



Working for Australia

Consumers, investors, business and markets



ASIC Annual Report 2005–06



ASIC
Australian Securities &
Investments Commission

About this report

ASIC aims for transparency and clear communication. Last year's annual report won:

- our 7th consecutive Gold Award from the Australasian Reporting Awards Inc.
- 'Distinguished', the highest grade international and Australian awards, from the Society for Technical Communication's International Technical Publications Competition 2006.

Under section 9 of the *Commonwealth Authorities and Companies Act 1997*, members of the Commission take responsibility for the preparation and content of this report of operations in accordance with the Finance Minister's orders.

This is our 16th annual report. ASIC began operating in January 1991, then as the Australian Securities Commission.

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ASIC at a glance

The Australian Securities and Investments Commission enforced and regulated company and financial services laws.

Our 2005–06 priorities

Working for consumers, investors and business.

Protected people choosing a super fund, made financial services laws more effective, managed high-profile enforcement actions, tackled insolvent trading, regulated company auditors, supported new accounting standards, page 11.

Highlights of the year, page 3.

Main activities

Regulated Australia's 1.5 million corporations, 4,415 financial services businesses, and 15 financial markets.

Worked to improve Australia's financial system, covering super, managed funds, insurance, credit, deposit-taking and financial advice.

Cooperated with Australian and international regulatory bodies, pages 25, 38.

Vision

Fair and efficient markets and confident, informed consumers.

For our priorities, aims and outputs, pages 11, 13, 14.
Delivered through six directorates, page 16.

Values

To be strong, fair and progressive, page 44.

Finances

Raised \$543 million in fees for the Commonwealth. Our work cost \$218 million, funded from the Commonwealth budget, page 14.

Staff

Employed 1,471 people around Australia (average full-time equivalents), page 15.

Governance

An independent Commonwealth government body, led by three full-time Commissioners, accountable to the Minister, Parliament and through administrative and judicial review, page 42.



Highlights

2005–06



1. **Helped prevent widespread superannuation mis-selling** through enforcement, compliance and education, pages 19, 22 and 26.
2. **Concluded enforcement proceedings against a record 352 people or companies**, 94% successfully. Managed an exceptional number of high profile, challenging investigations, pages 4, 18.
3. **Targeted the culture of denial in financially troubled companies** and set up a program to act against delinquent directors, pages 5, 28.
4. **Launched initiatives for better regulation**, granted 2,565 approvals that helped business transactions, and processed 45 million requests for business data, up 25%, pages 8, 31 and 32.
5. **Exposed and litigated against conflicts of interest** between advisers and their clients to raise industry standards, pages 5 and 27.
6. **Ensured ASIC's sustainability** through additional funding and by investing in our people and technology, pages 6, 33 and 35.

LEFT: Working to protect consumers. A team of about 40 staff used a wide range of enforcement, compliance and educational strategies to help prevent superannuation mis-selling.



Chairman's Report

Working for Australia: consumers, investors, business and markets

ASIC worked to promote high standards and public confidence in Australia's financial system.

Our priorities included superannuation choice and improving standards in the financial services sector for consumers and investors. We took high profile enforcement action, acted against company insolvent trading and launched 'better regulation' initiatives for business and financial markets. See also page 11.

Superannuation choice: reducing risks

From 1 July 2005, millions of Australians could choose a super fund for the first time. Overseas experience showed that, without proper attention, this might lead to widespread mis-selling of unsuitable super products to many people. To date, this risk has largely been avoided.

ASIC stopped misleading and deceptive advertisements, and increased surveillance of financial advisers. We randomly checked 259 financial advisers who gave consumers advice about their super. This 'shadow shopping' found cases of unreasonable advice, and we are now energetically following up the licensees concerned. See also my comments on conflicts of interest.

We contributed significantly to the government's public education campaign, see page 22.

More enforcement, more high profile matters

'It is getting harder for cynics to argue that the corporate world is riddled with fraud and nothing is being done about it', editorial, *Australian Financial Review*¹.

