



Annual Report 2001-02

ASIC

Australian Securities &
Investments Commission

tackling **ethics** and **governance**

ASIC's profile

The Australian Securities and Investments Commission enforces and regulates company and financial services laws to protect consumers, investors and creditors.

An independent Commonwealth government body, ASIC has regulated financial markets, securities, futures and corporations since January 1991. From 1998, we became responsible for consumer protection in superannuation, insurance, deposit taking and, from 2002, credit. ASIC works with other financial and law enforcement agencies in Australia and internationally. For where we fit in the regulatory picture, see page 12.

In 2001-02, ASIC

- employed 1,284 full time equivalent staff around Australia, see page 68.
- outputs cost \$160 million and we collected \$379 million in fees for the Commonwealth, see page 8.
- operated under three full time Commissioners appointed by the Governor-General on the nomination of the Treasurer, see page 16.

tackling **ethics** and **governance** 2001-02

- 19 criminals jailed for terms totalling 74 years: 11 dishonest company officers and 8 others who cheated investors, page 26.
- \$401 million in funds protected, compensation orders or assets frozen for investors and creditors, page 28.
- Higher standards of competence, compliance and capacity set for financial services businesses. New licensing system delivered on time for financial services reform, page 36.
- Government increased our funding by \$90.8 million over four years to pay for financial services reform and enforcement, page 8.
- 13% increase in complaints to ASIC about corporate and financial misconduct. We extended more assistance and resolution, page 58.
- Public use of ASIC's corporate database up 32%, with a record 6.1 million enquiries, page 57.

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About this report

This report was produced under the *Commonwealth Authorities and Companies Act 1997*. The members of the Commission are responsible under s9 of that Act for the preparation and content of the report of operations in accordance with the Finance Minister's Orders.

To meet high standards of disclosure, as well as legal requirements, we used feedback from Parliamentarians and the public. Last year's report won ASIC's third Gold Award from the Australasian Reporting Awards Inc.

Results for 2001-02

What we planned to do

What we achieved

Public impact

Uphold the law effectively and quickly

- 19 criminals jailed, 21 directors and 35 people banned from financial services, 10 auditors and liquidators disciplined.
- \$401 million in funds protected, assets frozen and compensation orders.
- Successful proceedings against directors and officers of HIH, and Harris Scarfe.

Promote confident and informed consumers and investors

- Consumer education strategy to promote financial literacy
- Resolved more than 50% of public complaints, up from 37%.
- Doubled visits to our consumer website to 488,000.
- 200+ organisations join our new Electronic Funds Transfer Code.

Make company information available quickly

- 6.1 million free internet searches, up 32%, paid online searches up 4% to 2.9 million.
- 141,000 searches of licensed and banned advisers, up 38%.

Improve performance of financial system and entities within it

- Financial services businesses guided by new ASIC policy and standards for competence, compliance and capacity.
- Championed auditor independence and proposed reforms.
- Comparable protection for Australian and Singaporean investors trading in each other's market.

Operations

Fight fraud and misconduct

- 92% of cases against individuals and companies successful.
- 246 new investigations.
- Increased civil litigation to preserve assets.

Tackle patterns of misconduct

- Wound up failed solicitors mortgage schemes, 2 jail terms for fraud and reduced defaults.
- 96 stop orders on inadequate prospectuses, targeting unsubstantiated forecasts.
- Halted potentially misleading advertisements about performance of investment funds.

Build e-commerce capacities

- Delivered new online system for applicants for financial services licences on time.
- Electronic reporting system for insolvency practitioners.
- 71% of new companies registered electronically.

Our staff

Lead, develop and challenge staff

- Initiated new skills and leadership programs.
- Approved a new 3 year strategic plan, see page 11.

Finance

Control costs, increase efficiency and align with core business.

- \$90.8 million in extra funding over four years resulting from a full review of the cost of all ASIC's outputs.
- Expenditure reached \$160 million, as costs rose for enforcement and financial services reform, see page 8.
- Collected \$379 million in fees on behalf of the Commonwealth, up 4%.



David Knott,
ASIC Chairman from November 2000 for a five year term.

Chairman's report

In this section:

- tackling ethics and governance
- outcomes delivered in 2001–2002
- civil penalty and criminal remedies
- resources increased
- the Commission
- staff

“Legislation focused on core objectives that facilitates prompt, effective intervention by the regulator will serve the public interest far better than voluminous rules and complicated procedures for sanction.”

Tackling ethics and governance

The theme of this annual report ‘Tackling Ethics and Governance’ encapsulates concerns that have gripped many developed economies during the past year. Major company failures in the USA have exposed a breakdown in corporate ethics and governance, corroded during a prolonged period of market prosperity.

In Australia we have not come out unscathed. However, with a few serious and troubling exceptions, we have avoided the worst excesses exposed by the failures in the USA. In part this is due to Government and regulatory responses to the crashes of the 1980s, which significantly enhanced our vigilance and caution. Moreover, in the main, Australian business leaders have acted with a degree of restraint and conservatism which compares well with their offshore counterparts. Domestic investor confidence, while unsettled, has not been threatened to the extent obvious in America.

During 2002-03, Australia will review the causes and appropriate responses to recent corporate failures. The Government's corporate law reform program will form the centrepiece of that review, but other contributions will be important.

The review will be informed by initiatives in the United States and by the work of key international forums, including the International Organisation of Securities Commissions and the Financial Stability Forum. Where relevant, our domestic responses should conform to international best practice, particularly in areas of accounting standards, audit and executive remuneration.

However, Australia's response to governance failures should also reflect our own experiences. We need to consider the long term effects of new policy initiatives. Legislation focused on core objectives that facilitates prompt, effective intervention by the regulator will serve the public interest far better than voluminous rules and complicated procedures for sanction. This will be ASIC's approach in our own submissions on domestic law reform and in our contributions to international standard setting.

In the meantime, the Australian regulatory system and the performance of its regulators will form part of the HIH Royal Commission's enquiries. Such accountability is appropriate, and ASIC will respond positively to recommendations that will improve our regulatory system or our own performance.

Outcomes delivered in 2001–02

Impressive outcomes are again evident in this annual report. We have concluded another year of intense activity in which we have:

- successfully prosecuted 42 offenders (resulting in 19 custodial sentences)
- obtained substantial protective and compensation orders for investors
- commenced implementing the most ambitious reforms to financial services regulation ever attempted, and
- intervened as never before to improve standards of disclosure to investors.

Full details are set out elsewhere.

These outcomes have been attained at a time when demand for our services has never been greater.

Volatility in our markets, coupled with increased recognition of ASIC as an effective regulator, has resulted in a massive increase in public requests for our assistance.

We have responded by extending more assistance and by expanding our range of information and regulatory services. Our new national structure has increased our capacity to identify emerging risks and to allocate resources to them. We have overhauled our complaints processes to better correlate and assess information received from the public. We have embarked on strategies

which, over the next three years, will completely re-engineer how we access, analyse and share information across the organisation. All of these initiatives are improving ASIC's abilities to discharge our mandate.

We have also commenced a review of the methods by which we measure and report our regulatory outcomes. This involves a modernised system for tracking and reporting enforcement results, and performance measurements that are better correlated to our strategic and business plans. These initiatives will be reflected in next year's annual report.

Civil penalty and criminal remedies

Over the past two years ASIC has successfully litigated against a number of company officers under the civil penalty provisions of the Corporations Act. In the past, ASIC has been criticised for infrequently using these powers. More recently, concerns have been expressed that their use may result in the decriminalisation of serious offences.

The civil penalty provisions were included in the Corporations Act as an express recognition that breaches of duties by directors and officers will not always be criminal. They enable serious breaches which might otherwise escape prosecution to be enforced by ASIC. They can be effective not only to establish breaches but also to disqualify offenders from participation in

Chairman's report

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company management, obtain compensation and impose financial penalties.

Prior to commencing civil penalty proceedings, ASIC invariably consults with the Director of Public Prosecutions to determine how his office assesses the prospects for criminal charges. If those prospects are sufficiently strong and a prosecution can commence within an acceptable timeframe, it is ASIC's policy to prefer the laying of criminal charges.

The importance of timing should not be underestimated. ASIC is committed to achieving enforcement results within the quickest possible timeframe, both in fairness to defendants but also to underscore confidence in the regulatory system. That is one of the considerations we take into account when considering how best to prosecute a matter.

It should also be noted that a civil penalty suit can be followed by subsequent criminal charges if the circumstances dictate. The two remedies are not necessarily mutually exclusive.

Finally, to put our civil penalty proceedings in context, we currently have 111 persons facing criminal charges compared to 20 civil penalty actions.

Resources increased

Increased funding in this year's budget will enable us to implement licensing and regulatory responsibilities under the Financial Services Reform Act, and will

supplement our general enforcement resources. Part of that funding will be applied to increasing our regulatory support to administrators and liquidators of insolvent companies.

The Commission

In November 2001 Professor Berna Collier was appointed to the Commission for a three year term. Professor Collier has brought significant experience and skills to the Commission and acts as ASIC's representative member on the Board of the Australian Prudential Regulation Authority. She is the first full-time Commission member resident in Brisbane.

Pending Professor Collier's appointment, Mr Ian Johnston (Executive Director, Financial Services Regulation) acted for extended periods as a Commission member. I extend my thanks for his considerable support and assistance.

I also acknowledge ASIC's gratitude to Jillian Segal who resigned as Deputy Chair on 30th June to take up a position as a member of the Committee of Inquiry into the competition provisions of the Trade Practices Act. I reiterate the tributes made to Jillian in last year's annual report and again thank her for five years of dedicated work as a member of the Commission.

Staff

Like most public sector organisations ASIC suffers a remuneration disadvantage when competing for skilled staff. Despite that fact, we are served by officers whose professional competency and work ethic loses nothing in comparison to the private sector.

The Commission recognises the need to invest more in training and development opportunities for staff, and has approved new initiatives in this year's budget. In the meantime, on behalf of the Commission, I thank all of those who have worked beyond reasonable expectation over the past 12 months.

We have said goodbye to a number of senior officers whose services have been sought by international regulators, in particular, former NSW Regional Commissioner, Jane Diplock, appointed Chairman of the New Zealand Securities Commission; former head of Policy and Markets Regulation, Shane Tregillis, appointed Assistant Managing Director of the Monetary Authority of Singapore; and former Chief Accountant, Ian Mackintosh, appointed Regional Finance Manager of the World Bank.

Although it is always sad to farewell talented colleagues and friends, the seniority of their appointments reflects their outstanding credentials and the respect in which ASIC is regarded by other countries. I thank each of them and wish them well.

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 13 August 2002.



David Knott
Chairman

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Financial report 2001–02

In this section:

- costs of outputs
- expenses
- revenue collected

“The results were very favourable, and confirmed that we have managed our resources efficiently.”

ASIC’s financial performance reflected increased activities to implement financial services reform and to enforce the law. Our operating result produced a deficit of \$5.6 million, after the small surplus in 2000-01. This largely resulted from increased expenditure on goods and services related to investigations and litigation into high profile matters.

With the Department of Finance and Administration, we conducted an ‘Output Pricing Review’ that resulted in additional funding over the next four years for ASIC’s substantially increased workload in financial services reform and enforcement.

The Review also benchmarked our corporate services with public and private sectors. The results were very favourable, and confirmed that we have managed our resources efficiently. Our Financial Statements begin on page 79.

Costs of outputs

The cost of ASIC’s outputs was \$159.8 million, up from \$143.3 million. We received an increased Parliamentary appropriation, with a special one-off funding of \$7.1 million relating to the HIH investigation and to the HIH Royal Commission. Of that, \$2.85 million represents unspent funding associated with the HIH Royal Commission. This has been disclosed as unearned revenue and deferred to 2002–03.

The costs of each ASIC output was:

Output*	Cost
1. Policy and guidance about laws administered by ASIC	\$9.0m
2. Comprehensive and accurate information on companies and corporate activity	\$42.7m
3. Compliance monitoring and licensing of participants in the financial system to protect consumer interests and ensure market integrity	\$44.2m
4. Enforcement activity to give effect to the laws administered by ASIC	\$63.9m
Total	\$159.8m

*Infrastructure costs are apportioned to these outputs

Expenses

Employee expenses, our major outlay, rose to \$85.2 million, up by 2.6%, reflecting increased staff in enforcement and financial services.

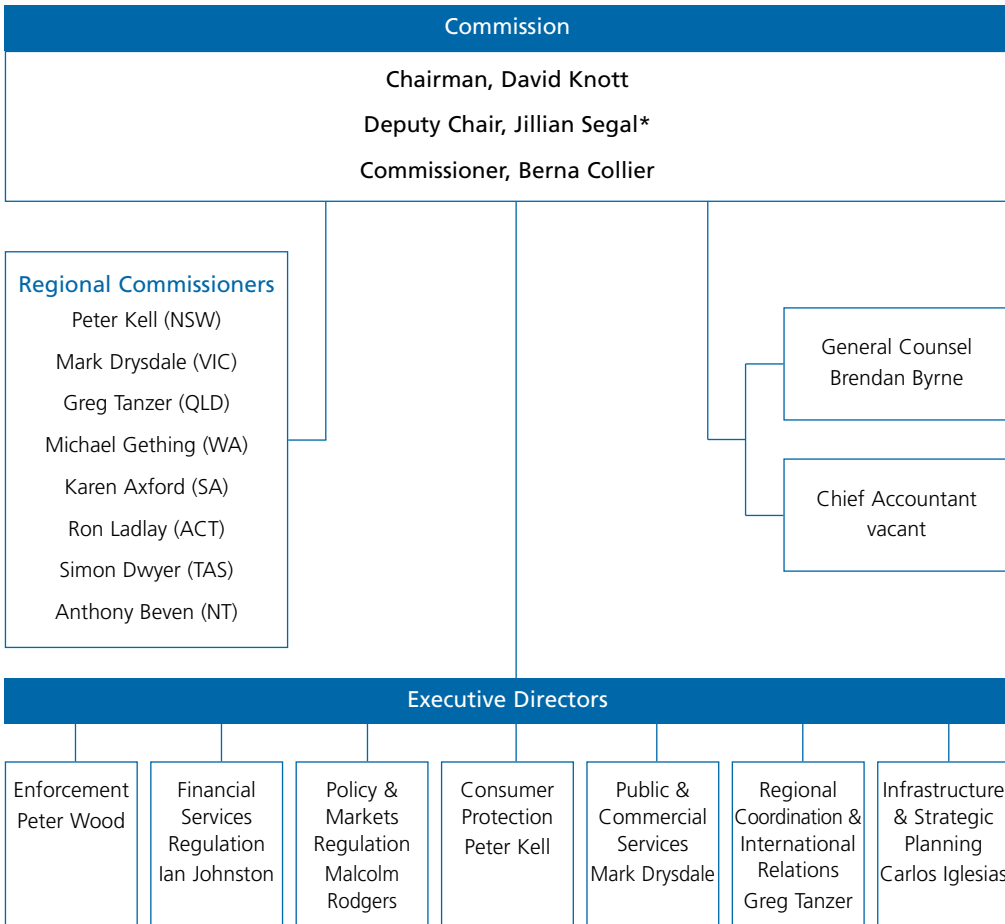
Goods and services (excluding property) increased to \$41.6 million reflecting increased expenditure on externally sourced legal, accounting and forensic expenses for major enforcement matters. Property expenses of \$19.8 million fell by \$0.3 million, a cost we are continuing to manage tightly as we recruit extra staff.

Cash used to purchase plant and equipment was \$8.4 million, more than half of which was in information technology assets.

Revenue

Total Corporations Act fees and charges amounted to \$379 million.

Organisational chart



* Jillian Segal resigned in June 2002. (The Treasurer appointed Ian Johnston Acting Commissioner, see page 17.)

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Three year perspective Results: 1999–2000 to 2001–02

Result	2001/02	2000/01	1999/00
Staff (full time equivalents) increased for enforcement and financial services reform			
Annual change	1,284 5%	1,221 -1%	1,234 2%
Operating expenses rose to pay for extra workload			
\$ millions	160	143	143
Annual change	12%	nil	-1%
Revenue collected for the Commonwealth up			
\$ millions	379	363	361
Annual change	4%	1%	9%
Successful court results remained above 70% target*			
Litigation concluded	205	150	173
% successful	92%	71%	75%
More investigations			
Annual change	246 15%	214 7%	200 -3%
More dealers, advisers, fund managers, insurance brokers licensed			
Total licences, registrations on issue	4,040	3,917	3,705
Annual change	3%	6%	9%
More inadequate prospectuses stopped			
Stop orders issued	96	81	n/a
Prospectuses and offer documents**	2,089	2,744	1,033
Annual change	-24%	166%	46%
Complaints about financial and corporate misconduct up			
Annual change	7,827 13%	6,946 26%	5,534 5%
Use of our databases increased			
Free website browses	6,135,856	4,626,700	3,214,852
Annual change	32%	44%	n/a
ASIC websites used more often			
Visits to www.asic.gov.au	3,365,000	2,366,000	1,777,000
Visits to our consumer site www.fido.asic.gov.au	488,000	241,000	58,000
% company data lodged on time			
Annual change	93% nil	93% -1%	94% 1%
Infoline answered more phone calls			
Annual change	161,000 30%	123,000 15%	107,000 3%

* Prior year figures understated success rate, see page 25.

** More than one prospectus can exist for the same product, for example 576 short form prospectuses received incorporated a long form prospectus for the same product.

Three years' results and a summary of ASIC's new three year plan for 2002–05

Plan for 2002–05

Objectives	What we plan to deliver over next 3 years
Fight fraud and misconduct.	<ul style="list-style-type: none">• Manage high profile investigations to achieve timely and successful results.• Seek Government and Parliamentary support for more flexible enforcement remedies where appropriate.• Act against misleading and deceptive conduct affecting consumers.• Promote public awareness about scams and fraud as part of our consumer education strategy.
Raise standards in financial services and further build our expertise.	<ul style="list-style-type: none">• Achieve consistent regulation and consumer protection by successfully implementing financial services reforms.• Offer industry a smooth transition and adjust our policies if required.• Raise standards through effective licence assessment, policy, surveillance, industry campaigns and targeted enforcement.• Help consumers make more informed decisions about their superannuation.• Maintain confidence in superannuation and insurance by improving sales and disclosure practices and by increasing our expertise.• Enhance confidence in Australian financial markets through effective market regulation, transparency and accountability.
Make a greater impact in the board room and improve the financial system.	<ul style="list-style-type: none">• Encourage a culture of disclosure and compliance by directors and others with financial reporting and audit obligations.• Encourage improved corporate governance and greater compliance with Corporations Act.• Contribute to better financial reporting and auditing by participating in international and domestic standard setting.• Assist Australian market operators and financial service providers in global markets by effective cross border regulation.• Maintain Australia's relevance as a capital market for our corporations by influencing global standards.• Reduce compliance burden on companies by implementing law reform when enacted.• Assist law reform proposals on corporate insolvency, and implement those reforms if enacted.• Prepare and implement an ASIC-wide framework for knowledge management processes and technologies.
Detect and act on early warning signs.	<ul style="list-style-type: none">• Reduce risk and protect the public by identifying systemic problems earlier and acting promptly.• Conduct and publish research about markets and financial services to inform public debate and influence law reform.• Advise Government on our responsibilities and funding.
Maintain optimal funding, relevance and efficiency.	<ul style="list-style-type: none">• Improve our electronic interface with stakeholders.• Improve access to and maintenance of Australia's corporate database through technology and streamlining back-office processes.• Increase internal efficiencies, especially in infrastructure costs.

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Where ASIC fits in the regulatory picture

In this section:

- who we regulate
- how we regulate them

ASIC regulates companies and financial services, and promotes investor, creditor and consumer protection under the *Australian Securities and Investments Commission Act 2001*; *Corporations Act 2001*; *Insurance Act 1973*; *Insurance (Agents and Brokers) Act 1984*; *Insurance Contracts Act 1984*; *Superannuation (Resolution of Complaints) Act 1993*; *Life Insurance Act 1995*; *Retirement Savings Accounts Act 1997*; and the *Superannuation Industry (Supervision) Act 1993*.

