand and assess these products, including disclosure of issuers' policies on investors' qualification for CFD trading. ASIC also continued its surveillance of CFD and margin foreign exchange issuers, identifying five issuers with financial resourcing issues and eight with weaknesses in their handling of client money.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Wrap with Love is a voluntary organisation which started in 1992. Since then, the organisation has given 255,322 wraps to needy people throughout the world. ASIC staff have contributed 139 wraps since 2007. Pictured are (L–R) Angela Gregg, Judith Mulvena, Sandra Young, Kamilla Soos and Margaret Dean, with wraps made by ASIC staff in 2010.

Surveillance

Transferring market supervision to ASIC from the ASX

From August 2010, ASIC took over the day-to-day supervision of trading on Australia's domestic licensed financial markets (the APX, ASX, ASX 24, BSX, IMB and NSXA). This effectively required ASIC to establish surveillance and guidance to ensure market discipline and that parties observe trading rules, and to address instances of misconduct where they occur.

Since ASIC took responsibility, it has taken pre-emptive action on 36 occasions, including raising concerns about potentially disruptive execution strategies and algorithmic trading.

Outcomes of these actions include:

- participants putting in place new filters and processes to ensure specific order types are reviewed by designated representatives before being released to the market
- participants adjusting their algorithmic trading strategies
- participants deciding not to execute particular transactions or to deploy a particular strategy
- referring 52 instances of potential market abuse and breaches of market integrity rules to deterrence teams for investigation.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Monitoring financial reporting and auditing

During the year, ASIC reviewed 500 financial reports of listed entities and some larger unlisted entities. Based on the reviews, ASIC suggested areas for boards, preparers of financial reports and auditors to focus on in future reporting.

In a separate program, ASIC continued to inspect firms that audit entities of significant public interest. ASIC's public report on 21 firm inspections (covering 131 audit engagements) found room for improvement in the areas of audit evidence, professional scepticism and engagement quality control reviews.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Outcomes: Financial market integrity and protection of investors and consumers continued

Improving standards in insolvency practices

ASIC focused on key compliance areas in its reviews of insolvency practices, namely:

- independence
- remuneration disclosure, approval and reasonableness
- quality of investigations and reporting to creditors, and to ASIC
- asset realisation procedures and outcomes
- adequacy of practice systems.

Under its proactive insolvency practice review program, ASIC conducted 20 reviews involving detailed examination of 215 external administrations.

In a separate program, ASIC undertook 96 transaction reviews. These reviews examine transactions undertaken by registered liquidators based upon matters notified to ASIC by the public, or from other sources, regarding registered liquidator conduct.

Outcomes of both programs include:

- successful legal action to address conflict of interest issues and inadequate capacity to perform duties
- identifying concerns that may require deterrence actions involving applying to a court or to the Companies Auditors and Liquidators Disciplinary Board (CALDB) to cancel or suspend a liquidator's registration
- liquidators taking positive steps to address ASIC's concerns generally.

ASIC also conducted proactive monitoring programs to test whether insolvency practitioners complied with their obligations to provide independence and indemnity disclosures to creditors. During the year, ASIC reviewed 107 external administrations involving 163 registered liquidators (approximately 25% of the population). Outcomes include:

- insolvency practitioners issuing replacement declarations in 62 matters
- an improved standard of declaration.

In a separate project, ASIC assessed whether registered liquidators complied with their obligations to maintain adequate professional indemnity and fidelity insurance. Outcomes include:

- registered liquidators seeking improvements to the scope and extent of their insurance cover to comply with the law
- increased awareness by registered liquidators (and their insurance brokers) of the Corporations Act's requirements and ASIC's Regulatory Guide 194 *Insurance requirements for registered liquidators*.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Surveillance of investment banks, hedge funds and private equity funds

ASIC conducted risk-based surveillance of investment banks and hedge funds to identify issues that might pose significant regulatory risks. For investment banks, this involved monitoring their practices in relation to compliance, corporate governance, new product approval processes, conflicts of interest and confidential information. ASIC's surveillance of hedge funds focused on verifying the assets held by a selection of funds.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Reviews of responsible entities

ASIC also conducted reviews of responsible entities in the managed funds sector, including ten responsible entities for hire (which are responsible entities that provide responsible entity services to unrelated product issuers and asset managers), resulting in many responsible entities making improvements to their compliance arrangements.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Education

Supporting financial literacy in the community

One of ASIC's statutory obligations is to promote confident and informed participation by consumers and investors in the financial system. This obligation is an increasing proportion of ASIC's public role. ASIC's main activities in this area for 2010–11 are described below.

The National Financial Literacy Strategy was launched in March 2011 by the Assistant Treasurer, the Hon Bill Shorten MP, and Parliamentary Secretary, the Hon David Bradbury MP. As a multi-agency collaboration, which is coordinated by ASIC, the strategy aims to improve the financial wellbeing of Australians through education, independent information, tools and support.

As part of the National Financial Literacy Strategy, ASIC launched the MoneySmart website (*www.moneysmart.gov.au*) in March 2011. It replaced the FIDO and Understanding Money websites.

MoneySmart provides consumers with easy-to-understand personalised financial guidance on a range of topics, from borrowing and credit to investment and retirement planning. It features new interactive tools such as a budget planner and superannuation calculator, a map search for financial counselling services, case studies, and calculators that can be used on mobile phones.

The website attracted more than 335,000 unique visitors between March and June, and more than 25,000 people have downloaded the calculator applications.

As part of the Government's proposed national school curriculum, ASIC redeveloped the *www.teaching.financialliteracy.gov.au* website to provide teachers with quality resources to teach financial literacy. The website features a professional learning module to help educators build their financial literacy teaching skills.

ASIC also launched the Milba Djunga (Smart Money) website (*www.milbadjunga.net.au*). Developed in partnership with the Queensland Department of Education, the website has resources to help educators teach consumer and financial literacy to Aboriginal and Torres Straits Islander students. The two online units for primary and secondary school students are being trialled by 14 schools in the Top End.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Improving directors' understanding of their duties to prevent insolvent trading

To help directors better understand their duties in preventing insolvent trading and guide them on seeking professional advice to address solvency concerns, ASIC issued Regulatory Guide 217 *Duty to prevent insolvent trading: Guide for directors* and Report 213 *National insolvent trading program report*.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Deterrence

Recovering funds, pursuing illegal behaviour and other deterrence actions – major activities

The following are examples of major ASIC actions that led to an outcome or the imposition of a sentence in 2010–11.

Chartwell Enterprises

Following an ASIC investigation into the collapse of Chartwell Enterprises Pty Ltd (in liquidation), its director Graeme Hoy was sentenced to 13 years and nine months imprisonment, with a non-parole period of nine years. He pleaded guilty to 44 deception charges regarding almost $22 million, and to three charges under the Corporations Act.

The former company secretary Ian Rau was sentenced to two years and seven months imprisonment (to be released on recognisance after serving 18 months) after pleading guilty to one charge of carrying on a financial services business without an AFS licence; four charges of engaging in dishonest conduct in relation to carrying on a financial services business; and one charge each of making a false document, using a false document and obtaining property worth $40,000 by deception.

Fincorp

The former chairman and chief executive of Fincorp (in liquidation), Eric Krecichwost, was sentenced to three years and six months imprisonment after being found guilty on three charges of dishonestly using his position to benefit from payments totalling approximately $2.8 million. Mr Krecichwost is appealing against the sentence and conviction. Criminal proceedings for less serious offences brought against two less senior company officers were unsuccessful, with one resulting in acquittal and the other being discontinued. Fincorp collapsed in 2007 with losses to investors of approximately $100 million.

Firepower Holdings Group

Axis International Management Pty Ltd (Axis), Owston Nominees No. 2 Pty Ltd (Owston) and director of Axis, Quentin Ward, were found to have contravened s727(1) of the Corporations Act by offering shares in Firepower BVI (incorporated in the British Virgin Islands) without a valid disclosure document. The Federal Court found that declarations and publicity orders were an appropriate form of relief. The Court subsequently made disqualification orders against Mr Ward and Timothy Johnston, chairman and director of Firepower BVI. The Court found in favour of another defendant, Seaswan Holdings Pty Ltd.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Recovering funds, pursuing illegal behaviour and other deterrence actions – major activities continued

Kilara Financial Services

ASIC investigated Kilara Financial Services after concerns were raised that the company was not considering the existing superannuation situation of clients when advising them to switch funds. There were also concerns that Kilara was systematically providing defective Statement of Advice documents. ASIC accepted an enforceable undertaking from Kilara, which sets out how it intends to rectify these issues and ensure affected clients are offered advice on dispute resolution.

Don Nguyen

ASIC banned Don Nguyen, a former authorised representative of Commonwealth Financial Planning Limited (CFP), from providing financial services for seven years after an investigation found he failed to comply with a number of financial services laws. The banning followed an earlier agreement from CFP, a wholly owned subsidiary of Commonwealth Bank of Australia, to implement a program to compensate clients who may have suffered loss as a result of receiving inappropriate financial advice from Mr Nguyen. Mr Nguyen has appealed to the Administrative Appeals Tribunal for a review of ASIC's decision.