We concluded enforcement proceedings against a record 352 people or companies. We succeeded in 94% of those cases. Much of this action was aimed at stopping misconduct at the earliest possible opportunity. Notable results included:

ABOVE: Jeffrey Lucy AM, ASIC Chairman, see page 40 for biographical details.

¹5 July 2006, on the sentencing of NAB currency traders

- 8 years jail for Bradley Cooper for corrupting an HIH executive
- speedy convictions (and subsequent jailing) of 4 NAB currency traders
- 90% jump in civil orders obtained to halt misconduct and preserve assets
- 34% increase in action against illegal investment schemes
- 21% increase in new criminal proceedings. More criminal matters remained uncompleted before the courts.

About 3,000 investors lost money in Westpoint property development companies. After earlier court action in 2004 over the way Westpoint raised money from investors, we began extensive inquiries into the Westpoint group to see if it could continue to meet its promises to investors. In November 2005, we persuaded the court to intervene. Further proceedings exposed the entire group's hopeless insolvency, and a full-scale investigation is under way.

Rarely has ASIC had so many important matters on foot, including HIH Insurance, the NAB currency traders, Westpoint, James Hardie, One.Tel, Offset Alpine Printing, Sons of Gwalia, and the cross-agency tax-related investigation 'Project Wickenby'. Our teams showed great determination and capacity in managing these challenging cases, see page 18.

We also signed a new Memorandum of Understanding with the Commonwealth Director of Public Prosecutions.

Tackling company insolvent trading

Too often, directors of financially troubled companies deny the facts and fail to prevent insolvent trading. Over the past three years, we visited more than 1,600 troubled companies to change this culture of denial, and persuaded many directors to call in professional advisers.

To deal with delinquent directors, the government granted us extra funds to pay liquidators of assetless companies to report and document suitable cases for banning and other enforcement action. We set up a program and received 141 funding applications, see page 28.

Conflicts of interest in financial services

Serious conflicts between the financial interests of advisers and their clients must be avoided or properly managed. In many cases, disclosure alone will not suffice.

For example, we reviewed 300 files, which primarily related to superannuation switching advice, selected from 30 AMP financial planners chosen at random. Of the switching advice files selected, we found that 45% failed to adequately disclose a reasonable basis for the advice. In July 2006, we accepted a legally binding commitment from AMP Financial Planning to modify key aspects of how it advises its customers. Customers may also be eligible for refunds.

We are determined to raise industry standards further. Our work focused attention and reinvigorated public debate on how financial planners, investment banks and corporate advisers handle conflicts of interest. Some financial advisory businesses announced a move to 'fee for service', away from selling on commission, to ensure advice will be appropriate to clients' needs.

In March 2006, we sought civil penalties against Citigroup, the world's largest bank, for conflicts and insider trading breaches when advising a client, Toll Holdings Ltd.

Better regulation and helping business

The whole community benefits from well-regulated corporations, capital markets and financial services. The States and Territories renewed their referral of powers to the Commonwealth under the Constitution to ensure that Australia's regulatory system remains legally effective.

Australia's regulatory system is highly regarded internationally, although it imposes costs and burdens. Our 'Better Regulation' project will make the regulatory system ASIC administers easier to work with and ASIC more accessible and transparent. We published an ASIC service charter and a guide to ASIC. We set up a Business Consultative Panel to the Commission and a working group with the Australian Prudential Regulation Authority to tackle any issues of regulatory overlap. See page 8.

We granted relief from the law in 2,565 cases that helped business transactions. Our new computer mainframe enabled us to process 45 million requests for business data, up 25%.

International cooperation

Under the Australia-Indonesia Partnership for Reconstruction and Development, ASIC received more than \$1 million to help strengthen the Indonesian capital markets supervisory agency, Bapepam, in enforcement and surveillance. This is a pilot for broader ASIC assistance to promote financial stability in our region.

We increased our cooperation with overseas regulators and report more fully on international relationships on page 25.

Sustaining ASIC: our people, funding and IT

I am constantly impressed by the quality of the work our people do, and the Commission thanks them for their professionalism and commitment.