In summary, the ASIC Act requires us to:

- uphold the law uniformly, effectively, and quickly
- promote confident and informed participation by investors and consumers in the financial system

- make information about companies and other bodies available to the public
- improve the performance of the financial system and entities within it.

Two other Commonwealth government bodies regulate Australia's financial system:

- Australian Prudential Regulation Authority (APRA) regulates prudent management of deposit taking institutions, insurance companies, and larger superannuation funds.
- Reserve Bank of Australia (RBA) regulates monetary policy and the stability of the financial system.

“ASIC regulates companies and financial services, and promotes investor, creditor and consumer protection”

Who we regulate How we regulate them

1.25 million companies	<p>Investigate and act against misconduct by company directors and officers.</p> <p>Grant or refuse their requests for relief from the law.</p> <p>Receive prospectuses before money is raised.</p> <p>Uphold the law on financial reporting and company mergers and acquisitions.</p> <p>Register each company with a unique number, and record the number, name, directors and other information on a public register.</p>
Australian Stock Exchange Ltd	<p>Investigate and act against misconduct by listed companies, brokers and traders.</p>
Sydney Futures Exchange	<p>Advise the Minister about rule changes and whether to approve new markets.</p>
Other financial markets authorised by the Minister	<p>Monitor what ASX Ltd does as a listed company, and trading in its shares.</p>
Financial services businesses, including fund managers, stockbrokers, financial advisers, insurance brokers	<p>License them before they start operating.</p> <p>Set standards for education, training and operations.</p> <p>Investigate and act against misconduct.</p> <p>Record their details and their authorised representatives on a public register.</p>
Superannuation funds	<p>Report on how they comply with codes of practice.</p>
Life and general insurance companies	<p>Approve consumer complaint resolution schemes.</p>
Deposit taking institutions	<p>Investigate and act against misconduct.</p> <p>Co-operate with APRA.</p>
Registered managed investment schemes	<p>Register them before they start operating.</p> <p>Investigate and act against misconduct.</p> <p>Record their details and the names on a public register.</p>
Credit providers	<p>Investigate and act against misleading and deceptive conduct.</p> <p>Co-operate with State and Territory regulators.</p>
Company auditors and liquidators	<p>Register them before they start operating.</p> <p>Investigate and act against misconduct.</p>

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Description of ASIC directorates

	Enforcement	Financial services regulation	Market regulation and policy
Staff**	318 staff	146 staff	109 staff
Role	Investigate and act against misconduct.	Regulate financial advice and retail financial products.	Regulate markets, fundraising, takeovers and financial reporting; develop policy.
Key events	Global markets shaken by failings in financial reporting and governance.	Financial Services Reform Act commenced March 2002.	Australian market performed well, compared with significant declines overseas.
Results	<p>19 people jailed for 74 years; 20 directors fined or banned; 35 banned from financial services.</p> <p>Successful court proceedings on HIH, Harris Scarfe, British Marine Bank scam, Yandal.</p> <p>15% increase in investigations, with numerous large matters on hand.</p>	<p>Financial services reform project delivered guidance, online licensing and advice on time.</p> <p>Wound up failed solicitors mortgage schemes, reduced defaults to manageable levels.</p> <p>Action on high commission advisers: licences revoked, 27 advisers inspected.</p>	<p>Stricter standards on forecasts in equity prospectuses resulting in 77 stop orders.</p> <p>Spoke out on audit independence and financial reporting.</p> <p>Developed 9 policy and guidance papers to implement financial services reform.</p>
Targets for next 3 years	<p>Manage high profile cases and achieve successful outcomes.</p> <p>Seek more flexible enforcement remedies.</p> <p>Act against misleading conduct affecting consumers.</p>	<p>Achieve consistent industry regulation and consumer protection.</p> <p>Offer a smooth transition for financial services reforms.</p> <p>Use licensing and surveillance to raise industry standards.</p>	<p>Encourage a culture of disclosure and strengthen corporate governance.</p> <p>Greater transparency and accountability in our markets.</p> <p>Influence global standards to maintain Australia's relevance as a capital market</p>

* The work of these directorates received substantial support from other directorates.

** Full time equivalents, not including 23 staff supporting the Commission, General Counsel, Chief Accountant and 32 supporting the Superannuation Complaints Tribunal and other statutory bodies.

*** Includes 16 full time graduates working for other Directorates

Consumer protection*	International & regional coordination*	Public and commercial services	Infrastructure and strategic planning
18 staff	11 staff	332 staff	295 staff***
Identify and act on consumer issues, approve complaints schemes, review codes of practice.	Coordinate international matters, State and Territory offices.	Maintain company database, assess public complaints, answer phone enquiries, sell imaging services.	IT and knowledge management, HR, finance, management services and strategic planning.
ASIC consumer education strategy launched to promote financial literacy.	Asian authorities acted on international cold calling investment scams.	Government announced further streamlining of company law.	Government reviewed and increased ASIC funding.
Corrected misleading past performance advertising and denial of travel insurance claims. Reported on combating international cold calling investment scams costing Australians about \$400 million. New Electronic Funds Transfer Code launched, increasing consumer protection.	Prompted action by overseas authorities against cold calling scams. Handled 304 requests for international assistance. Maintained regional service levels in all States and Territories.	Free internet searches increased by 32% Assessed 7,827 public complaints about corporate misconduct, up 13%. Increased help to those reporting misconduct: 50% resolved, up from 37% last year.	Managed \$160 million in expenditure and \$379 million in revenue. Benchmarked costs and outputs with public, private and international counterparts. Commission approved new 3 year Strategic Plan, and doubling funds for staff development.
Promote public awareness of domestic and international scams and fraud. Consumers make more informed decisions about superannuation. Reduce risk by identifying systemic problems, and acting promptly.	Work on international standards of disclosure, audit, clearing and settlement. Improve international enforcement capacity. Maintain regional service levels in all States and Territories.	Further improve access to, and maintenance of, Australia's corporate database. Implement new national structure for assessing rising numbers of public complaints. Implement law reform affecting small companies, if enacted.	Develop and implement knowledge management strategies. Extend our electronic interface with stakeholders. Increase internal efficiencies and accountability for costs.

Commissioners



David Knott

LLB

ASIC Chairman from November 2000 for a five year term.

David Knott is a lawyer and Fellow of the Australian Institute of Company Directors. In 2002 he was elected Chairman of the Technical Committee of the International Organisation of Securities Commissions. Member: Companies and Markets Advisory Committee, Council of Financial Regulators, Steering Committee to establish an Australian Crime Commission. Previously ASIC Deputy Chairman from July 1999.

His career covers 13 years in private legal practice, specialising in company and commercial law, 10 years in senior roles in investment banking, and nine years in the public sector. He has been a partner at Arthur Robinson and Co, Senior Executive Director Capel Court, Executive Director of the Australian Financial Institutions Commission, Chief Executive of Commonwealth Funds Management and Chief Operating Officer of APRA.



Jillian Segal

BA, LLB, LLM (Harv.)

ASIC Deputy Chair from November 2000 until 28 June 2002.

Jillian Segal is a lawyer and Fellow of the Australian Institute of Company Directors. She was previously ASIC Commissioner from October 1997.

She has been Special Counsel at Dunhill Madden Butler advising on issues management, a partner and consultant to Allen, Allen and Hemsley, and a company director with particular experience in financial services. She was a Professorial Fellow in the Faculty of Law at the University of Wollongong, a member of the legal sub-committee of the Companies and Securities Advisory Committee and a member of the consultative committee for the Corporate Law Simplification project.



Berna Collier

BA, LLB (Hons)(Qld), LLM (Melb)

ASIC Commissioner from November 2001 for a three year term.

Professor Berna Collier is a lawyer and a member of the Insolvency, the Company Law and the Banking and Finance Committees of the Law Council of Australia. She serves on the Advisory Board of Axiss Australia, and as ASIC's nominee on the board of the Australian Prudential Regulation Authority.

She has worked in and written extensively about commercial and insolvency law for 15 years, both in the professional and university environment. Professor Collier was most recently Professor of Commercial Law at the Queensland University of Technology and an educational consultant with CPA Australia. She previously practised law in Melbourne and Brisbane. During 1999 and 2000 Professor Collier chaired the federal government Taskforce on Industry Self-Regulation.



Ian Johnston

Acting Commissioner from June to November 2001 (and from July 2002).

Ian Johnston is a lawyer and is ASIC Executive Director, Financial Services Regulation. He previously served in senior ASIC roles, and has been a company director in the financial services sector and CEO of a major trustee company. He served as Acting Commissioner until the appointment of Professor Collier. (In July 2002, the Treasurer appointed him to act until the appointment of a Deputy Chair.)

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ASIC governance, ethics and audit

In this section:

- governance
- Commissioners' appointment and remuneration
- reporting to Parliament
- role of the responsible Minister
- role of State Ministers
- ethics
- fraud control
- investigating complaints about staff
- indemnity and insurance policies
- audit

"ASIC staff are subject to the Values and Code of Conduct specified in the Public Service Act 1999."

Governance

Three full time Commissioners directed ASIC's affairs, making formal decisions at 17 Commission meetings.

Commissioner	Eligible to attend	Attended
David Knott	16	15
Jillian Segal	17	17
Berna Collier	11	11
Ian Johnston (acting)	5	5

Our operations are organised into seven directorates, managed by Executive Directors reporting to the Commission. Commissioners and Executive Directors together formed an Executive Committee that met fortnightly and identified and managed significant issues and risks.

Independent legal and accounting experts advised on specific matters. All Commissioners are legally qualified, but where necessary an individual Commissioner may obtain independent legal advice at ASIC expense.

Commissioners' appointment and remuneration

The Governor-General, on the nomination of the Minister, appointed Chairman David Knott and Deputy Chair Jillian Segal in November 2000 and Professor Berna Collier in November 2001 on fixed terms that may be terminated earlier only for reasons set out in section 111 of the ASIC Act.

The Remuneration Tribunal set Commissioners' remuneration; see also page 107.

Reporting to Parliament

Commissioners reported to Parliament and the responsible Minister on ASIC's performance.

We appeared six times before three Commonwealth Parliamentary Committees: the Parliamentary Joint Committee on Corporations and Financial Services twice, the Senate Economics Committee three times, and the Senate Select Committee on Superannuation and Financial Services once.

We submitted an annual report and responded to inquiries on behalf of constituents.

Role of the responsible Minister

The Ministers responsible for ASIC are the Treasurer, the Hon Peter Costello MP and, in matters determined by him, the Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell (from December 2001; previously the Hon Joe Hockey MP, Minister for Financial Services and Regulation).

Under section 12 of the ASIC Act, the responsible Minister may direct ASIC about policies and priorities in using our powers or performing our functions, but he must not direct us about a particular case.

Under section 14, he may direct us to investigate suspected contraventions or other particular matters. He gave no directions this year. Only one has ever been given, in September 1992, about collaboration, consultation and resolving issues between us and the Director of Public Prosecutions in the investigation and prosecution of serious corporate wrongdoing.

Under section 28 of the Commonwealth Authorities and Companies Act, the Minister may also notify Commissioners in writing of general policies of the Commonwealth Government that are to apply to ASIC. No such notifications were received. The Minister approved contracts exceeding \$250,000 as required by our legislation.

Commissioners met regularly with the Parliamentary Secretary. We also briefed the Treasury about current issues and proposed changes to the law.

Role of State Ministers

Commissioners appointed Regional Commissioners in consultation with the relevant State and Territory Ministers, and submitted half yearly reports on our performance to those Ministers. We attended the Ministerial Council on Corporations, comprising Commonwealth, State and Territory Ministers, as an observer and to answer questions.

Ethics

ASIC staff are subject to the APS Values and Code of Conduct specified in the *Public Service Act 1999*.

Formal procedures require disclosure of any real or apparent conflict of interest. Commissioners and staff are required to take no part in decisions where real or apparent conflicts of interest may arise. We set up special reporting and decision making procedures to maintain the integrity of our decisions.

The Chairman and Commissioners disclosed to the Minister all direct or indirect pecuniary interests in businesses, companies, or financial products regulated by ASIC.



ASIC governance, ethics and audit

Staff were required to keep registers of interests at work that supervisors may inspect at any time.

Commissioners appointed senior disclosure officers to advise managers and staff on how to handle possible conflicts.

To safeguard confidential information, strict procedures reinforced the ASIC Act and the criminal law.

unsubstantiated, one complaint partially substantiated, two complaints were withdrawn and four complaints are still under investigation.

The partially substantiated complaint concerned poor service during a recruitment process. The staff involved have been counselled. Of the one matter under investigation at 30 June last year, the complaint was unsubstantiated. We informed complainants of the outcome.

Fraud control

ASIC assessed the risks it faces from fraud and produced a fraud control plan for 2001-03. The Attorney-General's Department approved our software, risk assessment methodology and the fraud control plan.

The plan outlines the strategies and processes to avoid, detect, investigate and minimise the effects of fraud. We adopted reporting and data collection mechanisms that meet our needs and comply with Commonwealth Fraud Control Guidelines.

Investigating complaints about staff

To maintain public confidence in our staff and how they used their powers, we maintained formal inquiry procedures to investigate serious complaints.

We received 14 complaints this year, seven more than last year. The majority of the complaints alleged professional misconduct. Seven complaints were found to be

Indemnity and insurance policies

Consistent with the Commonwealth Authorities and Companies Act, ASIC

- entered into (a) indemnity agreements with Commission members for liabilities, including legal costs, incurred by them in the course of the conduct of their duties; and (b) indemnity agreements with former ASIC representatives on the APRA Board for their legal costs in respect of the HIH Royal Commission. ASIC paid \$20,483 under one of these latter agreements.
- paid a premium of \$30,400 for Directors and Officers' insurance and Employment Practices insurance, which covered all current and former Commission members and ASIC staff members for liabilities, including legal costs, incurred by them in the performance of their duties.

Audit

The Commonwealth Auditor-General audited ASIC's financial statements, see page 80.

The Commission's Audit Committee examined internal and external audit matters and risk assessment, see page 72. The independent Chair, Ms Merran Kelsall, is a senior chartered accountant and company director in private practice. The Deputy Chair is also independent. The Committee's charter conforms with Australian National Audit Office and Australian Institute of Company Directors guidelines.

9

Community involvement

In this section:

- supporting a consumer voice
- building relationships
- consulting regions and business
- meeting investors and consumers
- computers for schools
- supporting professional standards

“More than 4,500 people attended ASIC Speaks seminars about implementing the Financial Services Reform Act.”

Supporting a consumer voice

We funded a 10 member Consumer Advisory Panel including consumer and investor advocates experienced in financial services and an independent Chair to recommend research, alert us to issues and comment on policy affecting investors and consumers. Read the Panel’s report on page 50. We also consulted other investor and consumer organisations.

Building relationships

In November 2001, we organised a consumer–industry forum about consumer complaints handling in financial services. Representatives attended from about 50 organisations.

We ran our seventh Summer School on ‘Changes in the Financial Services Landscape: Improving Investor Confidence’, led by international and Australian experts. The five day School strengthened relationships between 95 local and overseas participants from the consumer movement, financial services organisations, government and our own staff.

Consulting regions and business

To ensure that we understand specific needs in all the States and Territories, we convened seven Regional Liaison Committees representing the business community in each State and Territory. They met on average four times, received information on our performance and service, and offered ideas. A Commissioner usually attended these meetings.

We met regularly with about 18 peak industry and professional associations, and consulted other organisations, companies and professionals, and helped thousands of directors and professionals over the phone.

We invited comment on proposed policies. More than 4,500 people attended ASIC Speaks seminars about implementing the Financial Services Reform Act.

Meeting investors and consumers

Our Regional Commissioners and Consumer Protection Directorate coordinated ASIC stalls at investment expos, and we ran a series of seminars in rural Western Australia with the Institute of Chartered Accountants.

Computers for schools

Following a recent upgrade of ASIC's personal computers, we donated old PCs to primary schools, as part of an Australian Public Service initiative, to encourage students' computer skills.

Supporting professional standards

To encourage professional education in the financial industry, we sponsored prizes for two Securities Institute courses: Financial Markets Law, Regulation and Compliance, Superannuation and Retirement Planning and the ASIC prize in Corporate Law at University of Wollongong.



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Peter Wood, Executive Director, appointed 2001, previously Victorian Solicitor for Public Prosecutions.

Enforcement

Overview

318 Enforcement staff investigated suspected breaches of the law and:

- had 19 criminals jailed and another 23 convicted from briefs prosecuted by the Commonwealth Director of Public Prosecutions.
- took 81 civil proceedings, resulting in orders against 140 people or companies, \$65 million in recoveries and compensation orders and \$45 million frozen, and
- fined or banned 20 people from directing companies, and 35 people from offering financial services.
- disciplined 10 company auditors and liquidators for misconduct.

In this section:

- overview
- key results
- criminal matters
- civil action and compensation
- banning and disciplinary proceedings
- outlook

“Criminal prosecution remained a central and successful weapon, alongside civil action to reduce damage to investors and consumers.”

Key results

Case	Result
HIH (and Pacific Eagle Equities)	Directors Adler and Williams banned, fined and liable for compensation. Fodera fined.
Harris Scarfe	Jailing of former Chief Financial Officer.
Karl Suleman (Froggy)	Illegal \$130 million scheme wound up. Life ban from managing companies and financial advising.
British Marine Bank Scam	Two criminals jailed for 8 and 7 years.
Yandal	Upheld on appeal over our \$28.5 million claim on behalf of shareholders.

ASIC's responsibilities have broadened to cover misleading and deceptive conduct in financial services, as well as corporate misconduct. Our enforcement results reflected more pre-emptive civil action to prevent or reduce damage to investors and consumers.

Criminal prosecution remained a central and successful weapon. Previous reporting of criminal

matters understated our success, which emerged when we installed our new national case monitoring system. In criminal matters we have now consistently recorded a result against each accused person; and in civil cases we have also recorded a result against each respondent person or company.

Main activities	This year	Last year	%change
Major investigations commenced	246	214	14%
Investigations completed within 12 months	205	182	13%
% investigations completed within 12 months	83%	94%	-11%

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Enforcement

Criminal matters

We had 19 criminals jailed and another 23 convictions from briefs prosecuted by the Director of Public Prosecutions (DPP). Staff investigated and obtained evidence for the DPP, who then decided and prosecuted all indictable matters. We involved DPP officers in considering evidence on potentially serious criminal investigations at an early stage.