Opes Prime Stockbroking

A director of Opes Prime Stockbroking (in liquidation) Laurie Emini was sentenced to 12 months imprisonment after pleading guilty to two charges of dishonestly using his position as a director, in relation to transfers of client securities between companies he controlled, and one charge of reckless exercise of his directors' powers, by entering into a financial arrangement between Opes Prime and ANZ which prejudiced Opes Prime's investors by in excess of $200 million. Director Anthony Blumberg was sentenced to six months imprisonment after pleading guilty to dishonestly entering into the arrangement with ANZ. Director Julian Smith will be tried in April 2012.

Professional Investment Services

ASIC accepted an enforceable undertaking from Professional Investment Services Pty Ltd under which the company will engage an independent expert to review and make recommendations on its compliance with specific areas addressed in the undertaking.

Sonray Capital Markets

Following action by ASIC, Sonray (in liquidation) chief executive Scott Murray pleaded guilty to ten criminal charges, including six charges of false accounting, two charges of theft totalling $2.25 million, one charge of obtaining a financial advantage by deception, and one charge of misleading an auditor concerning a capital injection of $5.2 million.

Recovering funds, pursuing illegal behaviour and other deterrence actions – major activities continued

SunEnergy

In March 2011, ASIC obtained declarations and final orders in the Federal Court against SunEnergy Asia Pacific Pty Ltd (in liquidation), ACN 124 647 909 Ltd (in liquidation) (previously Sun Energy Ltd), SunEnergy Inc. (a company incorporated in the United States) and John Ernest Price. ASIC took action in relation to fundraising by the SunEnergy companies and Mr Price (the defendants) between May 2007 and October 2010.

The defendants promised investors a quick return on investment when one or more of the SunEnergy companies listed on the ASX. However, no SunEnergy companies were listed. ASIC had earlier obtained interim orders freezing the bank accounts of SunEnergy Asia Pacific and Mr Price, and interim injunctions against the defendants restraining them from offering financial products to Australian investors.

The Court declared the conduct of the companies and Mr Price to be misleading or deceptive, or likely to mislead or deceive.

Trio Capital/Astarra

ASIC took action against Shawn Richard for engaging in dishonest conduct in his role as investment manager of Astarra Strategic Fund (ASF) (in liquidation). He was charged with two criminal offences of dishonesty, to which he pleaded guilty, and a third offence of making false and misleading statements, which he formally admitted. He was sentenced to imprisonment for a maximum period of three years and nine months. ASIC also accepted an enforceable undertaking from Mr Richard to the effect that he would not provide financial services in Australia again.

UBS Wealth Management Australia

ASIC accepted an enforceable undertaking from UBS Wealth Management Australia to modify key aspects of its compliance culture and frameworks, and fix past compliance failures when providing financial advice to retail clients. The company has agreed to engage an independent expert to review and make recommendations on its compliance with specific areas addressed in the undertaking.

Westpoint/Power Financial Planning

In August 2010, Power Financial Planning Pty Ltd, which advised on Westpoint (in liquidation) products, pleaded guilty to one charge of carrying on a financial services business without an AFS licence. The Adelaide Magistrate’s Court fined the company the maximum penalty of $33,000.

In November 2010, the Court also found Stephen McArdle, the former director of Power Financial Planning, guilty of aiding and abetting the company to carry on a financial services business without an AFS licence. Mr McArdle was sentenced to 12 months imprisonment to be released on recognisance after serving six months.

The Court also ordered that $10.3 million be paid by Power Financial Planning and Mr McArdle as compensation to investors.

Recovering funds, pursuing illegal behaviour and other deterrence actions – major activities continued

In June 2011, former Westpoint chief financial controller Graeme Rundle was found guilty of two counts of breaching s178BB of the *Crimes Act 1900* (NSW). The charges concerned statements made to a financial institution in relation to obtaining a $71 million construction finance facility. Mr Rundle was sentenced to 18 months imprisonment, with the sentence to be suspended upon him entering into an 18-month good behaviour bond.

On 1 February 2011, ASIC settled the Federal Court actions it had been conducting on behalf of nine Westpoint companies against KPMG, the former auditor of certain Westpoint companies, and four individuals who were appointed as, or are alleged to have been, directors of those companies.

The settlement resulted in the recovery of up to $67.45 million for Westpoint investors, bringing the total amount recovered as a result of ASIC's compensation litigation up to $92.95 million. ASIC's earlier actions against State Trustees Limited and a number of financial planners produced settlements in excess of $25.5 million. Another $56 million is expected to be recovered through the liquidation process. Returns from Westpoint companies not in liquidation are expected to reach $22.5 million. In all, investors can expect to see a return of around $160 million to $170 million of the $388 million in losses.

Some cases that remain before the courts at 30 June 2011 are listed below:

Camelot Derivatives

ASIC commenced civil proceedings against Camelot Derivatives Pty Ltd (in liquidation) (Camelot) and its sole director Neil King for contravening provisions of the Corporations Act and the ASIC Act. ASIC obtained interim asset preservation orders against Mr King and other interim orders restraining Camelot and Mr King from making representations and providing advice.

Storm Financial

ASIC commenced legal proceedings in relation to the affairs of Storm Financial Ltd (in liquidation) (receiver and manager appointed). ASIC is seeking compensation from Bank of Queensland Ltd, Senrac Pty Ltd (the owner and franchisee of the bank's North Ward branch) and Macquarie Bank Ltd (MBL), in ASIC's name and on behalf of two former Storm investors. The proceedings relate to alleged breach of contract, contravention of the statutory prohibitions against unconscionable conduct, and liability as linked credit providers of Storm under s73 of the *Trade Practices Act 1974*.

ASIC also commenced proceedings against Storm, Commonwealth Bank of Australia, Bank of Queensland and MBL, based on Storm's alleged operation of an unregistered MIS in which the banks were allegedly involved.

In addition, ASIC has filed civil penalty proceedings against Emmanuel and Julie Cassimatis, directors of Storm, for allegedly contravening their directors' duties under the Corporations Act.

Recovering funds, pursuing illegal behaviour and other deterrence actions – major activities continued

Kovelan Bangaru

Kovelan Bangaru was sentenced to eight years and six months imprisonment after being found guilty of 13 charges of fraud. He was accused of obtaining more than $19.8 million after providing false financial statements to support loan applications from companies of which he was a director.

Paul Pattison

After ASIC commenced proceedings against registered liquidator Paul Pattison, he voluntarily resigned as liquidator or deed administrator of 104 companies, and agreed to stop accepting any new liquidator appointments. ASIC obtained orders by consent to appoint replacement liquidators where required.

Safety in the Market

ASIC obtained permanent injunctions and orders, by consent, against The Hubb Organisation Pty Ltd, operators of Safety in the Market, to prevent it making misleading or deceptive representations about its trading methodology in promotions and advertising. ASIC's investigation revealed Safety in the Market did not have evidence that its 'Smarter Starter Pack' teaches, or provides a proven methodology for, profitable trading in financial products.

Cases that remain before the courts at 30 June 2011 include:

HR Cook Investments and Stuart Ariff

Stuart Ariff was committed to stand trial after being charged with 13 counts concerning his alleged intent to defraud HR Cook Investments Pty Ltd (in liquidation) of $1.18 million while a liquidator of the company. He was also charged with six counts of allegedly making false statements in documents lodged with ASIC. (In late September 2011, Mr Ariff was found guilty by a jury in the NSW District Court on all 19 criminal charges brought by ASIC.)

Wintech Group

Following an investigation by ASIC, Kim Wong was arrested in January 2011 and charged on 129 offences relating to approximately $1.2 million of investor funds that went missing while he was managing director of Wintech Group Ltd (subject to Deed of Company Arrangement). Mr Wong has been charged with a range of offences, including 86 charges of falsifying Wintech's books, ten charges of providing false information to the ASX and ASIC, and 31 charges of theft.

Former Wintech director Hoong Kee Tang was arrested and charged in June 2011 with four charges of market manipulation. ASIC alleged Mr Tang's trading of Wintech shares on the ASX created the false impression that the securities were actively traded. He was also charged with making or authorising false or misleading statements in documents submitted to ASIC in August 2008 and April 2009.

The cases against Mr Wong and Mr Tang are yet to be heard.

In November 2010, ASIC banned Lim Theam Chye from providing financial services for five years, following an investigation into his role in arranging a crossing transaction on the ASX in the shares of Wintech. There were grounds to believe Mr Lim had failed to comply with financial services laws and reason to believe he would not comply with financial services laws in the future.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Acting against misleading websites

ASIC took action against AC Trading Co Pty Ltd, Macro Dealing Advisory Pty Ltd, Guardian Wealth and Hedge Securities and Investments Pty Ltd, whose websites purported to offer legitimate online financial services. One firm had its AFS licence cancelled, another was ordered to wind up operations and all four were subject to ASIC consumer warnings.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Acting against insider trading and market manipulation

During the year, criminal actions relating to insider trading and market manipulation were completed. Outcomes include:

- **John Hartman:** jailed for four years and six months, with a non-parole period of three years, and forfeited $1.57 million to the Commonwealth for insider trading (traded in CFDs while in possession of information about Orion Asset Management Ltd's trading intentions). Mr Hartman is appealing the severity of his sentence.
- **Tamara Newing:** sentenced to 21 months imprisonment but released immediately on a recognisance order after pleading guilty to 10 charges of market manipulation (conducted transactions were likely to have created or maintained an artificial price for trading in Genetic Technologies Ltd shares).
- **Oswyn de Silva:** jailed for two years and six months for insider trading (traded in equities and CFDs while in possession of information about Macquarie Bank's trading intentions). Mr De Silva is required to serve 18 months before being released on recognisance.
- **Newton Chan:** sentenced to 20 months imprisonment following an investigation by ASIC into the manipulation of the share price of Bill Express Ltd (in liquidation). He was ordered to serve four months immediately, before being released on a recognisance order.
- **Andrew Dalzell:** jailed for two years for insider trading (acquired 40,000 shares of a company for which he was a contracted adviser); to be served as an intensive correction order.
- **Jeffrey Bateson:** jailed for two years and fined $70,000 for insider trading (acquired 550,000 WHL Energy shares while in possession of price-sensitive information); to be served as an intensive correction order.