The Commission has worked to make ASIC a more attractive and satisfying place to work, where our people can contribute to the public good. In our latest employee survey, we found staff satisfaction had significantly improved. We also strengthened our performance

management processes, supported external secondments to foster exchange of expertise, see page 15.

The government's decision in the May 2006 budget to grant ASIC an extra \$235 million over four years will help us undertake work for consumers, business and financial markets, including a potential \$120 million over four years for high-cost significant public interest investigations and litigation, see also page 14.

We have upgraded some core elements of our information technology, approved a major IT reform program and are preparing to implement it.

Financial services reform: audit review and refinements

The Australian National Audit Office (ANAO) audited our performance in licensing the entire financial services industry under new laws, a major undertaking covering many businesses that had never been licensed before. ASIC accepted and is implementing ANAO's recommendations to improve:

- documentation of licence processing, the usability of our licensee register and reporting of our compliance performance, and
- processes for identifying and managing regulatory risks.

Additionally, ASIC and the government did much this year to make financial services laws operate more smoothly, see page 30.

Targets and effectiveness measures

Key targets and measures of effectiveness in meeting the long term aims of the ASIC Act are reported on pages 13 and 17. Our numerical targets usually focus on high volume processes. The relevance of numerical targets and measures is limited because markets are complex and regulatory influences hard to isolate from other factors.



Discussing regulation and its limits at the ASIC Summer School: Indonesian regulator Luthfy Zain, ASIC Chairman Jeffrey Lucy, Ontario Securities Commission Vice Chair Susan Wolburgh Jenah, Malaysian regulator Benothini Bascaran, Macquarie Bank CEO Allan Moss, ASIC lawyer Justine White, see page 9

Commission membership

Commissioner Berna Collier left in February 2006 to be appointed a judge of the Federal Court of Australia. At ASIC, Berna made a particularly important contribution to financial services regulation, insolvency law and regional issues. She was also a strong advocate of consumer protection.

The Parliamentary Secretary to the Treasurer appointed ASIC Executive Director Malcolm Rodgers as an acting Commissioner, see page 40.

Outlook

We cover a broad and complex territory, ranging from managing and delivering on high profile enforcement matters to improving the quality of advice and disclosure for consumers.

Our priorities include:

- reducing losses and misconduct related to complex financial products
- regulating more effectively large entities and market participants, including those active in over-the-counter and non-retail markets
- working with the government to streamline financial services and corporations laws
- increasing our accessibility and transparency.

My report, and the rest of this annual report except for the financial statements, constitutes ASIC's report of operations in accordance with a resolution of Commissioners made on 2 August 2006.

Jeffrey Lucy, AM
Chairman

Better regulation

Regulation and the burdens it can place on business was debated in the context of the April 2006 government report *Rethinking Regulation: Report of Taskforce on Reducing Regulatory Burdens on Business*.

Towards better regulation

Our *Better Regulation* project launched in May 2006 will make the regulatory system ASIC administers easier to work with.

Our priorities	Progress to date
Greater transparency and accessibility for stakeholders about how ASIC works, makes decisions and approaches its legislative functions	New <i>ASIC Service Charter</i> and <i>ASIC: a guide to how we work</i> published, setting out service standards, ASIC’s organisation and accountability
Engaging with business to identify and reduce areas where there is regulatory duplication or overlap	Joint ASIC-APRA working group to resolve regulatory duplication or overlap
More fully understanding the impact on business of ASIC’s regulatory decisions	Research on world’s best practice in analysing the impact on business of regulation
Helping clients deal more efficiently with ASIC by streamlining and where possible reducing paperwork	A plan to rationalise our regulatory documents



Three new publications explained our *Better Regulation* project, our service standards, and our organisation and accountability.