19 criminals jailed

What they did:	Names and details of crime	Sentence
Unlicensed people who cheated investors	Raymond Strano defrauded investors of \$973,000 in the fake British Marine Bank.	8 years with a minimum of 5 years, 3 months.
	Leonard Jon Smith defrauded investors of \$870,000 in the fake British Marine Bank.	7 years
	Kevin Anthony Gaw for promoting illegal horse-race betting schemes and making false and misleading statements to investors.	2 years and 4 months, with a minimum of 8 months.
	Robyn Ann-Carrolle Cochrane for acting as an investment adviser without a licence.	6 months concurrently with her sentence for fraud
Financial advisers who cheated their clients	Investment adviser Kerry John Burke defrauded clients of more than \$5.4 million	10 years, with a minimum of 7 years 6 months.
	Insurance broker John Andrew Hurlock defrauded clients of approximately \$35,000.	3 years with a minimum of 9 months
	Stockbroker's employee Julian Kok Chee Lee dishonestly obtained a financial advantage by deception.	2 years, with a minimum of 12 months
	Stockbroker Sean Anthony Seeto defrauded clients of \$298,000.	3 years, 6 months, with a minimum of 1 year

What they did:	Names and details of crime	Sentence
Dishonest company directors and officers	Company director Andrew Kenneth Nuske obtained \$647,000 by misappropriation, false pretences and forgery	7 years with a minimum of 2 years, 6 months.
	Former Harris Scarfe Ltd Chief Financial Officer Allan Hodgson falsified company accounts.	6 years, with a minimum of 3.
	James Bernard McDonnell misappropriated investors' funds and breached continuous disclosure requirements in the Lateral futures and options trading company.	5 years with a minimum of 3.
	Company director Stephen Mark O'Neill for theft, using false documents, and improperly using his position to gain an advantage.	5 years with a minimum of 3 years 6 months.
	Ian Thomas Campbell Westcott misappropriated Lateral investors' funds.	3 years with a minimum of 2.
	Ian Robert Frost obtained finance of more than \$1.5 million through false invoices and other documentation.	3 years with a minimum of 18 months
	[Deleted text. This text has been edited in accordance with the spent convictions scheme in Part VIIC of the Crimes Act 1914 (Cth).]	[Deleted text. This text has been deleted in accordance with the spent convictions scheme in Part VIIC of the Crimes Act.]
	Company officer Alejandro Aristides Romano issued \$1.5 million in false invoices.	2 years, with a minimum of 1.
	Company officer Anibal Nicholas Romano issued \$1.5 million in false invoices.	20 months, with a minimum of 10 months.
	Dennis Charter, of a failed multi-media company, improperly diverted a cheque for \$402,500.	18 months, with a minimum of 9.
James Robb, director of a retirement village, failed to refund \$766,463 to deceased estates. He gambled much of the money.	16 months with a minimum of 4.	

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Enforcement

Referrals to the DPP

When we conclude a criminal investigation, the briefs of evidence are referred to the DPP.

Months between resourcing investigation and requesting handover

Months	0-3	3-6	6-9	9-12	12+	Total
Number of briefs 2001-02	6	23	8	3	9	49

Briefs concerned 78 potential defendants. The DPP accepted handover of a brief for prosecution once it decided that the evidence was sufficient to support a conviction and warranted prosecution. In many cases charges were laid within three months of handover being accepted by the DPP.

Civil action and compensation

We took 81 civil proceedings resulting in orders against 140 people or companies. Court orders froze \$45 million for investors and creditors, obtained \$65 million in compensation orders, and wound up illegal schemes. We also took proceedings for civil penalties against directors, company officers or others who failed in their duties.

Major matters are listed below.

Respondents	Results	Amount
Allied Financial Pty Ltd, Wharton Partners, and others	Frozen to assist liquidator. Alleged phoenix operation.	\$30 million
Yandal Gold Pty Ltd, Edensor Nominees Pty Ltd, and subsidiaries of Normandy Mining Ltd	Compensation for former shareholders in Great Central Mines. (Stayed pending decision on special leave to appeal to the High Court.)	\$28.5 million
Confidens Investment Trust members	Assets recovered for superannuation fund members.	\$15 million
Rodney Adler and Adler Corporation	Compensation for HIH Insurance.	\$8 million
Australian Investors Forum	Frozen to protect investors.	\$4.5 million
Leslie Reginald Nelson	Compensation ordered for 120 investors unit trusts.	\$3 million
Phoenix Technology Corporation	Compensation ordered over illegal issue of shares.	\$2 million
NRMA, RACV and Insurance Manufacturers Australia	Compensation over alleged misleading conduct.	\$1.5 million

We saved investors from potentially losing at least another \$291 million by stopping investment offers that inadequately disclosed material information and unlawful investment schemes.

Bannings, fines and disciplinary proceedings

To protect the public, we fined or banned 21 people from directing companies through the Courts or administratively, 35 people from offering financial services, and disciplined 10 company auditors and liquidators for misconduct through Company Auditors and Liquidators Disciplinary Board.

20 company directors and officers banned or fined

Name	Period of banning	What they did
Karl Suleman	Permanently	Operated an unregistered managed investment scheme, while unlicensed.
Terry Norman Stephens	Permanently	Unlawfully offered company shares to the public, and misleading information relating to share dealings.
James Hutchings	Permanently (may apply for review after 5 years)	Operated illegal managed investment scheme that took \$14m from investors
Terrence Tindall	Permanently (may apply for review after 5 years)	Operated illegal managed investment scheme that took \$14m from investors
Leslie Reginald Nelson	Permanently (may apply for review after 5 years)	An accountant, misled and deceived around 120 elderly investors.
Craig John McKim	30 years	Acting as a director of Pegasus Leveraged Options Group while already banned for previous criminal offences.
Rodney Adler	20 years	Acted unlawfully in relation to a payment of \$10 million by an HIH subsidiary to Pacific Eagle Equities Ltd. With Adler Corporation, fined \$900,000.

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Enforcement

Name	Period of banning	What they did
Robert Karl Grossman	10 years	Involved in Onkourse Resource Group.
Angela Iris Hill	10 years	Involved in Onkourse Resource Group.
Ray Williams	10 years	Acted unlawfully in relation to a payment of \$10 million by an HIH subsidiary to Pacific Eagle Equities Ltd. Fined \$250,000.
Ashok Kumar Pal	Until 21 Sept 2010	A director whose company advised retiree clients to put money into unauthorised investments.
Jonathon Broster	5 years (private company) and 8 years (public company)	Made improper use of his position as a former executive manager of the Satellite Group. With related company, fined \$200,000.
Gregory Fisher	5 years (private company) and 8 years (public company)	Made improper use of his position as a former director of the Satellite Group.
Robert Graham Holdsworth	5 years	Made false statements regarding clients' insurance cover.
Anthony Wayne Seymour	5 years	Operating an illegal managed investment scheme.
James Malcolm Tonge	5 years	Repeatedly failed to lodge annual returns and reports to liquidators.
Kerry Janette Nixon	Until 21 Sept 2005	A director whose company advised retiree clients to put money into unauthorised investments.
Peter Kenneth Urquhart	3 years	Running an unlawful managed investment scheme.
Thomas Peter Koltai	Until 4 December 2004	Director of 4 companies that failed to return more than 50 cents in the dollar to unsecured creditors.
Dominic Fodera	Fined	Acted unlawfully in relation to a payment of \$10 million by an HIH subsidiary to Pacific Eagle Equities Ltd. Fined \$5,000.

17 people permanently banned from financial services

Name	What they did
Bradley Francis Flynn	Dishonestly applied \$381,000 of client funds for his own use.
Graeme Charles Bailey	Misappropriated \$11,250 of client funds and interfered with an internal investigation.
Desmond John Trindall	Placed the investment funds of some of his clients in unauthorised investments.
Robert William Thorn	Misused client funds of \$38,250, gave false information and abused his position of trust.
Levi Mochkin, undertook never to advise or deal	Alleged stock market manipulation, false trading and market rigging transactions, allegedly not acting honestly, efficiently and fairly.
Kimberley John Clifton, undertook never to advise or deal	Alleged misleading and deceptive conduct, allegedly dealing with investors money contrary to authorisation, and alleged generally improper practices and conduct.
Michael Hok Chung Lam	Misappropriated \$140,000 from clients. Jailed for a minimum of 2 years 6 months. Operating an illegal managed investment scheme.
Wayne Clifford McNamara	Defrauded a client of securities worth \$65,083, and fraudulently converted a cheque of \$10,375.
Craig Mansfield Williams	Misappropriated \$120,000 of clients' money.
Graeme Edward Smith Hall	Deposited \$1.15 million of nine former clients' money into his own private company.
Ashok Kumar Pal, undertook never to advise or deal	Advised retiree clients to invest in unauthorised investments, losing more than \$3 million.
Wang Wei	Operated an account under a false name, forged signatures to cover his own debts.
Heather Christina Munn	Transferred \$115,000 of customer funds into her personal bank account.
Daryl John Maguire, undertook never to advise or deal	Redeemed approximately \$185,000 from a client's investment and put it into bank accounts he controlled or was associated with.
Peter Alexander Struk	Fraudulently misappropriated \$15,000 of a client's money, for his own purposes.
Ivan Alfred Clarke	Promoted an unlawful investment scheme that took \$18.5 million from 460 investors.
Peter Kenneth Urquhart	Operated unregistered managed investment scheme.

To protect the public, another 18 advisers were banned for shorter periods of time.

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Enforcement

10 company auditors and liquidators disciplined for misconduct

Name	Orders made	What they did
Ross Patrick Zagari, auditor	Cancelled	Convicted and jailed on criminal offences
Wilfred Kelvin, liquidator	Cancelled	Conviction for fraud
Kevin Paul Hoiberg, auditor	Cancelled	Undischarged bankrupt
Ian Denton Stephenson, auditor	Cancelled	Previously prohibited from managing corporations
James Stanley Martin, liquidator	Cancelled	Failed to report to creditors and failed to lodge reports with ASIC
Arthur John Forrest liquidator	Suspended for 2 years	Not fit and proper person to act as a liquidator
William Edward Andrew, liquidator	Suspended	Deficiencies in his liquidation of a company.
David Cassidy, liquidator	Reprimanded	Failed to carry out his duties properly
John Edward Star, liquidator	Reprimanded, to resign all appointments and not to act until 1 July 2003	Failed to carry out his duties properly in relation to National Textiles Ltd and other companies
Philip Charles Anderson, auditor	Not to accept new engagements	Failed to apply audit standards and failed to qualify accounts of a company

Another 8 auditors and one liquidator were disciplined for not lodging statutory documentation.

3 financial services licences revoked

Company	Reason
Saxby Bridge Financial Planning Pty Ltd*	See page 37
ABS Securities Pty Ltd*	See page 37
Cardinal Financial Securities Limited	Subsidiary of Harts Australia that breached licence conditions.

*Subject to AAT review

6 insurance brokers deregistered, suspended or subject to conditions

Name	Period of deregistration	What they did
Allied Asia Holdings (Australia) Pty Ltd	Refused to renew registration	Over 15 year period AAH charged and failed to disclose commissions on insurance premiums.
AP Investments (W.A.) Pty Ltd	Refused to renew registration	Failed to lodge audited accounts for 1999-2000.
Drysham Diversities Pty Ltd	Refused to renew	Failed to lodge audited accounts.
Hedley Goodridge Insurance Agencies Pty Ltd	Refused to renew	Failed to lodge annual audited accounts
Blundell & Associates	Suspended	Must rectify client complaint handling procedures.
Savill Hicks	Suspended	Invested funds in unlawful investments.

Some 6 insurance brokers were prosecuted under the Insurance (Agents and Brokers) Act: two were convicted, one matter was withdrawn and three are still before the courts

33 court enforceable undertakings

ASIC accepted 33 enforceable undertakings to obtain more wide ranging remedies, often on behalf of more people than can usually be obtained in court proceedings. Notable examples included AXA, QBE, NRMA/RACV and Insurance Manufacturers Australia, and follow up court orders against Combined Insurance.

Outlook

We have important matters before the courts, involving high profile corporations, company directors and officers, likely to be vigorously contested. We also face challenges in enforcing laws relating to corporate reporting and disclosure.

Our broader objectives are to:

- manage our high profile investigations to achieve timely and successful results
- seek Government and Parliamentary support for more flexible enforcement remedies
- act against misleading and deceptive conduct affecting consumers
- promote public awareness about scams and fraud as part of our consumer education strategy.



Ian Johnston, Executive Director, appointed 2000, previously served in senior roles within ASIC and the financial services industry

Financial services regulation

Overview

In this section:

- overview
- key results
- licensing and business operations
- regulatory operations
- legal and technical
- outlook

146 Financial Services

Regulation staff:

- licensed or registered 477 financial services advisers and product issuers
- inspected 525 financial services businesses and entities, ran 10 targeted reviews to test compliance with legal requirements, and referred 74 entities or individuals for enforcement action for significant or systemic breaches
- assessed and determined 75 applications for relief from Financial Services Reform Act and 504 applications for relief from disclosure, managed investments and related provisions.

“We built a new electronic licensing system so an expected 7,000 organisations can apply online.”

Key results

Issue	Result
Implementing financial services reform	Delivered new online licensing system, issued guidance and consulted widely. Undertook 1,400 hours of staff training.
Solicitors mortgage schemes	Wound up non-compliant schemes, secured 2 jail terms for fraud and reduced the outstanding problems to manageable levels.
Managed investments review	Produced comprehensive submissions to the Review of the Managed Investments Act. Most of ASIC's recommendations were adopted.
Disclosure of past and prospective financial information	Undertook 130 corrective disclosure activities in relation to retail managed fund-raising.

Main activities	This year	Last year	%change
Australian financial services licences issued*	35	n/a	*n/a
Securities licences issued**	235	268	**n/a
Insurance broker registrations issued**	207	224	**n/a
Managed investment scheme inspections	90	109	-17%
Managed investment schemes registered	600	787	-24%
Responsible entity licences issued***	53	71	-25%
Commercial relief applications assessed	579	n/a	n/a

* First able to be issued from 11 March 2002.

** No longer issued after 11 March 2002.

*** A subgroup of AFS licensees after 11 March 2002.

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Financial services regulation

Licensing & business operations

Financial Services Reform (FSR)

The Act, which commenced on 11 March 2002, allows a two year transition period to harmonise licensing, disclosure and conduct requirements for financial services businesses.

New FSR licensing system

We built a new electronic licensing system so an expected 7,000 organisations can apply online. Existing and new businesses must apply for an Australian financial services licence. Our system automatically tailors the application to include only those matters relevant to the applicant's business.

Some businesses, such as custodians, foreign exchange dealers and non-corporate superannuation funds, will be applying for the first time, some will add new lines of business and others will simply re-apply only for their existing lines of business.

Answering FSR questions

To guide the industry, our staff answered more than 7,300 specific questions, updated answers to

nearly 100 most frequently asked questions, and published an AFS Licensing Kit. We also:

- held seminars for more than 4,500 people around Australia,
- spoke at over 200 industry conferences,
- distributed electronic newsletters to 4,000 people, and
- conducted regular seminars for industry every three months.

We expect to receive about 10,000 applications from product issuers and financial advisers for exemptions, modifications or other rulings.

Licensing operations

Implementing the FSR Act was done in addition to our 'business as usual' licensing of securities and futures dealers, responsible entities, issuing broker registrations and registering managed investment schemes. Three insolvencies of insurance intermediaries came to ASIC's notice.

Regulatory operations

Staff tested compliance based on public complaints and other information. We also tested consumer experiences with financial institutions, checked gaps in regulatory coverage, and reviewed disclosure documents.

Solicitors and finance brokers mortgage schemes

In July 2001 we established that the schemes that were required to run out their business had some 6,000 loans totalling \$1.3 billion, of which approximately 50% were in default. The default rates ranged from 80% in Queensland to 15% in Victoria.

By February 2002 we had reduced:

- run-out loans from 6,000 to 376;
- the number of operators from 186 to 32;
- the affected investors from 20,000 to 2,780; and
- the outstanding run-out default loan value to \$105 million.

We instituted criminal and other proceedings against a number of scheme operators. Two people have already been jailed. We have either initiated or intervened in 10 winding up applications with a further 13 applications to be filed and determined within the next few months. We are also preparing further policy guidance and compliance plan assistance for the industry.

High commission advisers

We targeted a series of surveillances of high commission schemes, leading to a number of enforcement actions.

In one case, we revoked the licences of Saxby Bridge Financial Planning

Pty Ltd and its related company, ABS Securities Pty Ltd, and banned a principal and director Mr Jeffrey Joseph Braysich from acting as an investment dealer or adviser for a period of five years. The matter is now before the Administrative Appeals Tribunal.

Tax schemes

Staff conducted a broader examination of mass marketed tax schemes, an area which attracted public and Parliamentary concern.

We reviewed disclosure documents for 13 schemes, inspected 27 advisers and interviewed 301 investors, finding evidence of:

- higher than usual commissions to advisers
- a failure to disclose important financial information
- absence of a reasonable basis for making some of the projections
- clients placed in tax effective schemes without proper advice or the required disclosures

Disclosing commissions

Evidence suggests that consumers may not be sufficiently aware that some advisers receive higher commissions for recommending in-house products associated with their firm than for out-of-house products. We have obtained additional disclosure of those commissions, and have begun a national campaign on this issue across the banking sector.

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Financial services regulation

Managed investment offer documents

We tightened guidelines on forward looking statements to ensure that prospectuses outlined a reasonable basis for forecasts. We issued 19 stop orders for unsatisfactory disclosure, and required corrective disclosure in the form of supplementary and replacement offer documents in 91 documents. In total we obtained corrective disclosure in relation to 130 fundraising activities.

We received 1176 managed investment prospectuses. Of these, 576 were in short form and 535 were in long form.

Surveillance of managed investments

The law creates a single responsible entity to manage and safeguard investors' funds. To ensure that these entities were complying with the law, we undertook surveillances of 156 responsible entities, both through targeted, proactive campaigns and when we received complaints. Serious or systemic breaches of the law and licence conditions were referred for enforcement action.

Legal and technical operations

Review of the Managed Investments Act

We made detailed submissions to the Government's Review of the Managed Investments Act along with supplementary submissions to the Treasury Consultation Paper. The Review adopted most of ASIC's recommendations.

Applications for relief

Staff assessed and determined around 579 applications for exemptions, modifications and other rulings from product issuers, financial advisers and their legal advisers. This includes 75 FSR-specific applications, 432 non FSR-specific relief (with a high concentration in the funds management sector) and 72 superannuation and insurance related applications. ASIC made 4 instruments for exemptions and modifications under Part 29 of the Superannuation Industry Supervision Act and no instruments under Part 15 of the Retirement Savings Accounts Act.

Policy work

The more significant policy work included:

- enabling managed funds to go on investing in futures contracts prior to FSR transition;
- clarifying FSR licensing requirements and limitations for Registered Independent Options Traders;
- updating policy on time shares, on serviced strata schemes and on mortgage investment schemes;
- facilitating rights issues, private placements and unit purchase plans; and
- adjusting transaction confirmation requirements for non-cash payment facilities that are linked to credit facilities and basic deposit products.

Outlook

Parliament has given us a massive task to implement its financial services reforms smoothly. We must raise standards in particular sectors of the industry. We must become more active and more skilled in superannuation and insurance, where consumers are expected to make decisions despite poor understanding of the system.

Our main objectives are to:

- Raise the financial services industry standards to protect consumers through regulatory operations.
- Provide as much assistance as possible to industry to transition to the FSR Act in the most efficient manner.
- Enhance our capacity in superannuation and insurance to increase consumer confidence and participation in these market.



Markets regulation and policy

Overview

In this section:

- overview
- key results
- corporate finance
- financial markets
- policy development
- outlook

109 staff in markets, corporate finance and policy:

- regulated Australia's 5 authorised financial markets.
- regulated corporate finance, covering 913 equity fundraisings, 67 takeovers, financial reporting and market disclosure.
- developed 9 policies, 4 guidance and 5 consultation papers to regulate or guide industry and professionals.

“We lifted the quality of fundraising documents through 77 stop orders and guidance on prospective financial information.”

Key results

Issue	Result
Forecasts in prospectuses	We lifted quality of fundraising documents seeking more than \$291 million in capital through 77 stop orders.
Auditing practices	To increase confidence in financial reporting, we championed genuine auditor independence.
Linking Australian and Singaporean markets	Successful regulatory negotiations enabled investors to trade in both markets with a comparable degree of protection.
Financial services reform	Developed and issued 12 policy and guidance papers about administering new licensing and product disclosure requirements.

Main activities	This year	Last year	%change
Authorised financial markets regulated	5	5	nil
Equity prospectuses lodged	913	921	-1%
Equity prospectus stop orders issued	77	81	-5%
Fundraising relief applications	235	306	-23%
Takeovers	67	81	-5%
Takeover relief applications	606	699	-13%
New regulatory policies issued	9	4	225%
Financial reporting relief applications	407	627	-35%

Corporate finance

Audit and financial reporting

ASIC's Chairman spoke out on auditor independence, discussing rotation of audit partners and audit firms, reinforcing substance over form in financial reporting and calling for Australia to influence and adopt international accounting standards.