In matters still before the courts at 30 June 2011:

- Daniel Joffe, a former associate analyst with Moody's Investor Services, and Nathan Stromer were committed to stand trial for alleged insider trading.
- The former director of Genetic Technologies, Dr Mervyn Jacobson, has been committed for trial, in the Supreme Court of Victoria, on two charges of conspiracy under s11.5(1) of the Criminal Code and s1041A of the Corporations Act and multiple substantive charges of market manipulation under s1041A of the Corporations Act.
- Dr Stuart Fysh, a former executive vice president and managing director of BG Group, was charged with four offences of insider trading.
- Justin O'Brien, a former manager employed by Computershare Investor Services Pty Ltd, was charged with four offences of insider trading to which he subsequently pleaded guilty and is awaiting sentence.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Outcomes: Financial market integrity and protection of investors and consumers continued

Overseeing directors' duties and company conduct

ASIC regulates the conduct of directors and senior company officers as required under the Corporations Act. Below are major actions completed in 2010–11 where there was an outcome or court finding.

Centro Properties Group

ASIC's civil penalty proceedings against seven former and current directors and one former executive of the Centro Properties Group were successful, after the Federal Court found in ASIC's favour. The Court's decision provides directors with guidance on the level of understanding they should have of basic accounting conventions and the level of care they should exercise when reviewing their company's financial statements.

Fortescue Metals and Andrew Forrest

In February 2011, ASIC successfully appealed against the Federal Court's decision to dismiss ASIC's civil penalty proceedings against Fortescue Metals Group and Mr Forrest. The Full Court of the Federal Court found on appeal that:

- Fortescue Metals contravened s1041H of the Corporations Act in that the company's ASX announcements and other statements in respect of framework agreements were misleading and deceptive. These agreements were entered into with Chinese companies and related to the development of a mine, railway and port for the mining and export of iron ore from the Pilbara.
- Fortescue Metals contravened s674(2) of the Corporations Act when it failed to correct the misleading statements it had made to the market.
- Mr Forrest breached his duties as a director in contravention of s180(1) of the Corporations Act and breached s674(2A) of the Corporations Act for his involvement in Fortescue Metal's contraventions of the Corporations Act.

In September 2011 the High Court granted Fortescue Metals and Mr Forrest special leave to appeal the Full Court's decision.

James Hardie

In April 2009, following an ASIC investigation, the former non-executive directors and former executives of James Hardie Industries Ltd (JHIL – the former Australian listed entity) and James Hardie Industries NV (JHINV – the Netherlands Holding Company), were found to have breached the Corporations Act in connection with the establishment of a fund for asbestos compensation and statements made about the adequacy of that funding.

All defendants – with the exception of JHIL and Peter Macdonald (former director and chief executive officer of JHIL and JHINV) – appealed the decision.

In December 2010, the NSW Court of Appeal dismissed the JHINV appeal, dismissed in part and upheld in part the executive officers' appeal, and upheld the non-executive directors' appeal.

In May 2011, ASIC was granted special leave by the High Court to appeal the decision of the NSW Court of Appeal.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Overseeing directors’ duties and company conduct
continued

Priority 2 – Build confidence in the integrity of Australia’s capital markets

Sigma Pharmaceuticals

Following an ASIC investigation, Sigma Pharmaceuticals restated its 31 January 2010 accounts in March 2011.

ABC Learning Centres

Edmund (Eddy) Groves, former chief executive officer global, and Martin Kemp, former chief executive officer Australia and New Zealand operations, were charged with breaches of their directors’ duties as a result of ASIC’s investigation into the collapse of ABC Learning Centres (in liquidation) (receiver and manager appointed). The charges relate to payments totalling $3.1 million approved by Mr Groves and made to Mr Kemp for the purported sale of childcare centres to ABC Learning Centres by Mr Kemp. This matter remains before the courts.

Taking deterrence action over liquidators’ practices

Priority 2 – Build confidence in the integrity of Australia’s capital markets

In action by ASIC against registered liquidators:

- Stuart Ariff was committed to stand trial after being charged with 13 counts concerning his alleged intent to defraud HR Cook Investments Pty Ltd of $1.18 million while a liquidator of the company. He was also charged with six counts of allegedly making false statements in documents lodged with ASIC. (In late September 2011, Mr Ariff was found guilty by a jury in the NSW District Court on all 19 criminal charges brought by ASIC.)
- After ASIC commenced proceedings against registered liquidator Paul Pattison, he voluntarily resigned as liquidator or deed administrator of 104 companies, and agreed not to accept any new liquidator appointments. ASIC obtained orders by consent to appoint replacement liquidators where required.
- The Federal Court removed an administrator, Avitus Thomas Fernandez, who had been appointed to Willmott Forests Ltd (in liquidation) (receiver and manager appointed), the responsible entity of large agricultural MISs. ASIC supported an application to the Court by the secured creditors of Willmott Forests. ASIC was concerned the administrator did not have adequate professional indemnity insurance, appropriate MIS industry experience, and had insufficient resources, including human resources, to conduct such large and complex administrations.

Policy advice (including international cooperation on policy)

Advising on Chi-X's market licence application

In May 2011 – reflecting an announcement it made in March 2010 – the Government granted a licence to Chi-X Australia to operate a securities exchange. Following ASIC's advice, the new licence was granted subject to Chi-X meeting strict conditions in relation to resourcing, including robust testing of its technology.

Priority 2 – Build confidence in the integrity of Australia's capital markets

Uncovering the social impact of misconduct

ASIC's Consumer Advisory Panel commissioned Susan Bell Research to study the social impact of misconduct in the financial services industry, particularly when investors suffer losses and are unable to gain full compensation. The research helped inform submissions to the Government's review into whether a statutory compensation scheme should be introduced.

Priority 1 – Assist and protect retail investors and consumers in the financial economy

Contributing to IOSCO

IOSCO is the standard-setter for international securities regulation and a forum for encouraging cooperation and global consistency in securities regulation. IOSCO has 190 members – including ASIC – that are responsible for regulating more than 95% of the world's securities markets.

IOSCO's role is to assist regulators in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement, to protect investors, maintain fair, efficient and transparent markets, and reduce systemic risk. This year, ASIC made major contributions to the following IOSCO initiatives:

- *Final report: Principles for dark liquidity:* These principles were designed to help regulators deal with the issues posed to their oversight of markets by the expanding use of dark liquidity and the development of dark pools, particularly with respect to transparency.
- *Final report: Principles for direct access to markets:* These principles guide intermediaries, markets and regulators in relation to preconditions for direct electronic access, information flow, and adequate systems and controls.
- *Consultation report: Regulatory issues raised by the impact of technological changes on market integrity and efficiency:* This report was in response to a mandate from the G20 leaders at their Seoul summit and included discussion of regulatory challenges posed by high-frequency trading and algorithmic trading.
- *CPSS–IOSCO consultative report: Principles for financial market infrastructures:* This consultation report sets out improved international standards for payment, and clearing and settlement systems.
- A survey of hedge funds activity in Australia (coordinated with other IOSCO members) identified and assessed the systemic risk posed globally by hedge funds.

Priority 3 – Facilitate international capital flows and international cooperation

Leading role on IOSCO committee on systemic risk

IOSCO has established a new standing committee specifically to focus on addressing systemic risk and setting the perimeter for securities regulation. The committee's mandate includes developing methodology for systemic risk research, and assisting in impact assessments. It will contribute expert input to the independent research department in IOSCO's general secretariat, including a proposed annual global securities regulation risk outlook. In February 2011, IOSCO published a discussion paper on *Mitigating systemic risk: A role for securities regulators*, which was drafted by a working group that included ASIC.

Priority 3 – Facilitate international capital flows and international cooperation

Facilitating collective investment schemes

ASIC is supporting Treasury in work to develop an Asia region funds passport for collective investment schemes (CISs) being conducted under the auspices of the Asia–Pacific Economic Cooperation forum (APEC). The passport would provide a framework that would facilitate the cross-border offering of CISs. ASIC contributed substantially to the technical papers – on the design of the passport – that have been provided to overseas regulatory bodies for discussion at a series of APEC policy and technical workshops.

Priority 3 – Facilitate international capital flows and international cooperation

Assessing European Union equivalence for credit rating agencies

ASIC is assisting the European Securities and Markets Authority (ESMA) to assess Australia's regulatory regime for CRAs. The aim of this joint work is to determine whether Australian debt issuers – including companies – can use their Australian ratings in the European Union. A successful outcome in this work would make it easier for Australian companies to raise funds in Europe.