New Business Consultative Panel

In June 2006, we established a Business Consultative Panel for a more effective and open dialogue between ASIC and the business community on current and emerging market issues and risks. This initiative demonstrated our commitment to better regulation through close interaction with important stakeholders. It builds on our well-established consultation activities, including our Consumer Advisory Panel and Regional Liaison Committees, see page 46. The Panel's two Chapters, based in Sydney and Melbourne, are expected to meet three times a year, chaired by ASIC's Chairman and Deputy Chairman respectively.

Location	Panel members
Sydney	Mr David Gonski, Chairman, Investec Ms Diane Grady, Non-Executive Director, Woolworths Mr David Morgan, CEO, Westpac Mr Robert Savage, Chairman, Perpetual Trustees Australia Mr Les Taylor, Chairman, Freshtel Holdings.
Melbourne	Mr Kevin Bailey, Founder, The Money Managers Mr Jeremy Duffield, Managing Director, Vanguard Investments Australia Ms Paula Dwyer, Non-Executive Director Mr Lee laFrate, Executive Chairman, Armytage Private Mr Geof Stapledon, Managing Director, ISS Australia Ms Karen Wood, Company Secretary, BHP Billiton.

Leading debate on regulation

ASIC Commissioners and senior managers contributed to the debate on regulation at peak industry and professional conferences and through the media, see also page 46.

Our 2006 Summer School brought together some of the sharpest minds and most experienced practitioners in the Australian and international financial sector to explore regulation and its limits. International and Australian speakers and more than 200 participants attended from a broad spectrum of the financial services industry.



2005–06 priorities and key results

The year's priorities for achieving long term goals¹

National priority	Summary of results
<p>Superannuation choice</p>	<p>Helped prevent widespread superannuation mis-selling by:</p> <ul style="list-style-type: none"> enforcing laws against misconduct and mis-selling, pages 19, 26 intensively checking compliance, pages 22, 27 stopping misleading advertising, page 22 educating consumers, page 22
<p>Financial services</p>	<p>Improved conduct and disclosure among financial advisers and product issuers by:</p> <ul style="list-style-type: none"> enforcing the law against misconduct and acting against conflicts of interest, pages 18, 27 obtaining better disclosure for investors, pages 27, 28 promoting shorter prospectuses and statements of advice, page 30
<p>High profile enforcement</p>	<p>Enforced the law in high profile matters and deterred misconduct by:</p> <ul style="list-style-type: none"> progressing with HIH: 1 conviction, 1 guilty plea, 2 acquittals, new charges against former HIH Chairman, Chief Financial Officer and FAI officers, page 18 shutting down Westpoint group and undertaking intensive investigation of directors and advisers, page 5 prosecuting and convicting NAB currency traders, page 18
<p>Corporate insolvency</p>	<p>Targeted the culture of denial in financially troubled companies by:</p> <ul style="list-style-type: none"> visiting 536 potentially troubled companies to help them deal promptly with financial difficulties, page 28 setting up a program to act against delinquent directors, page 28 disqualifying 44 directors from company management, page 19
<p>Auditor regulation</p>	<p>Made sure auditors could comply with stricter requirements by:</p> <ul style="list-style-type: none"> reviewing audit practices in major firms, page 28 extending onsite inspections to mid-tier firms, page 28 working with local standard setters and international audit regulators, page 31
<p>International financial reporting standards</p>	<p>Supported introduction of more internationally consistent financial reporting by:</p> <ul style="list-style-type: none"> helping companies understand the standards, page 31 checking that listed public companies complied, page 28

¹ For long term goals, see *ASIC Strategic Plan 2005–10*, on our website



Effectiveness

Key statistics about advancing the aims set out in our legislation[§]