We reviewed financial reports of 80 listed companies to check compliance with the new accounting standard that replaced "profit and loss" statements with "Statements of Financial Performance". In a relatively small number of cases, we found standards had been interpreted in unusual ways that in some cases were hard to justify. ASIC pursued those matters with the companies concerned.

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Markets regulation and policy

Continuous disclosure to the market

We also took action, in cooperation with the ASX, to obtain additional disclosure from listed companies, including these more prominent examples.

Company	Action we took
Data and Commerce Ltd did not disclose a shortfall in forecast consolidated revenue.	Prohibited from raising capital by short form prospectus, for seven months.
Telezon Ltd did not disclose current cash holdings, the existence and utilisation of certain financial facilities and taxation liabilities.	Shares suspended.
CBD Online Ltd did not properly inform the market about expected losses.	Additional information released to market.
CityView Corporation Ltd: ASIC found an announcement about recent acquisitions in the UK misleading.	Additional information released to market.
Uecomm Ltd: ASIC considered the market was not properly informed about revenue projections and profitability	Additional information released to market.
Australon Ltd had not kept the market fully informed about its revenue projections and fundraising activities.	Additional information released to market.
Stericorp Ltd did not update the market with forecast projections about the 2002, 2003 and 2004 financial years	Additional information released to market.

Facilitating new corporate structures

Brambles Ltd became a dual listed structure. To assist, we granted special relief from the takeovers law and accounting requirements so that the two companies could report as a single entity. For BHP-Billiton, we granted 'fine tuning' relief from accounting standards.

James Hardie Ltd transferred its domicile to the Netherlands, thus becoming a company whose underlying shares no longer traded on the Australian market. ASIC extensively reviewed the scheme of arrangement that brought about this change. We also modified the law so that Australian investors could trade and enjoy the same rights as if they were shareholders.

Prospectuses and forecasts

Of 913 equity prospectuses, compared with 921 last year, floats seeking listing declined, although companies seeking smaller amounts of additional capital increased.

We inspected 237 prospectuses, and dealt with inadequate disclosure primarily through issuing 77 interim and final stop orders on 67 prospectuses that sought more than \$291 million. We found too many prospectuses contained forward looking statements without showing any reasonable basis, and we tightened our guidelines on projections.

Takeovers

There were 67 takeovers, a 17% drop in market and off-market bids from last year. In takeover disputes, we caused companies to correct market statements to ensure the market stays informed. Otherwise,

we encouraged parties to go quickly to the Panel, where we made submissions.

We successfully applied to the Corporations and Securities Panel in two matters concerning:

- Brisbane Broncos Ltd, where the Panel declared unacceptable the use of certain conditions attached to that bid.
- Ausdoc Ltd, where the size of a break fee payable to an undisclosed bidder may have impeded competition for control and operated unfairly for Ausdoc shareholders. The parties undertook not to pay or seek the break fee if the bidder could not ultimately compulsorily acquire all the shares.

Financial markets

Australia linked with Singapore

Following advice from ASIC, the Minister approved ASX rule changes in December that establish a market linkage service to support cross border trading between the two exchanges. The linkage involves an electronic co-trading and clearing arrangement so brokers can trade selected securities listed in the other exchange.

We invited public submissions and negotiated detailed arrangements to ensure that Australian investors and brokers could expect similar levels of protection, and fair and orderly markets. This change also required negotiations between ASIC and the Monetary Authority of Singapore to ensure that information necessary to enforce market rules could be obtained and exchanged.

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Markets regulation and policy

Direct access permitted to offshore trading

We also advised the Minister on applications to allow the European EUREX derivatives market, Hong Kong Futures Exchange and London Metal Exchange to make their screens available in Australia.

Institutions and sophisticated investors may now enjoy direct access at lower cost to these important markets, while retaining similar protection from possible misconduct by brokers who place their orders on these markets.

Financial services reform and Australian markets

All financial market operators in Australia will now require a licence, issued by the Minister on advice from ASIC. We must report to the Minister on how each operator meets the conditions of their licence.

The Reserve Bank of Australia also plays a regulatory role by checking that markets and clearing houses operate in a manner that maintains the stability of the financial system. To ensure effective cooperation, we negotiated and signed a Memorandum of Understanding with the Bank.

Sydney Futures Exchange

The Sydney Futures Exchange, following its demutualisation and corporate restructure, received a new licence to operate its markets, effective in January.

Enron and Australian electricity markets

The Enron collapse in the United States, which has damaged confidence among US investors, also affected Australia.

Through a subsidiary, Enron was a large and active trader in our domestic electricity markets. As soon as the US situation came to our attention, we inspected Enron Australia's books and records, and concluded that the company had to be removed from the market, because it had relied on its US parent for financial guarantees to join that market. Enron Australia's removal was achieved in an orderly manner.

ASX share trading and compliance

ASX shares trade on its own market. To avoid conflicts of interest, ASIC directly monitored daily trading and compliance by ASX with its listing rules in much the same way as ASX oversees other listed entities. No trading halts were required this year.

ASX trading surveillance

ASIC and ASX concluded a joint campaign to check if compliance systems, supervision and training, and record keeping of ASX brokers would effectively detect and deter manipulation and other abusive practices. A number of brokers agreed to tighten internal procedures, and the ASX issued guidance to all organisations.

Policy development

Financial services reform

Policy staff worked under great pressure to complete essential policy, guidance and other information on how ASIC will administer the major changes introduced under the Financial Services Reform Act.

Key documents covered training financial product advisers, organisational capacities, financial resource requirements, dispute resolution procedures, and product disclosure statements. We also issued policy covering new laws on operating financial markets. Transitional issues also presented complex problems. We issued transitional guidance and more than 100 class orders.

Prospective financial information

External studies show that prospective financial information is often unreliable. To raise the quality of forecasts in prospectuses, we issued a draft policy on prospective financial information. The draft will assist companies issuing prospectuses and guide staff when assessing fundraising documents, until a final statement is issued, probably before the end of 2002.

Outlook

Recent corporate collapses and recent shortcomings in disclosure have shown that many directors have not yet embraced the culture of continuous disclosure. These events have reduced market and public confidence in financial reporting, audit, corporate governance, and disclosure.

Technical issues concerning financial services reform are expected to arise during the transition period, requiring additional policy and guidance.

Our broader objectives are to:

- make a greater impact, especially on the directors and auditors of Australia's listed public companies
- maintain the relevance and credibility of Australia's markets in a global context, and
- take on additional roles in regulating and reporting on how market operators have fulfilled their licence obligations.



Peter Kell, Executive Director, also NSW Regional Commissioner, and Delia Rickard, Deputy Executive Director appointed 2001, previously co-directors of ASIC's Office of Consumer Protection.

Consumer Protection

Overview

18 Consumer Protection staff:

- identified compliance issues affecting consumers and worked with enforcement and regulatory staff
- carried out consumer policy and education projects
- researched and analysed consumer issues and risks.

Key results

Issue	Result
International cold calling investment scam	Published research and recommendations to combat these scams that cheated Australians of an estimated \$400 million.
Reporting past performance	Halted potentially misleading advertisements about performance of investment funds.
Insurance claims	For at least 600 Ansett ticket holders, ensured that valid travel insurance claims would be honoured.
Consumer financial literacy	Launched consumer education strategy, the first from an Australian financial regulator.

In this section:

- overview
- key results
- compliance and campaigns
- policy and education
- research and analysis
- outlook
- Consumer Advisory Panel Report

“We launched our three year consumer education strategy, the first from an Australian financial regulator.”

Compliance and campaigns

Reporting past performance

ASIC has been monitoring the use of past performance in marketing investments, and is developing guidelines in consultation with industry and consumers.

AXA (National Mutual Funds Management Ltd), advertised past-performance figures that we considered potentially misleading because its print and TV advertisements did not adequately disclose that the past-performance figures were hypothetical.

To fix this problem, the company undertook that all future advertisements would:

- clearly disclose how past-performance figures were calculated, and
- contain prominent qualifiers, including that past performance does not necessarily indicate future performance.

AXA also wrote to all affected unitholders, offering to address any concerns.

Travel insurance

In cooperation with enforcement staff, we had two insurance companies agree to pay all valid claims for cancelled Ansett tickets.

Both QBE Insurance (Australia) Limited and American Home Assurance had refused claims for cancelled Ansett tickets made under policies issued between 10 and 14 September 2001. They argued that on 10 September the collapse of Ansett was a foreseeable event, and therefore they would not cover cancelled Ansett tickets. Many customers were not told of this decision. Ansett tickets were still being issued until 14 September. Between 10 and 14 September 2001, the companies sold around 7,000 policies to domestic air travellers, including many Ansett customers.

Policy and education

Educating investors and consumers

We launched our three year consumer education strategy, the first from an Australian financial regulator, to promote financial literacy. Implementation began through:

- publishing new material for consumers on our **FIDO** website, where visits doubled to 488,000
- producing *You can complain*, on solving problems with financial products and services in English, Chinese, Vietnamese and Arabic, and
- revising and distributing 100,000 copies of *Don't Kiss Your Money Goodbye*, on how to find a good adviser, with the Financial Planning Association of Australia.

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Consumer Protection

New electronic funds transfer code

Our new Electronic Funds Transfer Code of Conduct commenced on 1 April 2002. More than 200 financial services organisations have adopted it, more than under the old Code. Our straightforward *Guide to the EFT Code* for consumers explained its expanded coverage, new rules and additional safeguards.

Good transaction fee disclosure

Among changes adopted under *ASIC's guide to good transaction fee disclosure for bank, building society and credit union deposit and payment products*, deposit taking institutions have begun to:

- summarise fee information on statements,
- warn ATM users if a "foreign ATM" fee applies,
- warn ATM, phone or internet users if they are about to incur a fee by overdrawing an account,
- display a prominent link to fees for internet customers.

Issued in June 2002, the guide sets out current disclosure requirements and ASIC's views on good disclosure.

'Book up' – some consumer problems

We published a study into 'book up', or informal loans, advanced by traders so consumers can buy the trader's goods or services. Used mainly by indigenous Australians, book up proved more widespread than we suspected.

While the system does fill a genuine need, because users cannot easily obtain loans from financial institutions, it has exposed people to exploitation and the risk of fraud. After releasing the report, we co-hosted a successful workshop on Indigenous Consumer Issues with ATSIAC and ACCC and are acting on its recommendations.

Consumer complaint resolution schemes

We approved the Australian Banking Industry Ombudsman scheme, covering the whole banking industry. During the approval process, we negotiated reforms to the governance of the scheme that strengthened its independence.

We are currently processing other applications to approve financial services complaint resolution schemes.

Consumer Advisory Panel

See page 50 for the Panel's report and page 22 for its role.

Research and analysis

International cold calling investment scams

In June we released *International Cold Calling Investment Scams*, with research and recommendations to combat these scams. More than 82 unlicensed overseas telemarketing firms cheated Australian investors of an estimated \$400 million between 1999-2001. Of 7,300 people who contacted ASIC directly, some 80% lost money.

International investment scams are becoming more sophisticated, both in cheating consumers and exploiting the difficulties in cross-border law enforcement. See page 53 for other ASIC action against cold calling.

Monitoring codes of practice

ASIC reported that compliance remained high with the payments system codes of practice and the EFT Code of Conduct during 2000-01. Complaints about unauthorised EFT transactions increased. We warned consumers about the importance of safeguarding their PINs.

Outlook

Our main objectives are to:

- increase our role in research and risk analysis, strengthening our ability to identify and deal with key consumer risks
- increase our educational activities, with a special emphasis on alerting consumers to financial fraud and boosting financial literacy, and
- as a result of the Financial Services Reform Act, start work against misleading or deceptive conduct relating to loans and credit cards.

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Consumer Protection

Consumer Advisory Panel report

This is my last report as Chair, having served for 3 years. Membership will change significantly in 2002-03 so that a range of consumer organisations can participate.

The Panel contributed to important outcomes, including a financial information directory for consumers, a report on the book up system, and multilingual publications on how to complain. We have influenced changes to direct debits, disclosure of bank fees and debate on charges levied on managed investments.

The Panel met four times, and completed projects including:

- a directory of consumer organisations involved in financial services;
- a literature review on 'What is effective consumer education';
- multilingual translations of ASIC's new *You can complain* brochure; and
- research into 'health warnings' in prospectuses.

A research project on finance brokers is still in progress.

I thank all members for contributing.

Barbara Cail AM
Chairman, Consumer Advisory Panel



Left to right: Iain Ross, Catherine Wolthuizen, Barbara Cail AM (Chair), Jenni Mack, Basil La Brooy, David Jackson, Carolyn Bond, Ingrid Gubbay.

Members

Barbara Cail AM (Chair)

Carolyn Bond,
Consumer Credit Legal Service
Victoria

Ingrid Gubbay,
NSW Legal Aid Commission

David Jackson,
Australian Shareholders' Association

Basil La Brooy,
National Information Centre
on Retirement Investments

Jenni Mack,
individual member

Virginia Noonan,
Financial counsellor
(resigned in March 2002)

Gordon Renouf,
individual member

Iain Ross,
Council for the Ageing

Catherine Wolthuizen,
Australian Consumers Association



Greg Tanzer, Executive Director, appointed 2000, also Queensland Regional Commissioner, experienced in corporate law and regulation.

International and regional coordination

Overview

11 International and regional coordination staff:

- managed 304 international requests for assistance
- led ASIC's contribution to international regulation
- coordinated ASIC's 8 Regional Commissioners to maintain service levels.

In this section:

- overview
- key results
- international law enforcement
- international regulation
- regional coordination
- outlook

Key results

Issue	Result
International cold calling investment scams	Took enforcement action and prompted action by overseas authorities.
Global law enforcement	Greater cooperation from jurisdictions previously less able to assist.
Globalisation	ASIC's voice in setting global standards strengthened by election as Chairman of IOSCO's Technical Committee.

“Assistance has markedly improved from jurisdictions not previously able to assist us rapidly with our investigations.”

Main activities	This year	Last year	%change
ASIC requested overseas assistance	95	84	11%
Other regulators requested our assistance	209	210	nil
Visits to ASIC from foreign regulators	42	53	-21%

International law enforcement

Some 63 out of 95 requests to overseas authorities concerned investigations, and we received 52 investigative requests from them. International assistance has proved vital for investigations into HIH Insurance, One.Tel and other matters not yet made public.

Assistance has markedly improved from jurisdictions not previously able to assist us rapidly with our investigations, notably Switzerland, the Bahamas, the Channel Islands.

International cold calling scams

We raised this issue in international meetings and urged overseas authorities to close down these operations. In 2001, Thai, Singaporean, Philippine, Indonesian and Hong Kong authorities shut offices, froze accounts and arrested some individuals. Several regulators and the International Organisation of Securities Commissions (IOSCO) issued media releases and public warnings, following ASIC's initiative.

ASIC:

- intercepted and convicted Paul Richard Bell (alias Dr Richard King), and brought injunctions against Garry Zinn who represented a company being promoted by cold callers
- helped Royal Thai Police gather evidence from Australian victims to assist prosecutions

- published a blacklist on our FIDO website of known cold calling organisations, visited 32,000 times
- regularly warned investors through radio, TV and 18 media releases.

Dealing with overseas-based scams remained difficult because ASIC can act only in Australian courts.

International regulation

ASIC participated in the Executive and Technical Committees of IOSCO, where 150 member organisations represented securities regulators and self regulatory organisations. IOSCO elected ASIC Chairman David Knott as Chairman of its Technical Committee in 2002.

Following September 11, IOSCO announced a multi-lateral Memorandum of Understanding (MOU) to cooperate and share information. ASIC contributed to the MOU and its procedures.

We signed the first international MOU with the UK Financial Services Authority. In addition to enforcement, this MOU heralded cooperation in financial regulation. We negotiated MOUs with Indonesia's new futures regulator, CoFTRA, the SEC of Sri Lanka and revised our MOU with the Hong Kong Securities and Futures Commission.

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International and regional coordination

ASIC sent senior staff to speak at five seminars in the Asia Pacific to assist regulators in emerging markets. We hosted visits from Bangladesh, the Philippines, China, the UK, South Africa, Japan, Indonesia, and the World Bank.

Regional coordination

Service levels were maintained in each State and Territory. Regional Liaison Committees representing the business community met about four times each year, received information on our performance and service, and offered ideas.

ASIC's Regional Commissioners all played national roles as part of our new structure, see page 71. They represented the organisation and reported on ASIC activities and performance to State and Territory Ministers.



Standing left to right: Simon Dwyer (Tas), Mark Drysdale (Vic), Michael Gething (WA), Anthony Beven (NT), Peter Kell (NSW); seated: Ron Ladlay (ACT), Karen Axford (SA).

Outlook

The key issues ahead are to:

- coordinate increasing requests for international investigative assistance and legal advice
- consolidate our work against cold calling and take coordinated action, especially within the Asia-Pacific region
- contribute to international work on audit, financial disclosure, clearing and settlement, risk assessment of managed fund operators, and simplified prospectuses for collective investment schemes, and
- maintain service levels in all States and Territories.



Mark Drysdale, Executive Director, appointed 2000, and Victorian Regional Commissioner, with experience in corporate management and regulation.

Public and commercial services

Overview

332 Public and commercial services staff:

- maintained Australia's public database of 1.2 million companies
- assessed 7,827 complaints from the public about misconduct
- answered 710,000 telephone enquiries
- developed new electronic services for the public and people we regulate
- sold high volume document imaging services on commercial terms.

Key results

Issue	Result
Company searches	A record 6.1 million searches made possible through our website.
Rising public complaints about corporate misconduct	Resolved more than 50% of public complaints, up from 37% last year, through personal contact, warning letters and visits, and information.
Electronic services	New financial services licensing, insolvency reporting and risk scoring systems completed.

Main activities	This year	Last year	%change
Total companies	1,251,237	1,224,207	2%
New companies incorporated	90,175	76,103	18%
Revenue collected for the Government	\$379 million	\$363 million	4%
% public availability of our databases	99.9%	99.9%	nil
Free internet searches	6,135,856	4,626,700	32%
Online paid searches	2,891,549	2,780,169	4%
Over the counter searches	83,937	102,700	-18%
Company data lodged on time	93%	93%	nil
Public complaints about misconduct	7,827	6946	13%
Telephone inquiries	710,000	765,000	-7%

“We reduced the average time taken to make information from company annual returns publicly available.”

Company database

The number of companies registered in Australia increased 2.2 per cent to 1,251,237, below past rates of growth in the 1990s, despite the number of new companies increasing by 18%. Our electronic company registration now accounts for 71% of new companies formed.

Free internet searches

People conducted a record 6.1 million free internet searches of company names, numbers and document lists, up 32%, the most popular service offered through ASIC's website. Some 4,800 people use Company Alert to monitor 28,600 companies, up from 23,800. This free overnight email service notifies any changes to company details.

People made 141,000 searches of licensed and banned advisers, up 38%.

Paid company searches

The total number of paid searches rose 3% to almost 3 million, with 97% of full company searches occurring online, the highest number ever. Only 3% of searches were conducted over the counter in our Service Centres.

Revenue collection more efficient

Our staff collected fees on behalf of the Commonwealth, see page 113. We strengthened our debt recovery processes to improve our receivables/revenue ratio of from 6.4% to 4.5%.

Processing improvements

We reduced the average time taken to make information from company annual returns publicly available.

We delivered this improved level of service with 16 fewer full time equivalent staff dedicated to this work, 8% less than last year.

Data lodgement

We launched a new compliance program to enforce lodgement of public company financial accounts.

More companies are updating and lodging data with us electronically, which helps reduce errors on our database. 755,394 or 66% of all annual returns were lodged electronically, up 3%. Companies electronically lodged 390,764 critical change documents or 56% of changes, a 8% increase over last year.