Priority 3 – Facilitate international capital flows and international cooperation

Assistance to international regulators with investigations and policy

ASIC continues to assist foreign regulators by obtaining information and evidence in Australia for their investigations and regulatory work, with a 7% increase to 507 (2010–11 compared to 2009–10) in the number of requests received from foreign regulators, and a 39% decrease to 297 requests (2010–11 compared to 2009–10) in the number of requests made by ASIC to foreign regulators.

ASIC continued work with the Indonesian capital markets supervisory agency, Bapepam-LK, to build and strengthen the agency's regulatory capability. Support was provided during the year to the development of Bapepam-LK's audit surveillance programs, with Bapepam-LK staff seconded to work with ASIC.

Priority 3 – Facilitate international capital flows and international cooperation

Outcomes: Real Economy

Priority 5: Lift operational effectiveness and service levels for all ASIC stakeholders

Registering companies and licensing

The total number of companies registered with ASIC and the total number of new registrations rose steadily during the year. Outcomes (compared with previous year) include:

- the total number of registered companies increased by 4% to 1,839,772
- new company registrations (successful registrations) increased by 3.6% to 163,276
- the total number of AFS licences increased by 0.2% to 4,833
- the number of Australian credit licences issued was 6,081 (this was the first year in which these licences were issued).

The number of searches of ASIC's public registers rose 13.1% to 68.5 million in 2010–11 compared with 2009–10.

Performance against Service Charter

ASIC's Service Charter sets the standards that regulated populations as well as consumers and retail investors can expect when dealing with ASIC. It reflects ASIC's performance in responding to inquiries (online, in person and via the Client Contact Centre), and ASIC's ability to meet the requirements of regulated populations. Outcomes for the year – compared with 2009–10 – are reported in the table below.

ASIC Service Charter performance

Service Charter	Target	2010–11	2009–10
General telephone queries	We aim to answer telephone queries on the spot	91% of calls answered on the spot (578,084 of 632,379 calls) 9% (54,295 calls) referred to specialist staff	92% of calls answered on the spot (597,382 of 646,770 calls) 8% (49,388 calls) referred to specialist staff
General email queries	We aim to reply to email queries within two business days	96% replied to within two business days (45,168 of 47,264 email queries)	98% replied to within two business days (62,518 of 63,827 email queries)
General correspondence about our public database and registers, including fee waivers	We aim to provide a full response to 90% of general correspondence within 28 days	95% replied to within 28 days (36,338 of 38,331 pieces of correspondence)	93% replied to within 28 days (43,093 of 46,390 pieces of correspondence)

Service Charter	Target	2010–11	2009–10
Registering a company	We aim to complete company registrations within one business day	98% of all registrations completed within one business day (167,962 of 170,763 incorporations)[1] 98% of paper registrations completed within one business day (19,501 of 19,987 forms) 98% of electronic registrations completed within one business day (148,461 of 150,776 forms)	99% of all registrations completed within one business day (162,832 of 165,130 incorporations) 98% of paper registrations completed within one business day (21,281 of 21,813 forms) 99% of electronic registrations completed within one business day (141,562 of 143,317 forms)
Updating company information and status	We aim to enter critical changes to company information in the corporate register within two business days	98% of all updates entered within two business days (1,082,846 of 1,107,095 changes) 91% of paper updates entered within two business days (180,247 of 198,653 paper forms) 99% of electronic updates entered within two business days (902,599 of 908,442 electronic forms)	97% entered within two business days (1,101,309 of 1,133,617 changes) 88% of paper updates entered within two business days (200,156 of 227,217 paper forms) 99% of electronic updates entered within two business days (901,531 of 906,400 electronic forms)
Registering as an auditor	We aim to decide whether to register an auditor within 28 days of receiving a complete application	91% of auditor applications decided within 28 days (71 individual applications and 19 authorised audit companies)	100% of auditor applications decided within 28 days (84 individual applications and 23 authorised audit companies)
Registering as a liquidator	We aim to decide whether to register a liquidator or official liquidator within 28 days (target: 90%)[2]	91% of liquidator applications decided within 28 days (31 of 34 applications) 100% for official liquidators (33 of 33 applications)	83% of liquidator applications decided within 28 days (25 of 30 applications) 90% for official liquidators (27 of 30 applications)

Priority 5: Lift operational effectiveness and service levels for all ASIC stakeholders

Service Charter	Target	2010–11	2009–10
Applying for or varying an AFS licence	We aim to decide whether to grant or vary an AFS licence within 28 days (target: 70%)[2]	83% of licence applications decided within 28 days (355 of 427 applications) 88% of licence variations decided in 28 days (1,368 of 1,557 applications)	77% of licence applications decided within 28 days (348 of 454 applications) 83% of licence variations decided within 28 days (807 of 968 applications)
Registering an MIS	By law, ASIC must register an MIS within 14 days of receiving a complete application	100% registered in 14 days (239 of 240 applications)	100% registered in 14 days (244 of 245 applications)
Applying for or varying a credit licence	ASIC aims to decide whether to grant or vary a credit licence within 28 days (target: 70%)[3]	70.5% of all licence applications decided within 28 days 94% of licence variations decided in 28 days	NA (first year was 2010–11)
Applying for relief	If parties lodge an application for relief from the Corporations Act that does not raise new policy issues, ASIC aims to give an in-principle decision within 21 days of receiving all necessary information and fees (target: 70%)	75% of in-principle decisions made within 21 days (1,958 of 2,623 applications)	74% of in-principle decisions made within 21 days (2,520 of 3,407 applications)
Reports of misconduct by a company or individual	If someone reports alleged misconduct by a company or an individual, ASIC aims to respond within 28 days of receiving all relevant information (target: 70%)[4]	78% of responses within 28 days (12,207 of 15,634 reports)	70% of responses within 28 days (9,321 of 13,372 reports)

1 Includes all applications received, regardless of whether applications approved or a company registered.

2 Applications beyond the 28-day target are generally complex ones, requiring, for example, additional policy work or legal review.

3 Applications beyond the 28-day target are generally complex ones, requiring, for example, additional policy work or legal review. This was a transitional licensing process in 2010–11 as the national consumer credit regime took full effect.

4 Reports beyond the 28-day target are generally complex ones or ones requiring considerable additional work.

Issuing licences

In the three areas where it had new responsibilities in 2010–11, ASIC:

- decided 70.5% of applications for new credit licences within 28 days
- approved 868 AFS licence applications for margin lending facilities financial product authorisations (for existing AFS licence holders)
- approved 13 applications for variations to AFS licences in regard to the provision of traditional trustee company services.

Assessing misconduct reports

One of ASIC's main roles is receiving and responding to reports of alleged misconduct and statutory breaches in the business areas and populations it regulates. This year, ASIC received 15,634 misconduct reports, a 17% increase on the previous year.

Approximately 20% of reports are outside ASIC's jurisdiction or do not disclose an offence. A further 21% are resolved and 28% are referred to a specialist team within ASIC for further surveillance or investigation.

Each report is registered in a national database and acknowledged, which ASIC aims to do within one business day of receipt. At this point, each report undergoes a preliminary review by an analyst, who tests for significance and priority. The reports are then classified by subject matter and allocated to an action officer for assessment.

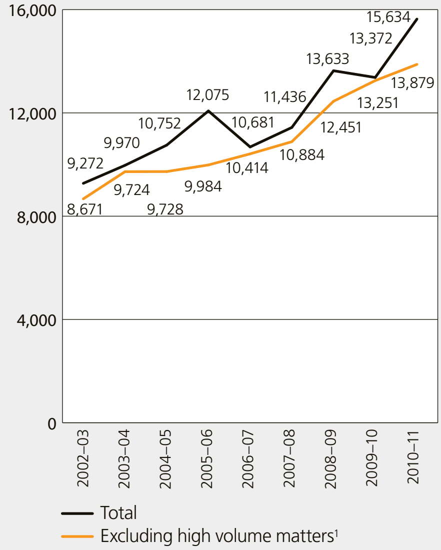
In 2010–11, ASIC finalised 78% of report assessments in 28 days. Further, 28% of misconduct reports were escalated for compliance, investigation or surveillance, an increase from 21% in 2009–10.

The following table summarises ASIC's responses to misconduct reports, and the chart shows the trend in the number of finalised misconduct reports since 2002–03.

Misconduct reports

	2010–11	2009–10
Reports assessment finalised	15,634	13,372
Referred for compliance, investigation or surveillance	28%	21%
Resolved	21%	21%
No jurisdiction	14%	13%
No breach/offence	6%	8%
Analysed, assessed and recorded	31%	37%
Total	**100%**	**100%**

Reports of misconduct finalised by year



[1] High volume matters are those where ASIC has received 100 or more reports of misconduct about the same entity and about the same issue.

Priority 5: Lift operational effectiveness and service levels for all ASIC stakeholders

The following table shows a breakdown of the main categories of misconduct reports that ASIC receives.