	2005–06	2004–05	2003–04
Upholding the law uniformly, effectively and quickly			
• % total litigation successful	94%	94%	93%
• % criminal litigation successful	72%	87%	89%
• % civil litigation successful	98%	95%	94%
• Civil orders against people or companies	230	121	118
• Criminals jailed	17*	27	28
• Additional disclosures achieved for investors	125	161	212
Promoting confident and informed consumers			
• Public complaints about misconduct assessed	12,075	10,752	9,970
• Visits to our consumer website FIDO	785,000	615,000	[†] n/a
• People assisted through our call centre	770,000	784,000	863,000
• Recoveries, costs, compensation, fines and assets frozen	\$215 million	\$123 million	\$121 million
• Company fundraisings where ASIC achieved additional disclosure for investors	\$10 billion	\$6 billion	\$4 billion
Making company information available quickly and efficiently			
• Total requests (free and paid) from ASIC databases [†]	45 million	36 million	36 million
• Company data lodged on time	94%	94%	92%
Improving the performance of the financial system and the entities within it			
• Applications granted that reduced costs to business	2,489	2,939	1,916
• Applications granted for innovative transactions or products	76	54	91
• New Australian financial services licences issued	428	401	^{††} 3,227

§ Based on the ASIC Act, see page 38

* A number of criminal matters are still uncompleted before the courts, see page 5

† Previous data included hundreds of thousands of visits by web spiders, not people

‡ Entire series restated, previous data incomplete. New mainframe processed more requests

†† Financial services reform triggered an unusually high number of applications

LEFT: About 50 ASIC people around Australia are involved with the protracted, complex and controversial Westpoint case, including a team in Perth. We have kept investors up to date through meetings and bulletins, sought more information from them, as well as conducting extensive investigations and litigation, see page 5.

Financial summary

Using taxpayers' money for the outcome approved by Parliament

	2005–06	2004–05	2003–04
Operating expenses	\$218m	\$208m	\$196m
Annual change	+5%	+6%	+13%
Fees and charges raised for the Commonwealth	\$543m	\$531m	\$457m
Annual change	+2%	+16%	+13%

Parliament funds ASIC to achieve the outcome of 'a fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers'. To achieve this outcome we deliver four outputs, with enforcement activity representing 49% of expenses.

ASIC outputs*	This year	Last year	Change
1. Policy and guidance about laws administered by ASIC, page 30. Increased expenses arose from filling vacancies that had existed in 2004–05.	\$14m	\$13m	+7%
2. Comprehensive and accurate information on companies and corporate activity, page 32. Increased expenses reflect higher depreciation expenses on systems completed to implement CLERP 7 law reforms.	\$50m	\$47m	+6%
3. Compliance monitoring and licensing of participants in the financial system to protect consumer interests and ensure market integrity, pages 22, 26 and 31. Increased expenses included work on superannuation choice and audit regulation.	\$52m	\$48m	+10%
4. Enforcement activity to give effect to the laws administered by ASIC, page 18. Higher expenses incurred in 2005–06 on major matters including James Hardie, Offset Alpine Printing and Westpoint were offset by lower expenditure on matters such as HIH and One.Tel.	\$102m	\$101m	+1%
Total	\$218m	\$208m	+5%

*Internal service costs are apportioned to these outputs.

We also raised \$543 million for the Commonwealth in fees and charges.

Our expenses of \$218 million increased, largely to sustain operations and to increase enforcement activities. Employee expenses, our largest outlay of \$127 million, increased 3%. Supplier expenses, excluding property costs, increased 8% to \$75 million, including increased litigation and forensic costs.

We received \$214 million in appropriations and \$11 million in revenue from the sale of services, interest and other sources, including \$1.3 million in recoveries for court and investigation costs. Our \$6.7 million operating surplus arose after funding specific initiatives for which the government provided special purpose funding.

In certain cases the special purpose funding was underspent during the financial year, by \$7.3 million. See our financial statements on page 52.

Some \$12 million of our appropriation was levied by the government on deposit-taking, superannuation and insurance organisations, used for the purposes shown on page 50.

Outlook

An extra \$235 million over four years will fund enforcement activities, action on increasingly complex issues, a presence in non-exchange-based market trading, IT security and electronic registration of company charges.

Our people

Helping our people achieve

We are committed to developing our people to improve ASIC's performance. We are also committed to equal opportunity and the percentage of women in senior roles increased from 40% to 43%.