Some 5,800 agents and officers of small companies now deal directly over the internet to change their data and to lodge and pay for their annual return, up from 4400 last year.

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Public and commercial services

Company information on time

About 93% of companies lodged their information with us on time, the same as last year.

Our compliance program to enforce lodgement of company annual returns resulted in 1,156 successful convictions, up 36%.

Complaints and reports of misconduct

Staff analysed and assessed:

- 7,154 complaints from the public about breaches of the law, up 13%, and
- 4,070 reports from company liquidators, receivers, administrators and auditors, up 5%.

Most complaints came from company external administrators, then from investors or shareholders.

The most common complaints concerned company officers failing to assist external administrators and acting fraudulently or negligently.

More help for complainants

We resolved more than 50% of public complaints, up from 37% last year, through

- 2,600 people assisted to negotiate a resolution,
- 600 warning letters,
- 160 visits or contacts with alleged offenders.

These steps, and 62 minor prosecutions over alleged breaches in straightforward matters, encouraged compliance and resolved problems, particularly among small to medium sized entities.

Complaint statistics

	2001/02	2000/01
Public Complaints		
Public complaints	7827	6946
Outside ASIC jurisdiction	673	604
Net public complaints	7154	6342
Action taken on public complaints		
Resolved by:		
information provided/negotiation	52%	37%
surveillance	5%	9%
investigation	2%	3%
Analysed, assessed and recorded	41%	51%
Statutory reports from external administrators		
Total reports received	4070	3866
No offences reported	128	1091*
Net statutory reports	3942	2775
Action taken on statutory reports		
Resolved by information provided/negotiation	6%	4%
Surveillance	0.1%	0.6%
Investigation	0.3%	1.2%
Analysed, assessed and recorded	93%	94%

* Probably overstated as a result of inconsistent data.

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Public and commercial services

Telephone enquiry services

ASIC's Client Contact Centre handled more than 710,000 calls from the public about:

- routine company housekeeping matters and company searches (about 80%)
- our regulatory and enforcement activities (about 20%).

Routine company administration calls fell again this year, probably reflecting greater use of online facilities and speedier processing of documents and cheques.

However, Infoline, which handled regulatory and enforcement matters, answered 161,000 calls, a 30% increase. Infoline staff helped 94% of callers on the spot. Where another staff member had to ring the caller back, we averaged 76% of call backs within 24 hours, down from 81%.

Electronic services

Online Australian Financial Services licences

The new system, based on key questions, pre-fills data wherever possible, letting licence applicants:

- review answers
- save and print at any stage
- produce tailored declarations and certifications, and
- review a checklist of proof and evidences.

Online insolvency reporting

Liquidators, receivers and administrators can now lodge their documents electronically through our website. Because this data arrives in a structured, consistent and timely manner, we can act on it more quickly and assist government agencies and those interested in corporate insolvencies.

Assessing risks electronically

An automated risk assessment system automatically collects data from our various public and confidential databases to allow staff to assess the seriousness of complaints and statutory reports.

Unclaimed monies

We have improved the accessibility of unclaimed monies for consumers by building a search and retrieval facility on ASIC's website to be launched next year.

Commercial services

Our commercial activities complied with competitive neutrality principles. Within that framework, we specialised in:

- high volume scanning services for organisations that wish to "back capture" data
- document management services in litigation and public inquiries.

Customers included AUSTRAC and Commonwealth Royal Commissions.

Outlook

The Government's CLERP7 law reforms will see companies lodge notices with ASIC only when details change. Companies will no longer be required to lodge a company annual return. This will require major system changes. We must also meet the demand for extended electronic and internet services. In receiving complaints from the public about breaches of the law, we must strengthen our ability to detect and act on emerging issues and risks.

Our objectives are to:

- implement company reporting proposals, if enacted
- expand analysis and reporting about public complaints
- extend our electronic interface, and improve maintenance of Australia's corporate database
- upgrade communications technology, and
- streamline back-office processes.



Carlos Iglesias, Executive Director, appointed 2001, previously ASIC Director, Information Technology and Knowledge Management.

Infrastructure

Overview

295 Infrastructure staff delivered services covering:

- information technology and knowledge management
- human resources
- finance
- business management.

Key results

Issue	Result
ASIC funding	Government agreed to \$90.8 million extra funding over next four years.
Staff development	Launched our first national directory of programs, and doubled our investment in staff development for 2002-03.
Sharing information	Prepared new IT Strategic Plan, established Knowledge Management Steering Committee and hired a National Information Manager.

“Knowledge Management is a key priority and action is already well underway.”

In this section:

- overview
- key results
- information technology and knowledge management
- human resources
- finance
- business management
- outlook

Information technology and knowledge management

IT and KM Strategic Plan

Our new three year IT Strategic Plan focuses on knowledge management, development of internal workflow systems and continued development of e-business systems. Knowledge Management is the key priority, under a steering committee comprising Executive Directors.

The strategy and plan has been developed, a National Information Manager recruited, and action is already well underway.

New network operating system

During the year we completed a major IT infrastructure upgrade, with minimal disruption and resulting in efficiencies for staff and lower IT support costs. The obsolete Banyan Vines network was replaced by Windows 2000. All desktop computers, file servers and printers were also replaced. Windows 95 was upgraded to Windows 2000 and Lotus Notes was upgraded to the latest version.

Key new applications

User Group	What the application delivered
Financial services	On-line licensing system to support the FSR Act
Enforcement	A system to support the management of Enforcement matters.
Complaints	Major changes to the Complaints Management System, including receiving complaints on-line and automated risk scoring.
Public affairs	Conversion of websites to in-house data management and publishing, resulting in efficiencies and lower costs.

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Infrastructure

IT leasing and asset replacement

We entered a leasing agreement for all our future IT equipment, to help us predict and manage costs and timing of asset replacement. Using the agreement, we replaced ASIC's mainframe, video conferencing equipment, PCs, printers and a variety of file servers.

IT outsourcing

The Commission approved a revised outsourcing strategy based on a selective sourcing model. Work has commenced on a Request for Proposal to test the market, and the process will be finalised next financial year.

Human resources

Staff development

As a major initiative, the Commission approved a doubling of funds for staff development. We delivered a new national directory of our development programs for leadership, core business and general skills.

As part of our leadership development strategy, we finalised the accredited Leadership Development Program delivered by Mt Eliza Business School. Some 50 managers are enrolled, and successful completion leads to an accredited MBA (Executive) qualification.

Attracting and retaining staff

Under ASIC's new national structure, we refined the recruitment, induction and exit interview processes so that the whole organisation follows a consistent process to select the right staff first time. HR staff participated fully in all selection processes. We also introduced an online induction package on our intranet that is completed by all staff on starting with ASIC.

Employee information

Upgraded management reporting enabled ASIC to identify and monitor workforce trends more promptly. Using our online Employee Self Service system, we simplified approval processes for supervisors and made the system easier for staff to use. We also implemented a new human resources intranet site which has been widely used.

Industrial participation

New Australian Workplace Agreements were negotiated with approximately 350 staff, and all have been approved by the Office of the Employment Advocate and processed by payroll.

Performance management

All staff participated in our performance management process which rewards high performing staff and helps manage underperformance.

Finance

Output pricing and extra funding

ASIC conducted an Output Pricing Review with the Department of Finance and Administration, resulting in an additional appropriation of \$90.8m over four years to implement the Financial Services Reform Act and boost ASIC's enforcement capability.

Unclaimed monies

To answer public queries and process claims more quickly, we built a new unclaimed monies database, consolidating three old databases under the Life Insurance, Banking and Corporations Acts. We also

- upgraded the system for institutions to lodge their data electronically, and
- contributed to a project to enable the public to search our database online.

New structure

After ASIC reorganised itself into seven national directorates, finance staff redesigned internal management and budget reports and substantially changed financial delegations.

Business management

Media relations

To raise awareness of ASIC's enforcement and regulatory results, the Chairman played a stronger part as ASIC's chief spokesperson, thus lifting our profile and building confidence in our law enforcement role. We issued 472 media releases, of which more than 90% were published, and answered thousands of media and public inquiries.

Internet and corporate publishing

Visits to our consumer website, FIDO, doubled to 488,000, and our main website rose 43% to 3.3 million visits. We significantly increased our two electronic newsletters:

	FIDO News	Financial Services Reform
2001-02	5,500	4,000
2000-01	855	1700

For the third year in a row, the Annual Report received a Gold Award from Australasian Reporting Awards Inc. Our hard copy newsletter, ASIC News, was distributed monthly to about 6000 readers, and we contributed regular articles to consumer, investor and professional magazines.

Infrastructure

Tighter security to protect staff

A special risk assessment was undertaken following the US 11 September terrorist attacks.

Tighter security measures included:

- restricting public access to premises
- improving mail scanning equipment
- training all mail staff, and
- using security personnel in larger offices.

Environment: energy use and recycling

All government agencies must achieve energy savings of 25% by 2003, compared with 1992-93.

We have made significant reductions and expect to reach our target:

Year	MJ per person
2001-02	10,431
1999-2000	14,285
2003 target	10,000

Our offices also recycled waste paper. ASIC's operations have no implications for ecologically sustainable development.

Rationalising property, more efficient services

We reduced our property portfolio, and increased space utilisation per person by 6%, despite office refits to better accommodate the new national structure. In office services, our new national structure helped us cut costs for office services by 10% by reducing duplication and applying best practice.

Outlook

ASIC requires a framework, systems and culture of sharing information. We also must develop the next generation of ASIC leaders and senior managers. Finally, we must use our additional funding wisely and increase internal efficiencies and accountability for costs.

Our key objectives are to:

- implement Knowledge Management processes and technologies
- develop IT systems for corporate law reforms, if enacted
- increase staff development, and develop succession and career planning
- conclude service level agreements with operational directorates and give them greater control over their infrastructure costs, and
- accommodate the additional staff joining ASIC over the next four years within existing space.

Our Staff

In this section:

- staff and basis of employment
- work environment
- senior management
- outlook

“To develop the next generation of ASIC leaders is one of the key needs of the organisation.”

Staff and basis of employment

We employed 1,284 full time equivalent staff over the year, comprising:

- investigators, lawyers, accountants, and analysts
- information processing and customer service staff
- infrastructure staff, and information technology, human resources, financial, and communication specialists.

Staff remuneration

Most staff received remuneration under a certified agreement, and 398 senior staff under individual Australian Workplace Agreements. ASIC contributed to superannuation through Commonwealth Government schemes, State Government schemes for staff who transferred to ASIC in 1991, and private sector schemes for consultants or contractors. See also the financial statements on page 97.

Ongoing and fixed term staff

Basis of employment	No. of staff
Public Service Act, ongoing	976
Public Service Act, temporary, most often for peak company annual return processing	195
ASIC Act consultants, for essential specialist services including investigatory, legal, corporate regulatory and accounting functions	47
Contractors, mainly in information technology	63
Commissioners	3
Total (average FTE over the year)	1284

The percentage of contract and non-ongoing staff remained steady at 26%. This helped us meet seasonal peak workloads in document processing, and also reflected market-based remuneration and employment packages.

Work environment

Staff development and career planning

To develop the next generation of ASIC leaders is one of the key needs of the organisation. We are aiming to create an environment that encourages sharing knowledge and retention of our corporate expertise.

Through Mt Eliza Business School, we have 50 managers currently enrolled in a customised leadership program. Successful completion will result in a fully accredited MBA (Executive) qualification.

To increase training and skills, the Commission doubled the investment in staff development for 2002-03. We are developing succession and career planning for ASIC through capability assessments.

To assist managers and their staff, we prepared and published a national directory of staff development programs.

Performance management

All staff participated in a formal performance management process that assessed performance as exceptional, highly effective, effective, not yet effective or unsatisfactory. Based on this assessment, staff and managers completed development planners to meet agreed development needs in the coming year.

Workplace diversity and equal opportunity

We are an equal opportunity employer. At 30 June 2001, women made up 56% of our workforce. Two Commissioners and one Regional Commissioner were women, and women made up 38% of our executives and senior executives.

We also participated in the Commonwealth strategy to ensure access to recruitment, training and grievance procedures for people with disabilities, see page 76.

Occupational health and safety (OHS)

To make sure that we were maintaining a safe workplace, we completed an external audit of our OHS policies and practices.

Our staff work in well-maintained offices and buildings, creating fewer health and safety risks than in industrial operations. Rehabilitation case managers helped ensure injured staff returned to work early. Our OHS practices were externally audited as part of a regular review, leading to recommendations now being implemented, for example updating our OHS policy and our OHS agreement with the union. No notifiable accidents or dangerous occurrences arose, and we received no directions or notices under OHS legislation covering Commonwealth employment.

Our Staff

Industrial relations

We met regularly with staff and union representatives through our National Consultative Council, which is a feature of the Certified Agreement negotiated last year. We also dealt with union and staff representatives on individual matters. We had no significant national industrial issues or disputes.

Location and profile of staff

As full time equivalents averaged over the year, we employed 543 staff in Victoria, 450 in New South Wales, 114 in Queensland, 84 in Western Australia, 46 in South Australia, 23 in the Australian Capital Territory, 16 in Tasmania and 8 in the Northern Territory. Major offices are located in State and Territory capitals and Traralgon in Victoria. Small service centres are located in Geelong, Gold Coast, Townsville and Newcastle.

Staff (average full time equivalents)	No*	%
Operational and support (ASIC 1 - 4)	766	60%
Senior operational staff (EL1 and EL2)	369	29%
Senior Executive Service	31	2%
Others (contractors, agency staff, consultants)	115	9%
Commissioners	3	n.c.
Total	1284	100

* Average full time equivalents

Senior management

Commissioners, Executive Directors and Regional Commissioners

Our Commissioners are full time executives, see pages 16 and 18. Executive Directors lead seven national directorates, see directorate chapters of this report.

Regional Commissioners, reporting to Commissioners, undertook national roles and represented ASIC in each State and Territory, see below. They are qualified in law or accounting or have extensive regulatory experience.

General Counsel and Chief Accountant

General Counsel is Brendan Byrne, previously counsel for our Regulatory Policy Branch. Ian Mackintosh was Chief Accountant until mid-June 2002, when he left to join the World Bank in Washington.

Outlook

The key staffing need that we plan to deal with over the next three years is to increase the skills and training of our staff to deal with the diverse range of financial markets and services we regulate. We will also develop succession plans and develop the next generation of leaders and managers.

We will also need to harness staff and management support to share information effectively right across the organisation, a task that will underpin our knowledge management strategy.

Regional Commissioner	State/Territory	National role	Term
Karen Axford	South Australia	Insolvency Adviser	February 2004
Anthony Beven	Northern Territory	Consumer Protection Adviser	September 2002
Mark Drysdale	Victoria	Executive Director	December 2004
Simon Dwyer	Tasmania	Enforcement Adviser	October 2003
Michael Gething	Western Australia	Markets and Policy Adviser	June 2004
Peter Kell	New South Wales	Executive Director	July 2004
Ron Ladlay	Australian Capital Territory	Enforcement Adviser	March 2003
Greg Tanzer	Queensland	Executive Director	March 2005

ASIC Audit Committee and audit services

The ASIC Audit Committee assisted the Commissioners with financial reporting and overseeing of the effectiveness and integrity of internal controls and ASIC's audit processes.

The Committee examined ASIC's 2000-01 financial statements, issues concerning the 2001-02 financial statements, and internal and external audit matters, risk assessment, and fraud control planning.

Internal audits conducted during the year included reviews of: IT Security Arrangements, Corporate Card Compliance, Electronic Company Registrations System, Application Software Change Management, Security Deposits of Liquidators, FSR IT Infrastructure Implementation, Privacy & FOI Compliance, Fixed Asset Register Integrity, Accounts Payable, Payroll Processing, Contract

Administration, Corporations Law Revenue Collection & Debt Management, and Property Accounts.

Of the Audit Committee's five members, three (including the Chairman and Deputy Chairman) are suitably qualified persons appointed from outside ASIC. Chairman Merran Kelsall, BCom (Hons), FCA, MBA, is a Chartered Accountant, Consultant and Company Director. Deputy Chairman Robert Savage, BCom, FCA, is a Chartered Accountant and Company Director. The other independent member is Bob Lynn, FCA and Chartered Accountant. The internal appointments comprise one Commissioner and one Regional Commissioner.

The Committee met five times during the year. Details of membership and attendance were:

"The Committee examined ASIC's financial statements, issues, risk assessment and fraud control."

Members	Meetings attended
Merran Kelsall, Chairman - appointed 29 January 1998	5
Robert Savage, Deputy Chairman - appointed 1 March 2000	5
Bob Lynn, appointed 1 March 2002	1
Berna Collier, ASIC Commissioner, appointed 1 March 2002	2
Simon Dwyer, Tasmanian Regional Commissioner, appointed 5 April 2001	5
Jillian Segal, ASIC Deputy Chair, retired 25 March 2002	3
Karen Axford, South Australian Regional Commissioner, retired 29 November 2001	1

The Australian National Audit Office provided external audit services, Chartered Accountants Ernst & Young provided internal audit services, and Simon Farrer held the position of National Manager Audit. Both external and internal audit representatives attended Audit Committee meetings.

Merran Kelsall, Chairman,
ASIC Audit Committee,

5 July 2002

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In this section:

- publications
- freedom of information
- Commonwealth Disability Strategy Report
- Electoral Act disclosure

Appendices

Publications

We published the following free publications:

- Electronic newsletters:
FIDO News (financial tips and safety checks) *Financial Services News* (financial services reform).
Printed newsletters: *ASIC News* (regulation and enforcement), *InFocus* (company information)
- Brochures: *Don't kiss your money goodbye*, *Super decisions*, *You can complain*.
- Annual report, occasional reports, papers and information sheets on a wide range of topics accessible through our website or Infoline.

We published for sale *ASIC Digest*, *ASIC Working Guide for Accountants*, *ASIC Working Guide for Company Secretaries*, *ASIC Financial Services Policy Handbook*, *ASIC Forms on CD-ROM*, *ASIC Managed Investments Handbook*, *ASIC Policy Alert*.

Freedom of Information Act 1982

The public may obtain copies of documents in ASIC's possession under the Commonwealth *Freedom of Information Act 1982* (FOI Act) by making an application addressed to the Administrative Law Coordinator in the State or Territory in which the applicant resides or to the Manager, Administrative Law, National Office Sydney.

ASIC maintains the following categories of documents which are in its possession as required by section 8 of the FOI Act:

- documents relating to meetings of ASIC, meetings between ASIC and government and non-government bodies, business communities and committees
- documents relating to Parliamentary committees and Parliamentary questions
- papers relating to new and amending legislation
- general correspondence with members of the public

- documents relating to applications from businesses, including:
 - correspondence, statistics, policy documents and registration materials relating to licensees, receivers, auditors, liquidators and official liquidators
 - internal working papers and statistics relating to examination and assessment of financial and accounting information, securities and futures and other matters
 - applications and submissions made to ASIC.
- documents, books and records of companies and individuals obtained pursuant to ASIC's information gathering powers; investigation reports and prosecution briefs
- documents relating to administrative law matters
- registers of instruments of delegation, direction and authorisation
- documents relating to accommodation, estimates, accounts, expenditure, banking arrangements and internal audit; computer systems and purchases, human resources, recruitment and staff management
- handbooks, guidelines, manuals, policy statements, practice notes, media releases, information releases, pamphlets and annual reports and other documents held as public database information (ASCOT) (see note below).

As required by section 9 of the FOI Act, ASIC makes available to the public the following documents for inspection and purchase by subscription from the Centre for Professional Development, telephone 03 92050600.

ASIC Digest – which contains Policy Statements, Practice Notes, information brochures, Media Releases, Information Releases, public memoranda, summaries of most ASIC Instruments, class orders, ministerial orders, pro-formas for applications, legal commentary and accounting commentary.