Reports by category

Report categorisation by sphere and main issue	2010–11 (%)	2009–10 (%)
Corporations/corporate governance, including failure to provide books and records or a report as to affairs to an insolvency practitioner; insolvency matters; insolvency practitioner misconduct, directors' duties, contractual issues; late lodgement/failure to lodge financial reports	40	52
Financial services/retail investors, including providing financial services without an AFS licence; financial advisers; credit; MISs; superannuation; misleading or deceptive conduct/unconscionable conduct; operating an unregistered MIS	48	29
Market integrity, including insider trading; continuous disclosure; misleading statements; market manipulation	4	5
Registry integrity, including incorrect address recorded on ASIC's register; lodging false documents with ASIC	5	12
Other issues	3	2
Total	100	100

Statutory reports from liquidators, administrators and receivers

Liquidators, administrators and receivers (external administrators) are required to report to ASIC if they suspect company officers have been guilty of an offence or, in the case of liquidators, if the return to unsecured creditors may be less than 50 cents in the dollar.

As part of its response to the GFC, ASIC committed to increasing action on reports alleging misconduct from insolvency practitioners. This year, 33% of supplementary reports were referred for compliance, investigation or surveillance, or to assist an existing investigation or surveillance (compared with 33% in 2009–10 and 24% in 2008–09). The table opposite shows the total statutory reports received, initial reports and supplementary reports.

Statutory reports

	2010–11	2009–10
Total reports received	9,230	9,074
Reports assessed alleging misconduct or suspicious activity	6,823	6,509
Initial reports[1]		
Reports assessed alleging suspicious activity	6,080	5,748
Supplementary reports requested	10%	11%
Analysed, assessed and recorded	90%	89%
Total	**100%**	**100%**
Supplementary reports[2]		
Supplementary reports assessed alleging misconduct	743	761
Referred for compliance, investigation or surveillance	24%	23%
Referred to assist existing investigation or surveillance	9%	10%
Analysed, assessed and recorded	67%	66%
Identified no offences	0%	1%
Total	**100%**	**100%**

1 Initial reports are electronic reports lodged under Schedule B of Regulatory Guide 16 *External administrators: Reporting and lodging*. Generally, ASIC will determine whether to request a supplementary report on the basis of an initial report.

2 Supplementary reports are typically detailed, free-format reports, which detail the results of the external administrator's inquiries and the evidence to support the alleged offences. Generally, ASIC can determine whether to commence a formal investigation on the basis of a supplementary report.

Priority 5: Lift operational effectiveness and service levels for all ASIC stakeholders

Reuniting people with unclaimed money

ASIC maintains a register of unclaimed money from banks, credit unions, building societies, life insurance companies and friendly societies, as well as shares that have not been collected from companies. ASIC's register is publicly available for searching and claims can be made to ASIC's unclaimed money unit.

In 2010–11, ASIC received about $90.8 million in unclaimed money. This is less than the approximately $102 million received in 2009–10, mainly due to a $15 million fall in receipts of unclaimed money from companies. Approximately $62 million was paid out in claims in 2010–11, compared with the $56 million paid in the previous year.

ASIC continued to actively reunite owners of unclaimed money with their funds by finding and writing to 21,371 potential owners. The result was approximately $3.4 million returned to 1,198 successful claimants.

The following tables show the total claims by type of unclaimed money and the number of claims (and value) where unclaimed money was reunited with its owner.

Claims by type

	2010–11 ($)	2009–10 ($)
Company	25,083,884	26,078,776
Banking	34,000,579	26,121,529
Life insurance	3,113,605	$3,815,099
Deregistered company trust money	60,077	NA
Total	**62,258,144**	**56,015,404**

Number of claims and amounts reunited with owners (Company unclaimed money)

	2010–11		2009–10	
Source	No. of claims	$ value	No. of claims	$ value
Money recovery agency	1,468	5,559,326.48	2,078	7,829,994.67
ASIC reuniting	1,198	3,372,101.14	2,440	9,279,416.32
Other	2,035	16,152,456.16	2,029	8,969,365.41
Total	**4,701**	**25,083,883.78**	**6,547**	**26,078,776.40**

Managing property vested in ASIC

ASIC administers the property of deregistered companies. Such property remains vested in ASIC – or in ASIC on behalf of the Commonwealth in relation to trust property – until such time as it is lawfully dealt with (for example, it is purchased by another party or transferred to another party), or evidence is provided that the property no longer vests in ASIC for some other reason (for example, the company has been reinstated).

ASIC has begun taking a proactive approach to administering vested property, including attracting parties to make applications to ASIC to purchase it where that is appropriate.

Applications made to ASIC for it to deal with vested property are handled by the Property Law Group. ASIC accounts for any proceeds on realisation of the property in accordance with its statutory duties.

There has been a steady increase in matters dealt with by the Property Law Group, generally as a result of ASIC's more proactive approach to engaging and assisting parties to effectively deal with such property. The number of matters in 2010–11 rose 24% to 1,294. The number of matters finalised rose 24% to 1,270. The following table shows vested properties of deregistered companies by number of cases.

Vested properties of deregistered companies (by number of cases)

	2010–11	2009–10
Total new matters	1,294	1,042
Total finalised matters	1,270	1,025
Total property disposals	897	585
Property disposals made up of:		
– Transferred	196	88
– Sold	5	8
– No longer vested[1]	590	397
– Other[2]	106	92

1 Property is removed from ASIC's records when the company is reinstated, a third party lawfully deals with the asset, or evidence is provided that the property no longer vests in ASIC.

2 Includes discharged, released, surrendered, withdrawn or lapsed.

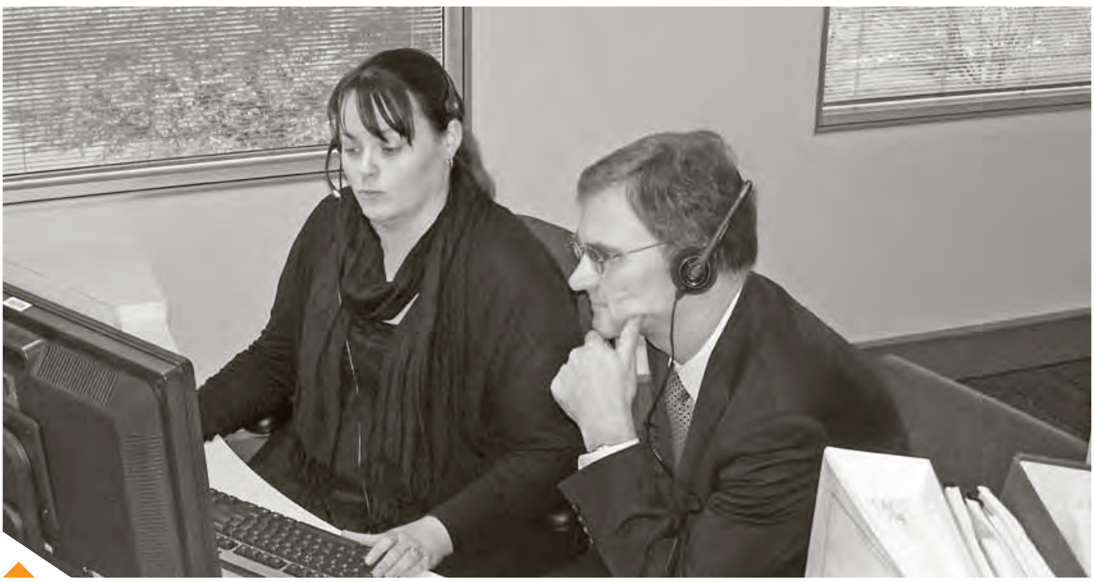
Priority 5: Lift operational effectiveness and service levels for all ASIC stakeholders

In related action, ASIC is working with relevant Commonwealth and state and territory government departments to transfer vested properties owned by Aboriginal housing companies that are now deregistered. The aim is to transfer those properties to entities that will continue the work of providing for the Aboriginal community.

Outcomes include:

- transfer of nine properties to the NSW Aboriginal Housing Office for the continued provision of Aboriginal housing
- transfer of a property in Mitchell, Queensland, to a new non-profit company operated to benefit members of the Aboriginal community
- transfer of an aged care facility to a new Indigenous service provider
- applications pending for a further eight transfers of property, formerly owned by two deregistered companies.

ASIC has also provided assistance to the Office of the Registrar of Indigenous Corporations (ORIC). Under a new memorandum of understanding, ASIC provided ORIC with examples of indemnities used to deal with vested property, and ASIC's GST private ruling relating to items vested in a statutory authority.



Soon after being appointed chairman in May, Greg Medcraft visited ASIC offices around Australia to meet staff and discuss ASIC's strategic framework. In July, the Chairman spent a day at ASIC's regional Victorian call centre at Traralgon. Each year, ASIC receives on average around 650,000 calls and up to 10,000 emails. The Chairman is pictured here with Traralgon call centre worker Tenielle Mizzi listening to incoming calls.

Priority 6: Improve services and reduce costs by using new technologies and processes

ASIC continues to use information and communications technology to make its operations more cost-effective, efficient and convenient for consumers, businesses and industry groups.

Doing more business online

One of ASIC's priorities is to steadily increase the quantity of business conducted online. This reflects ASIC's view that online transactions are easier and cheaper for businesses. In 2010–11, 72.7% of the 2.13 million forms lodged with ASIC were submitted online. This was up from 69.9% in 2009–10.

Additionally, in a process ASIC set up in 2010–11, the new consumer credit licensing applications were run as a fully online service. Approximately 89% of applicants for consumer credit licences rated their experiences as good or excellent.

In the past year, ASIC, along with other agencies, began accepting financial statements and reports using Standard Business Reporting (SBR) enabled software.