	2005–06	2004–05	2003–04
Staff (average full-time equivalents)	1,471	1,570	1,531
Annual change	-6%	3%	10%

Most staff are engaged under the Public Service Act. ASIC is one of the largest 20 employers of public servants, out of about 90 Australian Government Departments and agencies. Staff numbers declined. Vacancies took longer to fill with the right people, especially in Sydney and Melbourne. We also engaged fewer information technology contractors.

Towards high performance

To build a culture of high performance, we strengthened our performance management framework as part of our new Certified Agreement and Australian Workplace Agreements. Performance agreements focus on managing outputs, interpersonal and personal skills, continuous feedback during the year and will include upward feedback from 2006–07.

To encourage the exchange of expertise, 5 ASIC people were seconded to work outside and 23 non-ASIC people came on secondment to work with us.

A more satisfying workplace

In our latest national staff survey, we recorded a significant improvement in satisfaction, resulting from a concerted emphasis on management development and training, workforce planning and systematic and regular communication from senior management. The survey also indicated areas for further improvement to make ASIC an employer of choice.

Developing talented managers and leaders

We prepared a succession planning and talent management strategy to help us retain and develop talented people and to reduce the risk of losing key people occupying critical positions.

To develop our managers and leaders, some 200 managers participated in management development workshops and 70 high potential people attended the Mt Eliza executive development program.

Workforce planning, recruitment and selection

Our workforce planning strategy, developed this year, identified priority areas where we must attract and retain staff. To do this more efficiently, we began our first bulk recruitment for lawyers, analysts, accountants and investigators in May 2006. Successful applicants will be assigned to areas of need.

A safer workplace

Fewer staff were hurt at work, and those who did were helped more promptly and returned to work more quickly. Some 63 incidents, generally involving minor injury, were reported, down 6%, with 140 days lost.

Outlook

In the coming year, we expect staff numbers to increase. We will:

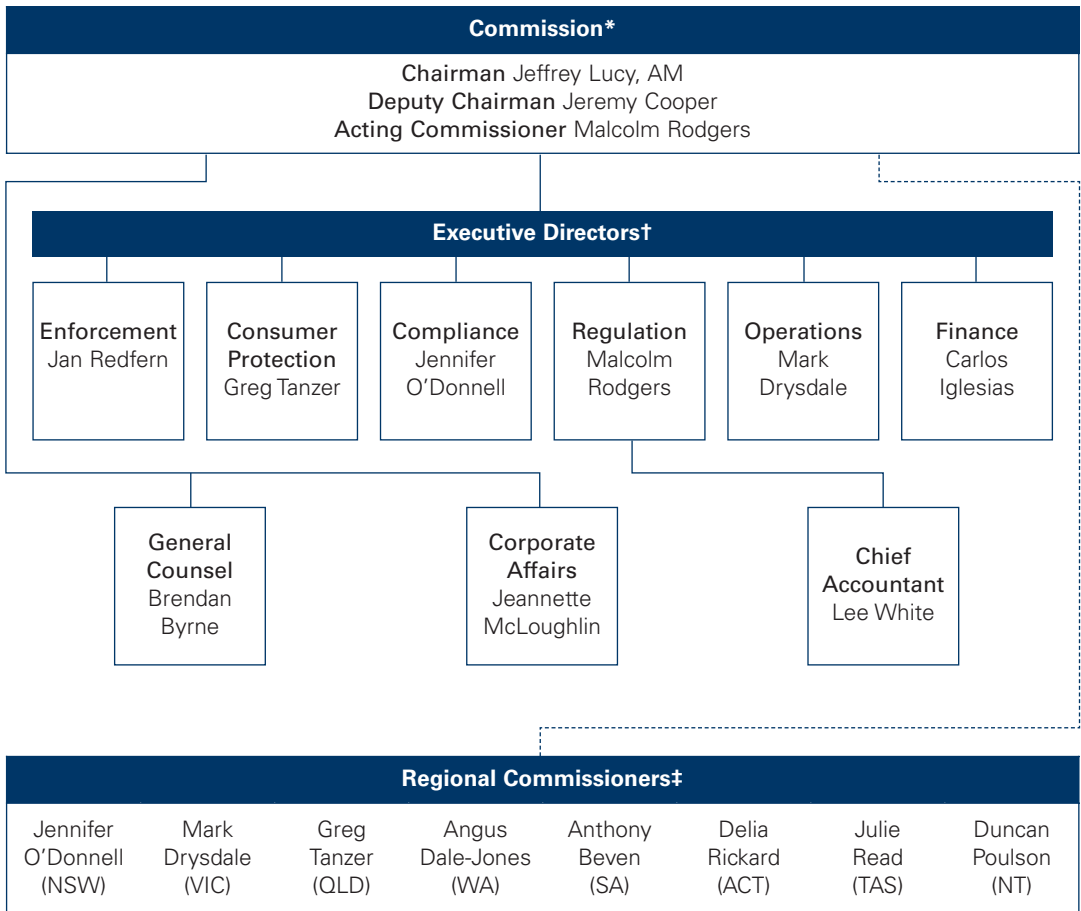
- emphasise leadership and management development and training
- implement our new performance management system
- strengthen workforce planning, recruitment and selection.