Note: Documents that are made available to the public on ASCOT, in the *ASIC Digest* and by the Centre for Professional Development are not available under the FOI Act.

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Appendices

Commonwealth Disability Strategy Report

As a regulator, ASIC is expected to publish, in formats accessible for people with disabilities, all its publicly available information on regulations, quasi-regulations and compliance reporting. This occurs through our website on the day materials are released, and in hard copy through our commercial publisher and on request through ASIC's national Infoline. A disability expert reviewed our website and found that our regulatory and compliance materials were accessible. However, some relatively minor changes were required, which will be completed during 2002-2003.

As an employer, ASIC incorporated the requirements of the Disability Discrimination Act 1992 when developing and reviewing employment policies, procedures and guidelines.

- Recruitment information was prepared and released in accessible electronic format, usually within 24 hours, or posted out in hard copy on request within 24 hours. No requests were received for other formats.

- Human Resources staff advised managers and recruiters on reasonable adjustments required for job applicants and for staff with disabilities (including staff access to training).
- Information on disability issues was included in training programs as appropriate.
- ASIC also has internal and external grievances procedures, including review of actions under the Public Service Act and appeals to the Australian Public Service Commission. Grievance provisions have been included in the ASIC certified agreement. Staff also had access to an Employee Assistance Program. ASIC received no complaints regarding disability issues during 2001-02

Disclosure under Commonwealth Electoral Act 1918

Section 311A of this Act requires us to report for the financial year ended 30 June, payments made by us or on our behalf to:

- polling organisations, advertising agencies and media advertising organisations: nil
- market research organisations: Chant Link & Associates \$89,173
- direct mail organisations: City Mail Room \$49,830 and Security Mailing Services \$13,237.

Financial comparisons: Corporations Act and new functions

The Ministerial Council for Corporations asked ASIC to disclose a comparison of costs and revenue attributable to the new functions we received on 1 July 1998, compared with our traditional Corporations Act functions. See below.

	National corporations scheme 2001-02	National corporations scheme 2000-01	New financial services functions 2001-02	New financial services functions 2000-01	Total 2001-02	Total 2000-01
Operating revenue (mil)	143.7	134.3	10.6	9.9	154.3	144.2
Operating expenses (mil)	149.2	131.7	10.7	11.6	159.9	143.3

Six year summary

2001/2002 2000/2001 1999/2000 1998/1999 1997/1998 1996/1997

Business information

Number of registered companies	1,251,237	1,224,207	1,195,851	1,149,297	1,088,192	1,026,206
New companies incorporated	90,175	76,103	105,472	98,038	97,031	92,680
Australian Financial Services licensees*	35	n/a	n/a	n/a	n/a	n/a
Securities dealers*	2,302	2,250	2,081	1,833	1,547	1,608
Investment advisers*	223	224	224	231	227	241
Futures brokers*	119	121	120	108	99	97
Futures advisers*	74	70	65	64	40	51
General insurance brokers*	977	975	1,043	n/a	n/a	n/a
Life insurance brokers*	293	263	225	n/a	n/a	n/a
Foreign insurance agents*	17	14	12	n/a	n/a	n/a
New managed investment schemes registered	599	787	1,780	502	313	144
Prospectuses lodged	2,089	2,744	1,033	707	683	602
Takeovers	67	81	81	73	76	75

ASIC performance data

Investigations commenced	246	214	200	207	215	186
Litigation concluded	205	150	173	154	199	178
% successful litigation**	92%	71%	75%	89%	90%	84%
Company searches through online brokers	2,891,549	2,780,169	2,666,835	2,141,783	1,922,408	1,704,403
Over the counter searches at ASIC offices	83,937	102,700	161,069	191,831	284,150	382,252
ASIC website browses	6,135,856	4,626,700	3,214,852	n/a	n/a	n/a
% company data lodged on time	93%	93%	94%	93%	94%	94%

Financial summary (\$m)

Operations

Total operating expenses	159.9	143.3	143.0	145.2	134.6	131.7
Total operating revenue	154.3	144.2	140.2	146.7	130.8	133.3
Revenue transferred to Commonwealth Consolidated Revenue Fund (\$ m)	383	348	361	332	326	298

Financial position

Current assets	20.5	15.1	12.2	12.1	10.4	13.5
Non-current assets	27.8	22.1	24.9	25.6	25.6	25.8
Current liabilities	27.5	18.6	21.7	17.1	15.6	21.3
Non-current liabilities	21.6	16.4	16.6	18.9	19.6	13.7
Total equity	(0.9)	2.2	(1.1)	1.7	0.8	4.3

* The AFS licence commenced on 11 March 2002 and will progressively replace all other categories asterisked. Licences and registrations for those other categories ceased after that date.

** Prior years may understate success rate, see page 25.

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for the year ended 30 June 2002

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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Australian Securities and Investments Commission for the year ended 30 June 2002. The financial statements comprise:

- Statement by Commissioners;
- Statements of Financial Performance, Financial Position, and Cash flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements.

The members of the Commission are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Commission's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Ministers Orders made under the *Commonwealth Authorities and Companies Act 1997* and the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Australian Securities and Investments Commission as at 30 June 2002, and its financial performance and cash flows on the year then ended.

Australian National Audit Office

Mashelle Parrett
Executive Director

Delegate of the Auditor-General

Canberra
15 August 2002

Statement by Commissioners

In our opinion, the attached financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and the *Financial Management and Accountability Act 1997*.



D.W. Knott
Chairman

15 August 2002



B. J. Collier
Commissioner

15 August 2002



I. A. Johnston
Acting Commissioner

15 August 2002

Statement of financial performance

for the year ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
Revenues from ordinary activities			
Revenues from government	3	146,090	131,621
Sale of services	4(a)	2,709	1,914
Interest	4(b)	2,185	1,908
Proceeds from sale of assets	4(c)	230	23
Other	4(d)	3,124	8,735
Total revenues from ordinary activities		154,338	144,201
Expenses from ordinary activities (excluding borrowing costs expense)			
Employees	5(a)	85,191	83,051
Suppliers	5(b)	61,475	50,454
Depreciation and amortisation	5(c)	11,697	9,479
Write-down of assets	5(d)	396	270
Written down value of assets disposed	5(e)	999	78
Total expenses from ordinary activities (excluding borrowing costs expense)		159,758	143,332
Borrowing costs expense	6	179	–
Total expenses from ordinary activities		159,937	143,332
Net operating surplus (deficit) from ordinary activities	12, 13	(5,599)	869
Net surplus (deficit) attributable to the Commonwealth		(5,599)	869
Net credit (debit) to asset revaluation reserve	12	2,495	2,434
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity		2,495	2,434
Total changes in equity other than those resulting from transactions with owners as owners		(3,104)	3,303

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

for the year ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
ASSETS			
Financial assets			
Cash	7 (a)	16,546	12,277
Receivables	7 (b)	2,814	1,969
Total financial assets		19,360	14,246
Non-financial assets			
Leasehold improvements	8 (a)	10,553	7,905
Plant and equipment	8 (b)	11,972	8,789
Intangibles	8 (c)	5,242	5,367
Other	8 (h)	1,136	916
Total non-financial assets		28,903	22,977
Total assets		48,263	37,223
LIABILITIES			
Interest bearing liabilities			
Leases	9 (a)	9,334	-
Total interest bearing liabilities		9,334	-
Non interest bearing liabilities			
Unearned revenue	9(b)	2,910	63
Other	9(c)	4,154	4,693
Total non interest bearing liabilities		7,064	4,756
Provisions			
Employees	10	26,926	26,333
Total provisions		26,926	26,333
Payables			
Suppliers	11	5,859	3,950
Total payables		5,859	3,950
Total provisions and payables		32,785	30,283
Total liabilities		49,183	35,039
Net Assets (Liabilities)		(920)	2,184
EQUITY			
Parent entity interest			
Reserves	12	5,254	2,759
Retained surpluses (accumulated deficits)	12	(6,174)	(575)
Total parent entity interest		(920)	2,184
Total Equity (Deficiency)	1	(920)	2,184
Current assets		20,496	15,162
Non-current assets		27,767	22,061
Current liabilities		27,536	18,592
Non-current liabilities		21,647	16,447

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

for the year ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations	3	148,821	131,465
Sales of goods and services			
– Government		1,730	3,910
– Non-government		1,082	737
Interest		2,185	1,908
GST recovered		4,922	3,961
Other		4,600	6,723
Total cash received		163,340	148,704
Cash used			
Employees		(84,478)	(80,152)
Suppliers		(67,759)	(57,350)
Borrowing costs	6, (i)	(179)	(222)
Total cash used		(152,416)	(137,724)
Net cash from operating activities	13(a)	10,924	10,980
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant & equipment	4(c)	230	23
Total cash received		230	23
Cash used			
Purchase of property, plant & equipment		(8,415)	(4,512)
Total cash used		(8,415)	(4,512)
Net cash used in investing activities		(8,185)	(4,489)
FINANCING ACTIVITIES			
Cash received			
Proceeds of sale and lease back of assets under finance lease		3,555	–
Total cash received		3,555	–
Cash used			
Repayments of debt		–	(2,772)
Repayment of finance lease principal		(2,025)	–
Total cash used		(2,025)	(2,772)
Net cash from (used by) financing activities		1,530	(2,772)
Net increase in cash held		4,269	3,719
Cash at the beginning of the reporting period		12,277	8,558
Cash at the end of the reporting period	7(a)	16,546	12,277

Note (i): The amount shown for 2000-01 represents payment of interest accrued in 1999-00 on a loan from Government.

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments

as at 30 June 2002

	Note	2002 \$'000	2001 \$'000
BY TYPE			
Capital commitments			
Intangibles	(a)	53	–
Other commitments			
Operating leases	(b)	140,816	160,026
Total commitments payable		140,869	160,026
Commitments receivable	(c)	(10,082)	(12,217)
Net commitments		130,787	147,809
BY MATURITY			
Operating lease commitments			
One year or less		20,299	20,913
From one to five years		81,346	81,387
Over five years		39,171	57,726
Operating lease commitments		140,816	160,026
All net commitments			
One year or less		18,604	18,696
From one to five years		76,251	75,806
Over five years		35,932	53,307
Net commitments		130,787	147,809

Note:

(a) Outstanding contractual payments for intangible (software) purchases.

(b) Operating leases included are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Leases for office accommodation	.Subject to bi-annual rental reviews
Motor vehicles – senior executives	.No contingent rentals exist There are no purchase options available to ASIC
Office equipment	.No contingent rentals exist There are no purchase options available to ASIC

(c) Commitments receivable consists of GST receivable. All 2002 commitments are GST inclusive. Where relevant 2001 comparatives have been restated to include GST which has resulted in an increase in net commitments of \$5.84m for that year.

The above schedule should be read in conjunction with the accompanying notes.

Schedule of contingencies

as at 30 June 2002

Contingent losses

There were no contingent losses as at 30 June 2002 (2001: nil)

Contingent gains

There were no contingent gains as at 30 June 2002 (2001: nil)

Schedule of unquantifiable contingent losses/gains

ASIC is party to many civil litigation matters arising out of its statutory duty to administer and enforce laws for which it is responsible. Like any other party to litigation, ASIC is exposed to the risk of being required to pay the other party's costs if unsuccessful. Similarly, ASIC may be entitled to recover costs arising out of such litigation if it is successful.

There are five such claims against ASIC where proceedings were current as at 30 June 2002. Four of these matters were the subject of reporting last year. In each of the five matters, we are of the view, based on legal advice received that, save for having to pay legal fees and other out of pocket expenses ASIC:

- (a) denies liability;
- (b) is confident of successfully defending the action instituted; and
- (c) considers that it will not be required to pay any damages.

Seven claims have been threatened since 1 July 2001. In the case of four of these matters, it is not anticipated that proceedings will be commenced. In the case of the remaining three matters, it is not yet possible to assess the likelihood that proceedings will be commenced.

The above schedule should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

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Notes to and forming part of the financial statements

for the year ended 30 June 2002

1. Economic dependency

ASIC is controlled by the Government of the Commonwealth of Australia, and is dependent on appropriations from the Commonwealth Parliament for its continued existence and ability to carry out its normal activities and functions under the *Corporations Act 2001*.

2. Summary of accounting policies

(a) Objectives of ASIC

The Australian Securities & Investments Commission (ASIC) is an independent Commonwealth government body operating under the *Australian Securities & Investments Commission Act 2001 (ASIC Act)* to administer the *Corporations Act 2001* throughout Australia.

ASIC's objective is to promote the confident and informed participation of investors and consumers in the financial system.

ASIC collects and administers revenue under the *Corporations Act 2001* and prescribed fees set by the *Corporations (Fees) Regulations*.

(b) Basis of accounting

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and Section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the *Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- Other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- the Explanatory Notes to Schedule 1 issued by the Department of Finance and Administration;
- Finance Briefs issued by the Department of Finance and Administration; and
- the provisions of the *Australian Securities & Investments Commission Act 2001 (ASIC Act)*.

The financial statements for ASIC have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position of ASIC.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities

arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities and assets, which are unrecognised, are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(c) Administered items

ASIC collects and administers revenue under the *Corporations Act 2001* and prescribed fees set by the Corporations (Fees) Regulations. The revenues from these fees are not available to ASIC and are remitted to the Commonwealth's Official Public Account. Transactions and balances relating to these fees are reported as Administered Items.

Administered revenues, expenses, assets, liabilities and cash flows are presented in the Notes to these financial statements. In 2000-01, summary information was presented in Schedules following the primary financial statements.

The notes are prepared on the same basis and using the same policies as for ASIC items, except where otherwise stated at Note 2(g).

Administered items are distinguished by shading.

(d) Changes in Accounting Policy

Changes in accounting policy have been identified in this note under their appropriate headings.

(e) Reporting by Outcomes

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to ASIC is presented in Note 40. Any intra-government costs included in the figure 'net cost to Budget outcomes' are eliminated in calculating the actual budget outcome for the Government overall.

(f) Appropriations

Revenues from Government – Output Appropriations

Parliament appropriates monies to ASIC as revenue appropriations. Appropriations for outputs are recognised as revenue to the extent they have been received into ASIC's bank account or are entitled to be received by ASIC at year-end.

Appropriations received for specific Government initiatives that are conditional on any unspent balance being returned to Government are initially recognised as Unearned Revenue - Government Appropriation (Note 9(b) refers). At 30 June 2002, the balance of this account represents the amount of appropriation received that remains unspent at that date.

Revenues from Government are disclosed in the Statement of Financial Performance (Note 3).

2. Summary of accounting policies (cont)

Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are combined with the revenues from Government for the purposes of presentation (Note 3).

Going Concern

ASIC is a statutory body and prepares its accounts on a going concern basis, which assumes that it is able to extinguish its liabilities as they arise through the normal level of appropriations it receives from Government and where necessary by seeking an advance from future appropriations or a capital injection.

(g) Other Revenue

Operating revenue from independent sources is mainly comprised of bank interest, business names receipts relating to the administration of the business names register, fees charged for the administration of the companies unclaimed money account, recoveries of legal costs and prosecution disbursements.

Revenue from the sale of services is recognised upon the delivery of services to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Other revenue is disclosed in the Statement of Financial Performance.

Administered revenue

(i) Definition

Revenues and related assets are considered to arise when the Government, through the application of legislation by ASIC, gains control of the future economic benefits that flow from prescribed fees and other statutory charges.

Administered revenues are disclosed in the note on Revenues and Expenses Administered on behalf of Government (Note 23).

(ii) Recognition

The revenues of the Commonwealth, when administered by ASIC, are recognised (on an accruals basis) when the following conditions apply:

- the client or the client group can be identified in a reliable manner;
- an amount of prescribed fee or other statutory charge is payable by the client or client group under legislative provisions; and
- the amount of the prescribed fee or other statutory charge payable by the client or the client group can be reliably measured, and it is probable that the amount will be collected.

Statutory Revenue arising from services rendered by ASIC under the Corporations Act is collected and deposited in the Commonwealth Public Account (CPA) on behalf of the Commonwealth.

Statutory revenue comprises fees for the lodgement of annual returns and other prescribed fees and voluntary enquiries from clients for microfiche, certificates and document images.

ASIC also determines a reliable estimate of amounts payable by existing clients who have been identified as not having remitted or not lodged an annual return.

(h) Employee entitlements

Leave

The liability for employee entitlements includes a provision for annual leave, long service leave and accrued employer superannuation contributions. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of ASIC is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 2002 and is recognised at its nominal amount.

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2002. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Separation and redundancy

Provision is made for separation and redundancy payments in cases where positions have been formally identified as excess to requirements, and a reliable estimate of the amount payable can be determined.

Superannuation

The majority of employees contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. There are also a small number of employees covered under state government and private superannuation schemes. The majority of these employees were employed by the various state governments and were transferred to ASIC at its inception in 1989.

Details of Superannuation payments are disclosed in Note 5(a).

(i) Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

ASIC entered into a sale and leaseback of certain IT assets on 30 October 2001. The capitalised amount of these leased assets was the written down value at that date.

Other leases are classified as operating leases.

Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives are recognised as a liability and are reduced by allocating lease payments between rental expense in the Statement of Financial Performance and the deferred lease incentive liability over the term of the lease.

Lease incentives taking the form of rent free holidays are recognised as a liability. This liability is reduced by allocating lease payments between rental expense and reduction of the liability over the term of the lease.

2. Summary of accounting policies (cont)

(j) Borrowing Costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

(k) Cash

For the purpose of the Statements of Cash Flows for both ASIC and Administered items, cash includes deposits held at call with a bank.

(l) Taxation

ASIC is exempt from all forms of taxation with the exception of fringe benefits tax and the goods and services tax (GST).

Administered items are exempt from all forms of taxation.

(m) Capital Use Charge

A capital use charge of 11% (2001: 12%) is imposed by the Government only on the positive value of net assets. The charge is adjusted to take account of revaluation increments during the financial year.

(n) Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

(o) Property (Leasehold improvements), plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition. The \$2,000 threshold was selected because it facilitates efficient asset management and recording without materially affecting asset values recognised. Items of property, plant and equipment acquired free or for a nominal charge are recognised initially at their fair value.

Revaluations

Leasehold improvements, plant and equipment are revalued progressively in accordance with the 'deprival' method of valuation in successive three-year cycles, so that no asset has a value greater than three years old.

Revaluations have been implemented as follows:

- leasehold improvements were revalued progressively during the 2000-01 financial year;
- plant and equipment assets were revalued in full during the 2001-02 financial year.

Assets in each class acquired after the commencement of the revaluation cycle are reported at cost and are not captured by the progressive revaluation then in progress.

Any assets which would not be replaced or are surplus to requirements are valued at net realisable value.

All valuations are independently performed by the Australian Valuation Office.

Recoverable amount test

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amounts. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows, including the expected cash inflows from future appropriations by the Parliament, have been discounted to their present value.

(p) Depreciation and amortisation

Depreciable property, plant and equipment assets are written down to their estimated residual values over their estimated useful lives to ASIC using, in all cases, the straight line method of depreciation. Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2002	2001
Leasehold improvements	Lease term	Lease term
Plant and equipment	2 to 10 years	2 to 10 years
Plant and equipment under finance lease	1 to 3 years	–

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5(c).

(q) Intangible Assets – computer software

Purchased Software

Purchased software is included in non-financial assets, and is classified under Intangibles. Where substantial installation/implementation costs are incurred and can be reliably measured, these costs are added to the purchase price to arrive at the initial value, otherwise purchase price is used.

Internally developed software

Internally developed business systems and enhancements are measured at cost and these costs are held as software under development until the system or component is released to production, at which time it becomes internally developed software and is recorded as an intangible asset.

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows, including the expected cash inflows from future appropriations by the Parliament, have been discounted to their present value.

The cost of internally developed software which is capitalised includes the cost of direct labour and other directly attributed costs.