Transforming ASIC's technology infrastructure

To support ASIC's online initiatives, a technology transformation program is underway. In 2010–11, ASIC implemented new financial support systems to manage all externally collected revenue, provide credit card payment facilities for customers, and oversee budget appropriations and accounting expenses. This has enabled a new service – which will be launched in 2011–12 – to allow users to search ASIC's registers and pay for those services online.

In November 2010, ASIC deployed Ringtail, a new evidence management system to support all new deterrence investigations. Ringtail is a world-class system providing ASIC lawyers, investigators and forensic analysts with the ability to review, search across, categorise and mark up large volumes of hard copy, scanned and native electronic documents.

Implementing the National Business Names register

From mid-2012 ASIC will operate the national registry for Australian business names. This initiative is aimed at streamlining transactions for businesses and will mean they need to be registered in only one place in Australia, instead of in each state or territory. In 2010–11, work was underway on the infrastructure to support the National Business Names register.

In May ASIC's Adelaide office became involved in Australia's Biggest Morning Tea to raise money for cancer research. The event, coordinated by ASIC in the Community, raised $731 for the Cancer Council. Pictured is ASIC worker – and lucky-door prize winner – Panayiota Courtis.

ASIC staff: Highlights

Supporting people in the workplace

- Implemented phase two of the mental health education program, designed to raise awareness of mental health, symptoms that colleagues might notice, and how to support colleagues.
- Provided assistance to staff – for personal and work-related problems – through the employee assistance program. Annual utilisation rate of 6.44% (including family members), compared with 5.54% the previous year.
- Supported '10,000 Steps Challenge' – a program aimed at increasing daily physical exercise among Australians – with 11 teams undertaking a virtual walk from Byron Bay to Carnarvon. Total of 45 million steps completed by the teams as part of the challenge.
- Provided 670 free influenza vaccinations, equal to 35% of staff.

Completing negotiations for new enterprise agreement

- Concluded negotiations for a new three-year enterprise agreement. The new agreement replaces two enterprise agreements, covering ASIC 1–4 staff and executive level staff. The new agreement covers the terms and conditions for all staff below the Senior Executive Service (SES) level. Staff will receive 9% in salary increases over the life of the three-year agreement, beginning with 3% from July 2011, and then 3% in July 2012 and July 2013. The single agreement builds on ASIC employment conditions and will support performance and flexibility in balancing work and other commitments.

Developing leadership and skills

- Continued a tailored senior leadership development program in conjunction with Macquarie Graduate School of Management. The program comprises five modules, which collectively aim to build the skills, capabilities and qualities necessary to lead business units. In 2010–11, the majority of Senior Executive Leaders (SELs) completed the program. The program is being redesigned in 2011–12.
- Extended ASIC's 'Learning Pathways' program, which supports lawyers, accountants, auditors and investigators in their professional development. The lawyers' network mentor program now includes about 100 formal mentoring arrangements where staff at Executive Level 2 (Exec 2) work with staff at ASIC 3 and 4 levels as professional mentors.
- Introduced an online system to allow staff and managers to manage their training requests through a self-service portal.

Implementing programs to support women working at ASIC

- Began rolling out a special diversity program, 'Women in ASIC', which aims to increase the retention of senior women within ASIC, particularly women who are working part-time, by developing and implementing a comprehensive support scheme and overall strategy. As part of this initiative, ASIC introduced 'Keeping You Connected' events for women at senior levels who want to stay in touch with the workplace while they are on maternity leave. In addition, 'Women in the Workplace' is a new program aimed at helping women who want to improve work/life balance, or increase their personal effectiveness and self-confidence.

Managing health and safety

- There were 20 workers compensation claims lodged in 2010–11, with 13 claims accepted, six claims rejected and one pending. There was no significant injury-type trend for these claims. There were 15 claims lodged in the previous year, with nine accepted.
- Five serious personal injury notices were sent to Comcare under s68 of the *Occupational Health and Safety Act 1991*. No such claims were sent in the previous year. There were no investigations conducted under s29, s46 or s47 in 2010–11.

Performance payments 2010–11 by classification[1]

Employee level	No. of recipients	Aggregate	Payment range		Average
			Min.	Max.	
ASIC 4	169	$477,792	$385	$14,031	$2,827
Exec 1	408	$2,046,615	$551	$16,767	$5,016
Exec 2	482	$3,849,054	$660	$30,255	$7,986
SES	54	$878,610	$4,741	$38,187	$16,271
Total	**1,113**	**$7,252,071**	**$385**	**$38,187**	**$6,516**

1 Includes payments for the 2009–10 performance year, paid in 2010–11, plus pro rata payments for the 2010–11 performance year for staff who left ASIC in 2010–11.

Industrial arrangements for ASIC staff at 30 June 2011

Classification	ASIC Act s120(3) contract	AWA[1]	EA[2]	EA[3]	Total
ASIC 1–3 (APS 1–5)	NA	NA	578	NA	**578**
ASIC 4 (APS 6)	NA	NA	370	NA	**370**
Exec 1	NA	NA	NA	450	**450**
Exec 2	NA	NA	NA	486	**486**
SES and equivalent	28	21	NA	2	**51**
Total	**28**	**21**	**948**	**938**	**1,935**

1 Australian Workplace Agreement.
2 ASIC 1–4 enterprise agreement, 2009–11.
3 Executive level enterprise agreement, 2009–11.

ASIC staff: Highlights continued

Salary ranges per annum, 2010–11[1]

Class	Minimum per annum	Maximum per annum
ASIC 1	$38,811	$42,895
ASIC 2	$45,135	$53,999
ASIC 3	$57,532	$65,948
ASIC 4	$68,842	$77,934
Exec 1	$90,217	$104,355
Exec 2	$101,962	$143,209
SES	$131,000	$280,000

1 Reflects salaries for ongoing employees.

ASIC employees (includes SCT[1] and CALDB[2] staff) by classification and location, average number over 12 months, FTE basis

Classification	Vic.		NSW		Qld		WA	
	2011	2010	2011	2010	2011	2010	2011	2010
Chair			1	1				
Deputy Chairman			1	1				
Member	2	1	2	2				
SES	11	14	29	34	2	2	2	2
Exec 2	142	149	221	230	39	42	27	32
Exec 1	115	109	180	185	41	42	39	38
ASIC 4	122	135	139	129	43	42	22	25
ASIC 3	145	124	74	73	39	32	15	13
ASIC 2	195	197	29	28	16	16	12	16
ASIC 1	38	33						
Contractors[3]	1	8	26	55	4	3		1
Total	**771**	**770**	**702**	**738**	**184**	**179**	**117**	**127**

1 Superannuation Complaints Tribunal.
2 Companies, Auditors and Liquidators Disciplinary Board.
3 Includes non-payroll contractors, secondments and agency staff.
Note: Data rounded – some totals and subtotals may vary.

Senior executive leader Delia Rickard has been with ASIC since 1999 and now leads the Consumers, Advisers and Retail Investors group, which this year launched ASIC's ground-breaking consumer finance website MoneySmart. In January 2011, Delia was awarded the Public Service Medal for her work in the development of consumer protection for financial services.

	SA		ACT		Tas.		NT		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
									1	1
									1	1
									4	3
	2	1	1	1	1	1			48	55
	13	13	4	4	6	6			452	476
	18	17	5	3	4	5	2	2	403	400
	19	18	5	7	2	2			352	358
	17	13	3	3	3	2	2	2	297	262
	8	10	3	5	2	2			266	274
									38	33
				1					31	68
	77	72	21	24	18	18	4	4	1,893	1,931

ASIC staff: Highlights continued

Commissioners by gender and year, average number over 12 months, FTE basis

	Ongoing full-time				Ongoing part-time			
	Female		Male		Female		Male	
	2011	2010	2011	2010	2011	2010	2011	2010
Chairman								
Deputy Chairman								
Member								
Appointee total								

Employees under ASIC Act (includes SCT[1] and CALDB[2]) by gender and year, average number over 12 months, FTE basis

	Ongoing full-time				Ongoing part-time			
	Female		Male		Female		Male	
	2011	2010	2011	2010	2011	2010	2011	2010
Exec 1			1	1				
SES	2	2						
Contractors[3]								
ASIC Act total	**2**	**2**	**1**	**1**				

1 Superannuation Complaints Tribunal.
2 Companies, Auditors and Liquidators Disciplinary Board.
3 Includes all non-payroll IT contractors, secondments and agency staff.

Employees under *Public Service Act 1999* (includes SCT[1] and CALDB[2]) by gender and year, average number over 12 months, FTE basis

	Ongoing full-time				Ongoing part-time			
	Female		Male		Female		Male	
	2011	2010	2011	2010	2011	2010	2011	2010
ASIC 1	7	6	3	2	4	4		
ASIC 2	119	115	45	43	63	60	4	3
ASIC 3	156	137	96	79	17	21		1
ASIC 4	161	175	127	122	31	28	4	1
Exec 1	144	149	203	196	33	23	2	3
Exec 2	126	140	234	252	51	42	10	8
SES	4	8	11	13	1	2		
Public Service Act total	**717**	**730**	**719**	**707**	**200**	**180**	**20**	**16**
TOTAL	**719**	**732**	**720**	**708**	**200**	**180**	**20**	**16**

1 Superannuation Complaints Tribunal.
2 Companies, Auditors and Liquidators Disciplinary Board.
Note: Data rounded – some totals and subtotals may vary.