More about our people on page 32.

Organisation

A stable and experienced senior management team

The senior management team remained generally unchanged. In key changes, former Commissioner Berna Collier was appointed to the Federal Court, Jeannette McLoughlin was appointed to lead an enhanced corporate affairs function.



* Commissioners' biographies and † Executive Directors' details, page 40.

‡ Regional Commissioners' details, see page 46.

Operational summary

Specialist teams contributed to national priorities and common goals

	Enforcing the law	Protecting consumers	Promoting compliance	Regulatory work	Operations	Finance
Staff [†]	373 people	100 people*	187 people [‡]	137 people	480 people ^{††}	117 people
Role	Investigate and act against misconduct	Protect consumers	Ensure companies and licensees comply with the law	Set ASIC policy on regulating markets and business	Company data, insolvency, IT and HR	Finance, risk, knowledge management, corporate services
Key events	Westpoint property group found insolvent	Employee choice of super fund commenced 1 July 2005	First year implementation of new international accounting standards	Australian Stock Exchange and Sydney Futures Exchange announced a merger	Government halved company registration fees from 1 July 2006	Additional funding of \$23 million over 4 years announced
Results with key targets if applicable	94% litigation successful (target 75%) 70% investigations completed in 12 months (target 85%) 17 jailed, banned 44 directors and 27 people from financial services	Finalised 81% of public complaints in 28 days (target 70%) Achieved compliance in 79% of cases (target 60%) 785,000 visits to consumer website (up 28% but below target 1.2 million)	Completed 83% document surveillances in 30 days (target 90%) Better disclosure for investors in \$10 billion capital raisings Increased on-site visits to licensees by 20%	Decided on 72% of applications for relief from the law within 15 business days (target 70%) Decided on 83% of AFS licence applications within 28 days (target 70%) Launched 'Better Regulation' project to assist business	71% of company documents lodged electronically (target 70%) Processed 91% of key documents within 48 hours (target 90%) 536 companies visited to reduce insolvent trading	Balanced revenue against expenses (on target) Secured government budgetary support for new policy proposals Energy use 10,429 MJ per person (target 10,000 MJ)
Key priorities for 2006–07	Effectively manage our high profile enforcement actions	Improve the quality of retail-level advice and disclosure	Develop early and effective action against misconduct concerning complex products	Rationalise and redesign our regulatory documents	Implement employment strategy, IT reform and performance improvements	Achieve and maintain adequate funding, property and facilities
More information	Page 18	Page 22	Page 26	Page 30	Page 32	Page 36

[†] Average full-time equivalents, not including 30 staff supporting the Commission, General Counsel, and 39 staff supporting the Superannuation Complaints Tribunal and other statutory bodies.

* Excludes 8 staff working in international relations
[‡] Includes 24 staff working on corporate insolvency located in our operations directorate

^{††} Includes 26 full-time graduates working for other directorates, and excludes 24 staff working on corporate insolvency located in our operations directorate