No write-down to recoverable amounts has been made in 2001-02.

2. Summary of accounting policies (cont)

Intangible assets are amortised on a straight-line basis over their anticipated useful lives.

Useful lives are:

	2002	2001
Computer software	3 to 5 years	3 to 5 years

Any enhancements to an existing asset are depreciated over the remaining life of the asset.

(r) Receivables

ASIC's receivables comprise amounts expected to be received from operating revenue.

A provision for doubtful debts is raised in accordance with a policy that reflects actual collection experience.

Administered debts deemed uncollectable are written off against a provision for doubtful debts. A provision is raised in accordance with a policy that reflects actual collection experience.

(s) Unclaimed Monies – administered items

Banking Act administration

On 1 July 2000 ASIC assumed responsibility for the administration of unclaimed monies from banking and deposit taking institutions.

Monies from bank and deposit taking institution accounts inactive for seven years are transferred to the Commonwealth. These unclaimed monies are deposited in the Consolidated Revenue Fund and are recognised as administered revenue. A provision representing the expected recovery of these monies less refunds paid, based on an analysis of historical transactions, is recognised in the administered schedules.

Life Insurance Act administration

On 1 July 1998 ASIC assumed responsibility for the administration of unclaimed monies from life insurance institutions.

Monies in respect of matured life insurance policies that have not been claimed for more than 7 years are transferred to the Commonwealth from life insurance companies and friendly societies. These unclaimed monies are deposited in the Consolidated Revenue Fund and are recognised as administered revenue. A provision representing the expected recovery of these monies less refunds paid, based on an analysis of historical transactions, is recognised in the administered schedules. From 1 July 2001, these monies have been treated as administered items. Comparative figures have been adjusted to conform with changes in presentation in the administered notes.

(t) Expenditure of Boards and Tribunal

Pursuant to Parts 11 and 12 of the *Australian Securities & Investments Commission Act 2001*, and the *Superannuation (Resolution of Complaints) Act 1993*, ASIC is required to support various boards and a tribunal to promote activities that enable ASIC to attain its aims. Employee and administrative expenditure incurred on behalf of these boards and tribunal are included in the Statement of Financial Performance of ASIC (Note 18).

(u) Rounding

Amounts are rounded off to the nearest \$1,000 except in relation to:

- remuneration of Commissioners;
- remuneration of executive officers;
- remuneration of auditors;
- administered fee write off and waivers; and
- administered act of grace payments.

(v) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

(w) Financial instruments

Accounting policies in relation to financial instruments are disclosed in Notes 22 and 37.

(x) Insurance

ASIC has insured for certain risks through the Government's insurable risk managed fund, COMCOVER. Workers compensation is insured through COMCARE Australia.

3. Revenues from Government

Revenue from Government	Note	2002 \$'000	2001 \$'000
Appropriation Act No.1 Operating Expenditure		141,221	131,162
Appropriation Act No.3 Operating Expenditure		4,749	303
Services received free of charge		120	156
Total	(i)	146,090	131,621

- (i) Actual appropriation received by ASIC for 2001-02 amounted to \$148.821m (2001: \$131.465m). The increase in appropriation received from Government in 2001-02 is largely represented by special one off funding of \$7.1m (2001: nil) relating to the HIH investigation and to the HIH Royal Commission.

Of the \$148.821m appropriation received for 2001-02, \$145.970m has been recognised as revenue. The remaining \$2.851m represents the unspent portion of specific purpose appropriation received from the Government to fund ASIC for its costs associated with the HIH Royal Commission, and has been disclosed as unearned revenue in the Statement of Financial Position (Note 9(b) refers)

4. Revenue from independent sources

	Note	2002 \$'000	2001 \$'000
(a) Sale of services			
Services were sold to:			
– Government		1,758	1,611
– Non-government		951	303
Total sales of services		2,709	1,914
Cost of services sold		1,931	1,386
(b) Bank interest			
		2,185	1,908
(c) Proceeds from sale of assets			
Plant & equipment	5(e)	230	23
(d) Other revenue			
Cost recoveries	(i)	366	575
Other	(ii)	2,758	3,497
Major cost recovery upon litigation			
Settlement	(iii)	–	4,663
Total other revenue		3,124	8,735

4. Revenue from independent sources (cont)

- (i) ASIC has been a litigant in courts. The amounts paid by ASIC for court costs, investigations, professional fees, legal costs and prosecution disbursements are recovered where possible.

	Note	2002 \$'000	2001 \$'000
(ii) This item is comprised of:			
Rent of surplus space		1,452	2,010
Other, including seminars, royalties and witness cost recoveries		1,306	1,487
		2,758	3,497

- (iii) This was the result of a once-off settlement of a major litigation matter upon the basis that ASIC's costs would be paid in full.

5. Operating expenses

(a) Employee expenses

Basic remuneration for services provided		84,373	81,870
Separation and redundancy		818	1,181
Total employee expenses		85,191	83,051

Redundancy expenses are calculated on the basis of two weeks pay for every year of service by employees made redundant, up to a maximum of 48 weeks.

Employer contributions to superannuation amounting to **\$7,338,761** (2001: \$7,667,817) have been expensed in the financial statements. Contributions to superannuation schemes are at rates calculated to cover existing and emerging obligations.

Employer Superannuation Productivity Benefit contributions totalled **\$1,262,426** (2001: \$1,200,198) and is included in the amount shown for employer superannuation contributions above.

(b) Suppliers expenses

Supply of goods and services	(i)	47,759	36,065
Operating lease rentals		13,716	14,389
Total suppliers expenses		61,475	50,454

- (i) The increase in supply of goods and services for 2001-02 is largely represented by expenditure attributable to investigations and litigation and includes externally sourced legal, accounting and forensic expenses.

5. Operating Expenses (cont)

	Note	2002 \$'000	2001 \$'000
(c) Depreciation and amortisation			
Amortisation of leasehold improvements		2,091	1,250
Depreciation of plant & equipment			
– Plant & equipment owned	4,340		5,662
– Assets subject to a finance lease	2,341	6,681	–
Amortisation of intangible assets			
– computer software		2,925	2,567
Total depreciation and amortisation	8(d)	11,697	9,479
(d) Write-down of assets			
Bad and doubtful debts expense		84	–
Plant & equipment - write-off on disposal	5(e)	312	270
Total write-down of assets		396	270
(e) Disposal of non-financial assets			
Plant & equipment:			
Revenue (proceeds from sale)	4(c)	(230)	(23)
Expense (written down value of assets disposed)		999	78
Loss on sale of plant & equipment	13	769	55
Less: Plant & equipment written off on disposal	5(d)	312	270
Net loss on disposal of plant & equipment		1,081	325

6. Borrowing cost expenses

Finance charges on lease liabilities	179	–
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7. Financial assets

(a) Cash

Cash at bank and on hand	4,063	3,667
Deposits at call	12,483	8,610
	16,546	12,277
Balance of cash as at 30 June shown in the Statement of Cash Flows	16,546	12,277

(b) Receivables

Trade debtors	1,293	1,377
Less: provision for doubtful debts	(84)	–
	1,209	1,377
GST receivable	1,605	592
	2,814	1,969

7. Financial assets (cont)

	Note	2002 \$'000	2001 \$'000
Receivables (gross) are aged as follows:			
– Not overdue		2,238	1,334
Overdue by:			
– Less than 30 days		353	223
– 30 to 60 days		17	143
– 60 to 90 days		60	40
– More than 90 days		230	229
		2,898	1,969

8. Non-financial assets

(a) Leasehold improvements

Leasehold improvements - at cost		5,713	975
Accumulated amortisation		(656)	(115)
		5,057	860
Leasehold improvements - at valuation 2001		16,660	16,737
Accumulated amortisation		(11,164)	(9,692)
		5,496	7,045
Total leasehold improvements		10,553	7,905

(b) Plant and equipment

Plant and equipment – at cost		1,204	15,463
Less accumulated depreciation		(144)	(7,976)
		1,060	7,487
Plant and equipment – at valuation 2002	(i), (ii)	13,546	–
Less accumulated depreciation		(11,652)	–
		1,894	–
Plant and equipment - at valuation 1999		–	16,722
Less accumulated depreciation		–	(15,420)
		–	1,302
Plant and equipment subject to a finance lease	(iii)	11,359	–
Less accumulated amortisation		(2,341)	–
		9,018	–
Total plant and equipment		11,972	8,789

8. Non-financial assets (cont)

	Note	2002 \$'000	2001 \$'000
(c) Intangible assets - computer software			
Computer software – internally developed – in progress		414	730
Computer software at cost		13,235	11,017
Less accumulated amortisation		(8,407)	(6,380)
		4,828	4,637
Total intangibles		5,242	5,367

- (i) The revaluation of plant and equipment was performed on 1 July 2001 in accordance with the progressive revaluation policy stated at Note 2(o) by an independent valuer from the Australian Valuation Office (Simon B. O'Leary AAPI MSAA).

In accordance with the requirements of Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2001-02) Orders, all revalued assets are shown on a gross basis: asset values are at deprival value, and accumulated depreciation has been calculated based on this value. The resulting adjustment has been transferred directly to the asset revaluation reserve.

- (ii) During the year, ASIC entered into a lease agreement for certain IT assets and desktop computers as part of its strategy to outsource the upgrade of its IT assets. The financial effect of the disposal of existing IT assets and desktop computers, has been included in Note 8(d).
- (iii) This amount is the present value of the minimum lease payments capitalised in accordance with ASIC's accounting policy Note 2(i).

8. Non-financial assets (cont)

(d) Movement summary 2001-02 for all leasehold improvements, plant & equipment and intangible assets irrespective of valuation basis

Item	Leasehold improvements	Plant & equipment	Computer software-intangibles	Total
	\$'000	\$'000	\$'000	\$'000
Gross value as at 1 July 2001	17,712	32,185	11,747	61,644
Additions: Purchase of assets	4,739	8,822	2,658	16,219
Additions: Capitalised value of IT assets subject to a sale and lease back agreement	–	3,555	–	3,555
Disposal: Gross value of IT assets sold and financed under a sale and lease back agreement	–	(10,482)	–	(10,482)
Revaluations: write-ups/(write-downs)	–	(1,131)	–	(1,131)
Write-offs	–	(3,021)	(1,051)	(4,072)
Disposals	(78)	(3,524)	–	(3,602)
Other movements	–	(295)	295	–
Gross value as at 30 June 2002	22,373	26,109	13,649	62,131
Accumulated depreciation/amortisation as at 1 July 2001	9,807	23,396	6,380	39,583
Disposal: Accumulated depreciation on IT assets sold and financed under a sale and lease back agreement	–	(6,927)	–	(6,927)
Depreciation/amortisation charge for the year	2,091	6,681	2,925	11,697
Revaluations: write-ups/(write-downs)	–	(3,626)	–	(3,626)
Write-offs	–	(2,709)	(1,051)	(3,760)
Disposals	(78)	(2,525)	–	(2,603)
Other movements	–	(153)	153	–
Accumulated depreciation/amortisation as at 30 June 2002	11,820	14,137	8,407	34,364
Net book value as at 30 June 2002	10,553	11,972	5,242	27,767
Net book value as at 30 June 2001	7,905	8,789	5,367	22,061

8. Non-financial assets (cont)

(e) Summary of balances of leasehold improvements and plant & equipment at valuation as at 30 June 2002, included in table 8(d) above

Item	Leasehold improvements	Plant & equipment	Total
	\$'000	\$'000	\$'000
As at 30 June 2002			
Gross value	16,660	13,546	30,206
Accumulated Depreciation/Amortisation	(11,164)	(11,652)	(22,816)
Net book value	5,496	1,894	7,390
As at 30 June 2001			
Gross value	16,737	16,722	33,459
Accumulated Depreciation/Amortisation	(9,692)	(15,420)	(25,112)
Net book value	7,045	1,302	8,347

(f) Summary of intangible assets under construction as at 30 June 2002, included in table 8(d) above

Item	Intangibles – computer software	Total
	\$'000	\$'000
As at 30 June 2002		
Gross value	414	414
Accumulated Depreciation/Amortisation	–	–
Net book value (Note 8(c))	414	414
As at 30 June 2001		
Gross value	730	730
Accumulated Depreciation/Amortisation	–	–
Net book value (Note 8(c))	730	730

(g) Summary of balances of assets held under finance lease as at 30 June 2002, included in table 8(d) above

Item	Plant & equipment	Total
	\$'000	\$'000
As at 30 June 2002		
Gross value	11,359	11,359
Accumulated Depreciation/Amortisation	(2,341)	(2,341)
Net book value (Note 8(b))	9,018	9,018
As at 30 June 2001		
Gross value	–	–
Accumulated Depreciation/Amortisation	–	–
Net book value (Note 8(b))	–	–

8. Non-financial assets (cont)

(h) Other non-financial assets

	Note	2002 \$'000	2001 \$'000
Other prepayments		1,136	916
Total other non-financial assets		1,136	916

9. Interest bearing liabilities

(a) Leases

Finance Lease Commitments

Payable:

Within one year		4,475	–
In one to five years		5,581	–
In more than five years		–	–
Minimum lease payments		10,056	–
Deduct: future finance charges		722	–
Lease liability		9,334	–
Lease liability is represented by:			
– Current		4,063	–
– Non-current		5,271	–
Total interest bearing liabilities		9,334	–

Finance leases exist in relation to certain IT assets. The leases are for terms averaging 3 years, with an option to extend for a further term of 3 years.

Non interest bearing liabilities

(b) Unearned revenue

Government Appropriation	3(i)	2,851	–
Other unearned revenue		59	63
		2,910	63

9. Interest bearing liabilities (cont)

(c) Other debt

	Note	2002 \$'000	2001 \$'000
Property lease incentives			
The property lease incentive liability is repayable as follows:			
– Current		679	756
– Non-current		2,800	3,479
	(i)	3,479	4,235
Property sub-lease (surplus space)			
The net liability in respect of future payments for surplus space on non-cancellable leases is as follows:			
– Current		7	391
– Non-current		–	67
	(ii)	7	458
Insurance recoveries			
	(iii)	668	–
		4,154	4,693
Total non interest bearing liabilities		7,064	4,756

- (i) Total property lease incentives represent deferred rental expenditure at 30 June 2002. The amortisation of these amounts will be made over the life of the leases, commencing after the expiry of the rent deferral periods.
- (ii) The surplus space on non-cancellable leases has been recognised as a liability and an expense. The above amounts for operating lease rentals include the total expected outlay relating to surplus space as specified in the leases and are determined net of probable sub-lease revenue.
- (iii) Insurance recoveries are payments made by ASIC's insurer, Comcover, in connection with claims made by ASIC for expenditure attributable to the HIH Royal Commission. The amount of \$667,716 represents the full amount of claims received to date from Comcover. A liability exists at 30 June 2002, as ASIC will be returning this amount to Government.

10. Provisions

Employee Provisions

Salaries and wages	3,604	3,983
Leave	21,802	20,815
Superannuation	1,344	1,097
Separation and redundancy	176	438
Aggregate employee entitlement liability	26,926	26,333
Employee provisions are categorised as follows:		
– Current	13,350	13,432
– Non-current	13,576	12,901
	26,926	26,333

11. Payables

Supplier payables

Trade creditors	(i)	5,859	3,950
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All supplier payables are current

- (i) The increase in payables for 2001-02 is largely represented by expenditure attributable to investigations and litigation (refer Note 5(b)(i)).

12. Equity

Item	Accumulated results		Asset revaluation reserve		TOTAL EQUITY	
	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2001	(575)	(1,444)	2,759	325	2,184	(1,119)
Operating result	(5,599)	869	–	–	(5,599)	869
Net revaluation increase (a)	–	–	2,495	2,434	2,495	2,434
Balance 30 June 2002	(6,174)	(575)	5,254	2,759	(920)	2,184

(a) The net revaluation increase in the asset revaluation reserve comprises:

	Note	2002 \$'000	2001 \$'000
Revaluation increment – plant & equipment	2(o)	2,495	–
Revaluation increment – leasehold improvements	2(o)	–	2,434
Total revaluation increment		2,495	2,434

13. Notes to the Statement of Cash Flows

(a) Reconciliation of operating surplus/(deficit) to net cash from operating activities:

	Note	2002 \$'000	2001 \$'000
Operating surplus/(deficit)		(5,599)	869
Depreciation and amortisation of property, plant & equipment and intangibles	5(c)	11,697	9,479
Net loss on disposal of property, plant & equipment	5(e)	769	55
Write down of property, plant & equipment assets	5(d)	312	270
Write down of bad and doubtful debts	5(d)	84	-
Changes in assets and liabilities:			
Increase/(decrease) in employee provisions		593	2,700
Decrease/(increase) in other assets		(220)	64
Decrease/(increase) in receivables		(929)	726
(Decrease)/increase in liability to suppliers		1,909	(1,913)
(Decrease)/increase in other payables		-	(222)
(Decrease)/increase in non interest bearing liabilities		2,308	(1,048)
Net cash provided by operating activities		10,924	10,980

(b) Non-Cash Financing and Investing Activities

Finance Lease Transaction

During the financial year ASIC acquired plant & equipment with an aggregate fair value of \$11,359,423 (2001: nil), by means of a finance lease. This acquisition is not reflected in the Statement of Cash Flows.

14. Related party disclosures

The Commissioners of ASIC during the financial year and to the date of this report were:

D.W. Knott (Chairman)

J. S. Segal (Deputy Chair to 30 June 2002)

B. J. Collier (Commissioner from 5 November 2001)

I. A. Johnston (Acting Commissioner from 29 April 2001 to 2 November 2001, and from 5 July 2002)

The aggregate remuneration of Commissioners is disclosed in Note 15(a).

There were no loans made to Commissioners or Commissioner related entities during the reporting period.

There were no other transactions with Commissioners or Commissioner related entities during the reporting period.

15. Remuneration of Commissioners and Executive Officers

The number of Commissioners included in these figures is shown below in the relevant remuneration bands.

(a) Remuneration of Commissioners

	2002 Commissioners	2001 Commissioners
\$170,001 - \$180,000	1	1*
\$210,001 - \$220,000	–	1
\$240,001 - \$250,000	1	–
\$280,001 - \$290,000	–	1
\$290,001 - \$300,000	1	–
\$310,001 - \$320,000	1	1
* includes redundancy/retirement payment	4	4

	2002 \$	2001 \$
Aggregate amount of superannuation payments in connection with the retirement of Commissioners	47,153	53,559
Other remuneration received or due and receivable by Commissioners	982,129	939,654
Total remuneration received or due and receivable by Commissioners	1,029,282	993,213

(b) Remuneration of Executive Officers

	2002	2001
The number of officers who received or were due to receive total remuneration of \$100,000 or more in the relevant income bands is shown below:	Executives	Executives
\$100,001 - \$110,000	2	–
\$110,001 - \$120,000	3	1
\$120,001 - \$130,000	2	5
\$130,001 - \$140,000	3	3
\$140,001 - \$150,000	2	6*
\$150,001 - \$160,000	2	2
\$160,001 - \$170,000	8	3
\$170,001 - \$180,000	4	5
\$180,001 - \$190,000	3	4
\$200,001 - \$210,000	2	1
\$210,001 - \$220,000	–	2*
\$220,001 - \$230,000	2	–
\$270,001 - \$280,000	–	1*
\$280,001 - \$290,000	–	1*
*includes redundancy/retirement payment	33	34

15. Remuneration of Commissioners and Executive Officers (cont)

(b) Remuneration of Executive Officers (cont)

	2002 \$	2001 \$
The aggregate amount of total remuneration of officers shown above is	5,222,182	5,645,429
The aggregate amount of separation and redundancy payments during the year to officers shown above	–	319,962

The executive remuneration includes all Executive Officers concerned with or taking part in the management of ASIC during 2001-02 except for the Commissioners. Details in relation to Commissioners are shown at Note 15(a) – Remuneration of Commissioners.