	Non-ongoing full-time				Non-ongoing part-time				Total	
	Female		Male		Female		Male			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			1	1					1	1
	1	1							1	1
			4	3					4	3
	1	1	5	4					6	5

	Non-ongoing full-time				Non-ongoing part-time				Total	
	Female		Male		Female		Male			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
									1	1
	9	8	21	20		1			32	31
	8	28	19	40	1		3		31	68
	17	36	40	60	1	1	3		64	100

	Non-ongoing full-time				Non-ongoing part-time				Total	
	Female		Male		Female		Male			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	10	12	4	3	10	6	1		38	33
	26	32	4	12	3	7	1	2	266	274
	20	20	8	6	1	1			297	262
	15	18	10	9	4	4		1	352	358
	7	13	11	11		3	3	2	403	399
	9	11	17	18	2	4	3		452	476
									16	24
	87	106	54	59	20	25	8	5	1,824	1,826
	105	143	99	123	21	26	11	5	1,893	1,931

ASIC in the community: Highlights

Increasing workplace giving

- Employees donated $85,786 to 27 not-for-profit organisations directly from their salary or pay, an increase of 37% on the previous year.
- Employees raised a further $41,427 for other events and initiatives, including $10,232 for the Queensland and Victorian flood appeals, $10,490 in the 'Movember' men's health initiative, $6,281 in the 'Pink Ribbon' appeal for research into breast cancer, and $3,409 in the 'Australia's Biggest Morning Tea' appeal.

Supporting volunteering and pro bono work

- Employees in the Brisbane office volunteered to work for St Vincent de Paul, Lifeline and Caxton Legal Centre following the floods in Queensland.
- Sydney employees volunteered for the Exodus Foundation, assisting the literacy program and working in the Loaves and Fishes restaurant. In the Latrobe Valley, employees from Traralgon worked with Meals on Wheels.
- Sydney, Brisbane and Perth staff volunteered for the Salvation Army, Jesuit Refugee Services and Ronald McDonald House. Perth, Adelaide and Melbourne staff worked on the Australian Red Cross healthy breakfasts for kids in need program.
- Staff provided 58 knitted wraps as part of the 'Wraps With Love' initiative, which aims to provide warm clothing for people in disaster-struck countries and regions.
- ASIC solicitors provided pro bono legal services to the National Children's and Youth Law Centre 'Lawstuff' program, which aims to improve the conditions and opportunities for children and young people throughout Australia.

Hosting inspirational speakers

- Staff had the opportunity to hear from inspirational Australians who provided insights into work by not-for-profit and non-government organisations, and charities.
- Speakers this year included Professor Jonathan Carapetis, director of the Menzies School of Health Research in Darwin; John Olsen, National Heart Foundation board member; Ellie McCann, NSW Agency Manager, NSW Organ and Tissue Donation Service; Elaine Henry OAM, chief executive, Smith Family; Carole Renouf, chief executive, Garvan Research Foundation; John Dee, international environmentalist; and Deborah De Williams, ultra marathon runner who ran around Australia as part of Pink Ribbon fundraising.

Addressing energy saving

- Saved approximately $165,000 in energy costs through the use of virtual server platforms. Virtual desktops – which already use less energy than PCs – will save an additional $39,000 per annum by automatically powering off when a person disconnects.
- Installed a new secure printing system for staff in Sydney, reducing paper, toner and energy consumption. Secure printing will be rolled out to other sites in 2011–12.
- Provided on-site recycling receptacles, parking for bicycles, and sensor lighting controls on ASIC's business sites.
- Reduced total floor space in Melbourne and Brisbane sites, leading to reduced energy spending in those cities.

Launching reconciliation action plan

- The chief executive of Reconciliation Australia, Leah Armstrong, launched ASIC's reconciliation action plan in April 2011, with the then Chairman, Tony D'Aloisio.
- ASIC is committed to developing respectful relationships with Aboriginal and Torres Strait Islander peoples. By building knowledge and understanding of Indigenous issues and cultures, ASIC can ensure education and outreach programs are effectively targeted and culturally appropriate. Two cultural awareness pilot sessions were delivered.
- ASIC's inaugural NAIDOC event was addressed by Wurundjeri elder Joy Wandin Murphy AO and Paul Briggs OAM, a Yorta Yorta man who has led economic, sports and health initiatives in the Aboriginal community.

Employees donated $85,786 to 27 not-for-profit organisations directly from their salary or pay, an increase of 37% on the previous year.

Footnote – disclosure under the *Environment Protection and Biodiversity Conservation (EPBC) Act 1999*

- Section 516A of the EPBC Act requires ASIC to report matters relevant to environmentally sustainable development (ESD). ASIC reports that:
  - the only activities relevant to ESD principles concern procurement of goods and services
  - ASIC's administration of legislation is not related to ESD principles
  - none of the outcomes specified for ASIC in an Appropriation Act have ESD implications
  - ASIC reviews and increases the effectiveness of its environmental impact measures through internal evaluation regimes, environmental auditing, benchmarks or targets.

Economic overview and outlook Alex Erskine – Chief Economist

Global

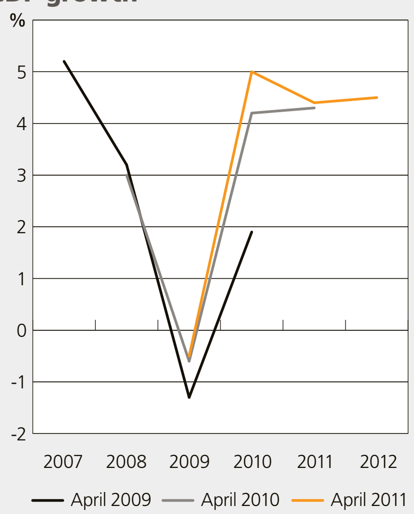
Concerns over global recovery

The global economic recovery continued, but concerns over its durability increased in the final quarter of 2010–11.

Expectations for sustained growth in advanced countries have been unsettled by natural disaster in Japan, signs of weakening in the labour and housing markets in the US, and increased sovereign risks in Europe.

Emerging economies, which have been increasingly important for global growth, also faced headwinds. For example, rising inflation in China led to policy tightening, and authorities in Brazil sought to limit capital inflows.

IMF outlook for global real GDP growth



Source: IMF

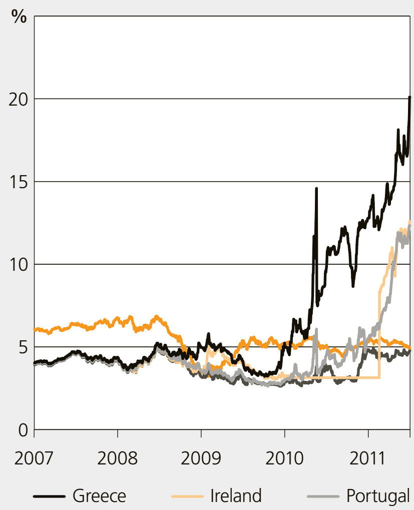
European sovereign debt crisis

The 2010–11 financial year marked a significant evolution in the ongoing European sovereign debt crisis, with stark policy alternatives emerging for many of the smaller and more indebted European countries.

Yields rose on government bonds, especially from Greece, Portugal and Ireland, as did spreads on credit default swaps. Fiscal policies were tightened even in the face of high and rising unemployment.

Rising yields and uncertainty unsettled many other financial markets, although Australian sovereign bond yields were broadly unchanged over the course of the year.

Five-year government bond yields



Source: Bloomberg

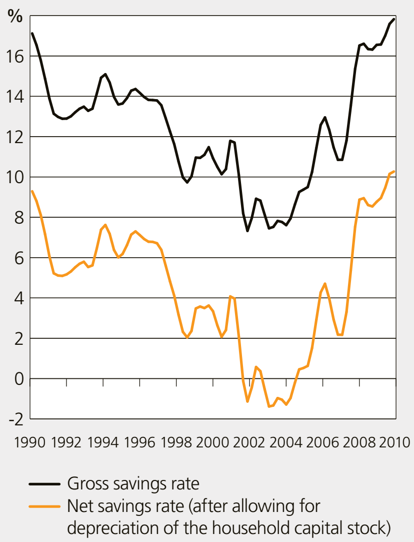
Australia

Increased caution

In Australia, strong resources demand from China and other developing economies has raised the prices of many commodities. This has led to significantly expanded fixed capital spending to develop mineral and energy capacity. The rise in Australia's terms of trade has helped the exchange rate to appreciate, which has had a dampening demand growth on non-resource sectors, creating a 'two-speed economy'.

While capital spending in the mining and energy sectors strengthened, many other business sectors have remained cautious. Spending by small and medium enterprises and consumers has also been subdued, continuing to deleverage. The household savings ratio rose further, a marked change from negative levels before the global financial crisis, with increases in deposits and subdued demand for new lending.

Australian household savings ratio



Sources: ABS, RBA

Australian financial markets

Market conditions improved moderately in 2010–11 but, reflecting the cautious stance of many issuers, market participants and investors, some indicators remained below pre-financial crisis levels. The market capitalisation of Australian equities at 30 June 2011 reached $1.348 billion, 7.6% higher than a year earlier.

During 2010–11, Australian stock market prices, as measured by the S&P/ASX 200 index, rose by 7.1%, broadly similar to markets in Japan and Europe, but much less than in Asia (excluding Japan) and in the US. The appreciating Australia dollar further lifted gains by foreign investors. However, both the equity market and the Australian dollar have weakened through the quarter following the end of the financial year.

Australian equity market capitalisation

Source: Bloomberg

Economic overview and outlook Alex Erskine – Chief Economist continued

Markets

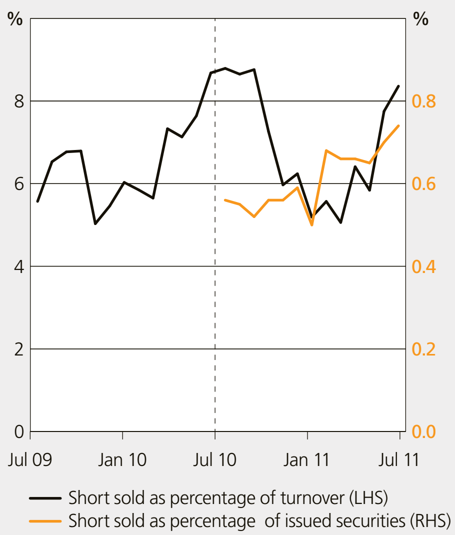
Short selling

The new data series on short selling collected since the global financial crisis shows activity is increasing.

The average monthly short selling of Australian equities ranged from 5% to 9% of turnover on the exchange in 2010–11, increasing in periods of poorer sentiment. Over the financial year, the net level of short sales increased from less than 0.06% to around 0.08% of shares on issue.

Non-official surveys of securities lenders suggest the institutional market is predominantly 'long' Australian shares. According to DataExplorers, since early 2009 the institutions that lend shares have increased their holdings by more than the increase in shares on loan. On this basis, the 'long–short' ratio for Australian equities has hovered around 11, higher than the ratio of around 9.5 estimated for all global equities.

Australian short sales



Source: ASIC

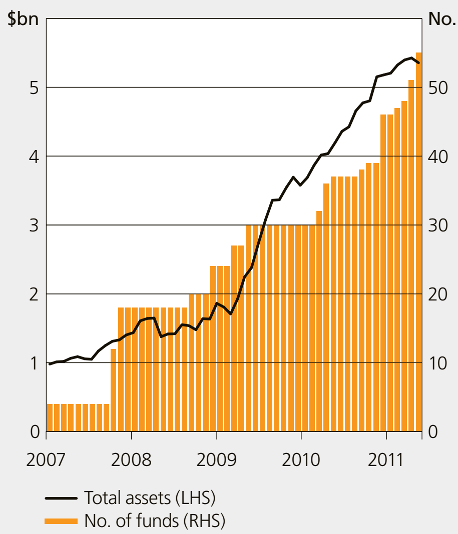
Trading and product innovations

Some significant changes in trading on the stock exchange are occurring as the date for the commencement of formal competition between market operators approaches. Analysis suggests high-frequency trading is increasing, with the number of trades rising and the average value per trade declining.

In addition, among other innovations, exchange traded funds (ETFs) have grown in popularity during 2010–11.

In Australia, 18 new ETFs were launched (two of which were synthetic), bringing the total number of ETFs listed on the ASX to 55. The assets represented by ETFs have grown from $4.2 billion at 30 June 2010 to $5.35 billion at 30 June 2011. ETFs listed in Australia that track global indices have experienced faster asset growth (up 97% in 2010–11) compared with the growth in assets of ETFs that track domestic indices (up 14%).

ETFs listed on Australian exchanges



Source: Morningstar

Capital raising

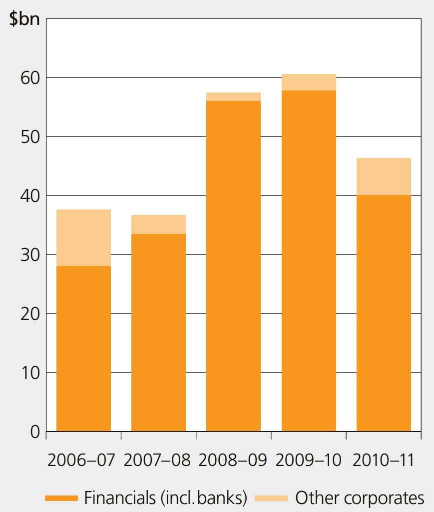
Bond issuance

Total issuance declined as sales by financial corporations pulled back.

Australian corporations in the non-financial sector raised approximately $6.2 billion through bond issues, twice the amount issued in the previous year. Around 85% were issued in Australia. Financial sector corporations (mainly banks) reduced issuance by approximately a third from 2009–10 to 2010–11, from $57.7 billion to $40.1 billion, with 91% issued in Australia.

Refinancing of bank debt and corporate bonds is expected to exceed $550 billion through to the end of 2015. Refinancing in the financial sector is forecast to peak at approximately $111.2 billion in 2012, of which the 'big four' Australian banks account for the majority.

Bond issuance by Australian corporates



Source: Bloomberg

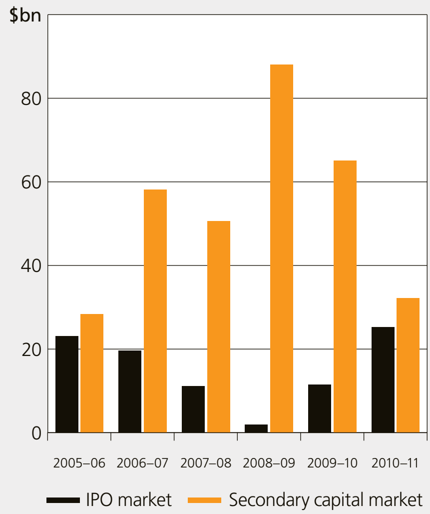
Equity issuance

One of the effects of the global financial crisis was a sharp contraction in the initial public offering (IPO) market in 2007–08 and 2008–09.

IPO activity picked up in 2010–11, but secondary issues by listed companies remained subdued. The primary market raised approximately $25 billion, well above the trough of less than $2 billion recorded in 2008–09.

The two largest IPOs completed in 2010–11 were the Queensland Government's float of QR National ($4.6 billion) and Westfield Retail Trust ($835.4 million). Significant secondary raisings completed during 2010–11 included the $2.3 billion priority issue by Origin Energy Ltd, and the $2.2 billion priority and placement by West Australian Newspapers Holdings Ltd (now Seven West Media Ltd).

IPO and secondary equity raisings



Source: ASX

Economic overview and outlook Alex Erskine – Chief Economist continued

Securitisation, derivatives and credit

Securitisation and derivatives market

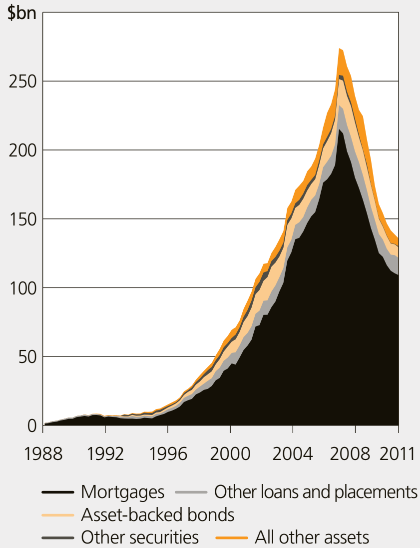
Securitisation activity in Australia is gradually recovering after its global financial crisis lows.

In Australia, most activity involves residential mortgage-backed securities (RMBSs). Issuance slowed significantly from late 2007 and assets outstanding have declined sharply, although the speed of the decline has decreased.

In December 2010, the Government's competitive and sustainable banking system package committed $4 billion to support the primary market for prime RMBSs.

In 2010, Bank for International Settlements data for the global OTC derivatives market showed a continued decline in turnover since the peak of approximately $61 trillion recorded in 2008, closing the year at around $55 trillion. In terms of notional market value, the Australian OTC market ($350 billion) represents only a small fraction of the global OTC market value (around $30 trillion).

Securitisation by asset class in Australia



Source: RBA

Corporate credit quality

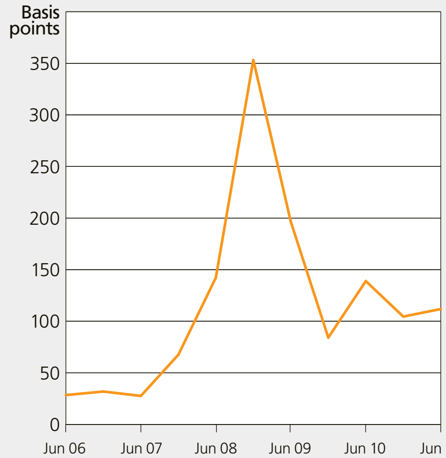
Market perceptions of credit quality for Australian corporates have not deteriorated through the year despite rising concerns in Europe.

The iTraxx Australia CDS index – one indicator of market views on credit risk for Australian corporations – was broadly stable during the second half of 2010–11, well below the peak recorded in December 2008. However, it is still higher than the levels before the global financial crisis.

Credit default swaps (CDS) spreads on Australian companies are quite low relative to many international companies and sovereigns.

Around 9,829 companies entered external administration in 2010–11, up 5.9% on the previous financial year. This growth is close to the average annual increase seen in the past decade.

iTraxx Australia CDS index



Source: Bloomberg