16. Assets held in trust

ASIC has established a Comcare trust account. Monies received are placed in this bank account and expended in accordance with the *Safety Rehabilitation and Compensation (SRC) Act 1988*. These monies are not available for the purposes of ASIC and are not recognised in the financial statements.

	2002 \$'000	2001 \$'000
Comcare Trust Account (SRC Act 1988)		
Opening balance	–	–
Receipts	227	–
Interest received	–	–
Disbursements	–	–
Bank Charges	–	–
Closing balance	227	–

17. Fiduciary monies (other than trust monies)

ASIC has established a number of special purpose accounts. Monies received are placed in special bank accounts and expended in accordance with the Corporations Act. These monies are not available for the purposes of ASIC and are not recognised in the financial statements.

	2002 \$'000	2001 \$'000
Settlements monies held pending the outcome of legal proceedings (represented by cash at bank)		
Opening balance	5,925	3,607
Receipts	1,430	10,700
Interest received	225	220
Disbursements	(1,082)	(8,602)
Closing balance	6,498	5,925

18. Expenditure relating to Statutory Boards and Tribunal.

Pursuant to Parts 11 and 12 of the *Australian Securities & Investments Commission Act 2001*, ASIC is required to support statutory boards and a tribunal to promote activities that assist ASIC to attain its aims.

	2002 \$'000	2001 \$'000
Companies Auditors and Liquidators Disciplinary Board (CALDB)	331	439
Australian Accounting Standards Board (AASB)	1,500	1,500
Superannuation Complaints Tribunal	2,766	2,691

The Superannuation Complaints Tribunal (SCT) is an independent body with distinct responsibilities as set out under the *Superannuation (Resolution of Complaints) Act 1993* and has operated under the budgetary umbrella of ASIC since 1 July 1998.

Employee and administrative expenditure incurred on behalf of these boards and tribunal are included in the Statement of Financial Performance of ASIC.

19. Auditors remuneration

	2002 \$	2001 \$
Remuneration to the Auditor-General for auditing the financial statements of ASIC in respect of the reporting period.	110,000	115,000

20. Assets of deregistered companies vesting in ASIC

During the financial year section 601AD of the *Corporations Act 2001* provided that, on deregistration of a company, all of the company's property vests in ASIC. ASIC adopts a passive approach to administering vested property and accounts for those assets in accordance with its statutory duties.

ASIC generally only deals with vested property once an application is made by a third party for ASIC to exercise its powers under section 601AE of the *Corporations Act 2001*. ASIC therefore does not consider it to be appropriate that the value of any identified property vesting be recorded, or disclosed in these financial statements.

21. Average staffing level

	2002	2001
The average staffing levels for ASIC during the year were	1,284	1,221

22. Financial instruments

(a) Terms, conditions and accounting policies

Financial instrument	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash at bank	7(a)	Deposits are recognised at their nominal amounts. Interest is accrued as it is earned.	Interest is earned on the daily balance. At 30 June 2002 the current interest rate was 3.7%
Deposits at call	7 (a)	Deposits are recognised at their nominal amounts. Interest is accrued as it is earned.	Surplus funds, mainly from monthly drawdowns of appropriation, are placed on deposit at call with ASIC's banker. Interest is earned on the daily balance.
Receivables (services)	7(b)	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are net 14 days (2001: 14 days)
Financial Liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Finance lease liabilities	9(a)	Liabilities are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	At reporting date, ASIC had finance leases with terms averaging 3 years, with an option to extend for a further term of 3 years. The interest rate used to discount the minimum lease payments is ASIC's incremental borrowing rate of 5.1%. The lease liabilities are secured by the lease assets.
Lease incentives	9(c)	The lease incentive is recognised as a liability on receipt of the incentive. The amount of the liability is reduced on a straight-line basis over the life of the lease by allocating lease payments between rental expense and reduction of the liability	
Trade creditors	11	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received.	Settlement is usually made net 30 days.

22. Financial instruments (cont.)

(b) Interest rate risk

Financial instrument	Notes	Floating interest rate		Fixed interest rate						Non-interest bearing		Total		Weighted Average Effective Interest Rate	
				1 year or less		1 to 2 years		> 2 years							
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %
Financial assets (recognised)															
Cash at bank	7 (a)	3,999	3,598	-	-	-	-	-	-	-	-	3,999	3,598	3.7	4.9
Cash on hand	7 (a)	-	-	-	-	-	-	-	-	64	69	64	69	n/a	n/a
Deposits at call	7 (a)	12,483	8,610	-	-	-	-	-	-	-	-	12,483	8,610	4.4	6.0
Receivables services	7 (b)	-	-	-	-	-	-	-	-	2,814	1,969	2,814	1,969	n/a	n/a
Total		16,482	12,208	-	-	-	-	-	-	2,878	2,038	19,360	14,246		
Total assets												48,183	37,223		
Financial liabilities (recognised)															
Finance lease liabilities ⁽ⁱ⁾	9 (a)	-	-	4,063	-	2,948	-	2,323	-	-	-	9,334	-	5.1	
Unearned revenue	9 (b)	-	-	-	-	-	-	-	-	2,910	63	2,910	63	n/a	n/a
Other debt	9 (c)	-	-	-	-	-	-	-	-	4,154	4,693	4,154	4,693	n/a	n/a
Trade creditors	11	-	-	-	-	-	-	-	-	5,859	3,950	5,859	3,950	n/a	n/a
Total		-	-	4,063	-	2,948	-	2,323	-	12,923	8,706	22,257	8,706		
Total liabilities												49,183	35,039		

(i) The interest rate used to discount the minimum lease payments is ASIC's incremental borrowing rate of 5.1%.

22. Financial instruments (cont.)

(c) Net fair values of financial assets and liabilities

Financial assets	2002		2001	
	Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Cash at bank	3,999	3,999	3,598	3,598
Cash on hand	64	64	69	69
Deposits at call	12,483	12,483	8,610	8,610
Receivables for services	2,814	2,814	1,969	1,969
	19,360	19,360	14,246	14,246
Financial liabilities				
Finance lease liabilities	9,334	9,334	-	-
Unearned revenue	2,910	2,910	63	63
Other debt	4,154	4,154	4,693	4,693
Trade creditors	5,859	5,859	3,950	3,950
	22,257	22,257	8,706	8,706

Financial assets

The net fair values of cash and deposits on call approximate their carrying amounts.

The net fair values of receivables for services approximate their carrying amounts.

Financial liabilities

The net fair values of finance leases are based on discounted cash flows using current interest rates for liabilities with similar risk profiles.

The net fair values of non-bank loans approximate their carrying amounts.

The net fair value of surplus space on non-cancellable leases has been recognised as a liability and stated at the net present value of future net outlays.

The net fair values for insurance recoveries, unearned revenue and trade creditors, all of which are short-term in nature, approximate their carrying amounts.

(d) Credit risk exposures

ASIC's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position.

ASIC has no significant exposures to any concentrations of credit risk.

23. Revenues and Expenses Administered on behalf of Government – for the year ended 30 June 2002

Revenues	Note	2002 \$'000	2001 \$'000
Other taxes, fees and fines			
Revenues from Government	24(a)	12,725	17,822
Non-taxation revenues	24(c)	413,216	392,318
Interest	24(e)	133	189
Total revenues administered on behalf of Government		426,074	410,329
Expenses			
Write-down and waivers of administered assets	25(a)	10,610	6,969
Refunds	25(b)	14,454	13,526
Total expenses administered on behalf of Government		25,064	20,495
Net surplus	30	401,010	389,834
Transfer to Official Commonwealth Public Account (CPA)	30(a)	416,843	377,355
Net change in administered net assets	29	(15,833)	12,479

24. Revenues Administered on behalf of Government – for the year ended 30 June 2002

(a) Revenue from the Government

Transfers from Official Public Account – Corporations Act		200	1,300
Administered services received free of charge	(b)	25	22
Special Appropriation draw down – Banking Act Unclaimed money		10,000	15,000
Special public money draw down – Life Insurance Act Unclaimed money		2,500	1,500
		12,725	17,822

(b) Services received free of charge

Financial statement audit services by the Auditor-General are provided free of charge to ASIC in relation to the audit of Corporations Act, Banking Act and Life Insurance Act revenue items. The fair value of audit services provided is \$25,000 (2001: \$22,000).

(c) Non-taxation revenues

Corporations Act fees and charges	(d)	379,351	362,596
Monies received from banks and deposit taking institutions in respect of accounts inactive for seven years	2(s)	29,953	24,716
Monies received from life insurance institutions for policies inactive for seven years	2(s)	3,912	5,006
		413,216	392,318

25. Expenses Administered on behalf of Government (cont)

	Note	2002 \$'000	2001 \$'000
(b) Other expenses			
Refunds paid to bank and deposit taking institution account holders	2(s)	12,188	11,626
Refunds paid to life insurance policy holders	2(s)	2,241	1,878
Audit fees	24(b)	25	22
		14,454	13,526

(i) The number and aggregate amount of Commonwealth monies written off during the financial year pursuant to section 47 of the FMA Act 1997 is 16,686 items totalling \$4,909,521 (2001: 13,088 items totalling \$2,334,695).

(ii) An increase in the provision for doubtful debts over last year of \$2,219,000, to \$5,619,000 (2001: \$3,399,800). The level of the provision was re-appraised at 30 June 2002, in accordance with ASIC's debt management policy.

(iii) The number and aggregate of amounts owing to the Commonwealth the recovery of which was waived during the financial year pursuant to section 34(1) of the FMA Act 1997 is 20,328 items totalling \$3,481,346 (2001: 17,277 items totalling \$2,967,946).

26. Assets and liabilities Administered on behalf of Government – as at 30 June 2002

ASSETS

Cash	27(a)	3,453	4,844
Receivables – other	27(b)	85,892	85,956
Other – accrued revenues	27(c)	11,127	11,636
Total Assets administered on behalf of Government		100,472	102,436

LIABILITIES

Provisions

Unclaimed monies	28	74,149	66,328
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Payables

Other	28	6,528	480
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Total provisions and payables

		80,677	66,808
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Total liabilities administered on behalf of Government		80,677	66,808
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Net Assets		19,795	35,628
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EQUITY

Accumulated results		19,795	35,628
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Total equity	29	19,795	35,628
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Current assets		43,823	47,379
Non-current assets		56,649	55,057
Current liabilities		24,028	11,751
Non-current liabilities		56,649	55,057

27.Administered financial assets – as at 30 June 2002

	Note	2002 \$'000	2001 \$'000
(a) Cash			
Cash at bank and on hand – <i>Corporations Act</i>		1,646	1,241
Cash at bank – <i>Banking Act</i>		1,478	3,547
Cash at bank – <i>Life Insurance Act</i>		329	56
		3,453	4,844
Balance of cash as at 30 June shown in the Schedule of Administered Cash Flows		3,453	4,844
(b) Receivables			
Corporations Act			
<i>Corporations Act</i> fees and charges		14,442	17,898
Information brokers fees		2,920	5,130
Gross receivables		17,362	23,028
Less: provision for doubtful debts		(5,619)	(3,400)
		11,743	19,628
Banking Act			
Appropriation receivable – <i>Banking Act</i> unclaimed monies		68,220	60,505
Life Insurance Act			
Appropriation receivable – <i>Life Insurance Act</i> unclaimed monies		5,929	5,823
		74,149	66,328
		85,892	85,956
The total of uncollected <i>Corporations Act</i> Commonwealth revenue classified by age analysis is as follows:			
Current		575	762
Overdue by:			
– less than 30 days		6,719	6,944
– 30 to 60 days		962	845
– 61 to 90 days		842	2,562
– more than 90 days		8,264	11,915
Total owing		17,362	23,028
(c) Accrued revenues - Corporations Act			
Annual returns not yet lodged		8,345	8,727
Late fees attributable to annual returns		2,782	2,909
Total accrued revenue		11,127	11,636

28.Administered provisions and payables – as at 30 June 2002

	Note	2002 \$'000	2001 \$'000
Provisions			
Provision for unclaimed monies repayments – Banking Act		68,220	60,505
Provision for unclaimed monies repayments – Life Insurance Act		5,929	5,823
		74,149	66,328
Payables			
Information Integrity Program monies – Corporations Act – payable to ASIC		137	115
Corporations Act refunds		1,458	365
Unallocated monies - Corporations Act		4,933	–
Total payables		6,528	480
Total provisions and payables		80,677	66,808

29.Administered equity

Item	Accumulated results		Total Equity	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Balance 1 July	35,628	23,149	35,628	23,149
Surplus/(Deficit)	(15,833)	12,479	(15,833)	12,479
Balance 30 June	19,795	35,628	19,795	35,628

31.Administered commitments

There were no administered commitments as at 30 June 2002 (2001: nil).

32.Administered contingencies

There were no administered contingencies as at 30 June 2002 (2001: nil).

33.Auditors remuneration – Administered items

	Note	2002 \$	2001 \$
Financial statement audit services by the Auditor-General are provided free of charge to ASIC in relation to the audit of Corporations Act, Banking Act and Life Insurance Act (administered) items	24(b)	25,000	22,000

34.Assets held in trust

ASIC has established trust accounts for Companies Unclaimed Money. Monies received are placed in a special bank account and is expended in accordance with the *Corporations Act 2001*. These monies are not available for the purposes of ASIC and are not recognised in the financial statements.

Companies Unclaimed Monies Account (Part 9.7 – Corporations Act 2001) (represented by cash at bank)

	2002 \$'000	2001 \$'000
Opening balance	25,930	24,769
Receipts	12,474	3,171
Interest received	1,112	1,333
Disbursements	(892)	(657)
Bank Charges	(1)	(3)
Management costs recovered by ASIC	(302)	(341)
Consolidated revenue transfer	(4,503)	(2,342)
Closing balance	33,818	25,930

35. Fiduciary monies – (other than trust monies)

Security deposits

The *Corporations Act 2001* and the *Corporations Regulations 2001* require applicants for a dealers or investment advisers licence, and applicants for registration as a liquidator, to lodge a security deposit with ASIC. These monies, deposits, stock, bonds or guarantees are not available for the purposes of ASIC and are not recognised in the financial statements.

Security Deposits under Corporations Regulations 2001 regulation 10.2.45 (Dealers & investment advisers)

	2002 \$'000	2001 \$'000
Cash (at bank)	367	356
Interest bearing deposits (at bank)	820	940
Inscribed stock	100	120
Insurance bonds	20	20
Bank guarantees	41,764	40,472
Total	43,071	41,908

Security Deposits under Corporations Act 2001 s1284(1) (Liquidators)

Insurance bonds	5,550	5,650
Bank guarantees	500	500
Total	6,050	6,150

36. Fiduciary monies – (other than trust monies)

Section 462 Companies Code receipts

ASIC has established a number of special purpose bank accounts in terms of section 462 of the *Companies Code* in respect of defunct companies. Monies received are expended in accordance with the *Corporations Act 2001*. These monies are not available for the purposes of ASIC and are not recognised in the financial statements.

Section 462 Companies Code receipts (represented by cash at bank)

Opening balance	154	98
Receipts	13	91
Interest received	8	2
Disbursements	(128)	(37)
Closing balance	47	154

37.Administered financial instruments

(a) Terms, conditions and accounting policies.

Financial instrument	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Deposits at call	27(a)	Deposits are recognised at their nominal amounts.	Monies awaiting payment to the Commonwealth Public Account (CPA) are held at call with ASIC's banker.
Receivables - <i>Corporations Act 2001</i> fees outstanding.	27(b)	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms: payable on lodgement of annual return (2001: payable on lodgement of annual return).
Accrued revenues	27(c)	As for Receivables – <i>Corporations Act 2001</i> fees outstanding.	As for Receivables – <i>Corporations Act 2001</i> fees outstanding.
Financial liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Refunds	28	These amounts are payable to companies that have either paid in excess of what has been assessed or as a result of waiving a late fee. Refunds are recognised at their nominal amounts, being the amounts at which the liabilities will be settled.	Refunds awaiting payment to companies are held at call with ASIC's banker.
Unallocated monies – <i>Corporations Act</i>	28	Unallocated monies including overpaid accounts are recognised at their nominal amounts, being the amounts at which the liabilities will be settled.	That portion of monies awaiting refund are held at call with ASIC's banker.

37. Administered financial instruments (cont)

(b) Interest rate risk : Administered

Financial instrument	Notes	Floating interest rate	Floating interest rate	Fixed interest rate		Non-interest bearing		Total	Total	Weighted Average Effective Interest Rate	Weighted Average Effective Interest Rate	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %	
Financial assets (recognised)												
Deposits at call	27(a)	1,807	3,603	-	-	1,646	1,241	3,453	4,844	n/a	n/a	
Receivables	27(b)	-	-	-	-	85,892	85,956	85,892	85,956	n/a	n/a	
Accrued revenue	27(c)	-	-	-	-	11,127	11,636	11,127	11,636	n/a	n/a	
Total		1,807	3,603	-	-	98,665	98,833	100,472	102,436	-	-	
Total assets									100,472	102,436	-	-
Financial liabilities (recognised)												
Refunds	28	-	-	-	-	1,458	365	1,458	365	n/a	n/a	
Other monies	28	-	-	-	-	5,070	115	5,070	115	n/a	n/a	
Provision for Banking Act unclaimed Monies repayments	28	-	-	-	-	68,220	60,505	68,220	60,505	n/a	n/a	
Provision for Life Insurance Act unclaimed Monies repayments	28	-	-	-	-	5,929	5,823	5,929	5,823	n/a	n/a	
Total		-	-	-	-	80,677	66,808	80,677	66,808	-	-	
Total liabilities									80,677	66,808	-	-

(c) Net fair values of administered financial assets and liabilities

Administered financial assets	2002 Total carrying amount \$'000	2002 Aggregate net fair value \$'000	2001 Total carrying amount \$'000	2001 Aggregate net fair value \$'000
Cash at bank and on hand	3,453	3,453	4,844	4,844
Receivable	85,892	85,892	85,956	85,956
Accrued revenue	11,127	11,127	11,636	11,636
Total financial assets	100,472	100,472	102,436	102,436
Financial liabilities (recognised)				
Refunds	1458	1458	365	365
Other monies	5070	5070	115	115
Provision for unclaimed monies repayments – <i>Banking Act</i>	68,220	68,220	60,505	60,505
Provision for unclaimed monies repayments – <i>Life Insurance Act</i>	5,929	5,929	5,823	5,823
Total financial liabilities (recognised)	80,677	80,677	66,808	66,808

Financial assets

The net fair values of cash and deposits on call approximate their carrying amounts.

Receivables are carried at assessed value, which is equal to their net fair value.

Financial liabilities

Refunds are carried at their nominal value.

(d) Administered credit risk exposures

The maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as disclosed in Note 26, Assets and Liabilities Administered on behalf of the Government.

There are no significant exposures to any concentrations of credit risk in regard to the Administered accounts.

38.Administered appropriations

ASIC received the following appropriations during the year out of the Consolidated Revenue Fund:

	2002 \$'000	2001 \$'000
Administered Appropriations 2002		
Life Insurance Unclaimed Monies Account – <i>s216 Life Insurance Act 1995</i>	2,500	1,500
Appropriation – <i>Banking Act</i> unclaimed monies	10,000	15,000
Appropriation – <i>Corporations Act</i> refunds	200	1,300
Total	12,700	17,800

39.Events occurring after reporting date

There were no events occurring after reporting date that had a material effect on the financial statements.

40. Reporting by segments and outcomes (Whole of Government reporting)

The outcomes and output framework for budgeting and reporting was introduced by Government for all Commonwealth Departments and Agencies in 1999-00.

ASIC receives funding from Government within the context of this framework to regulate the market in order to achieve “A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers” (Outcome 1).

ASIC’s operations and activities that give effect to its role as a regulator are categorised into four outputs. The relationship between Outcome 1 and the corresponding four outputs is shown in the diagram below.

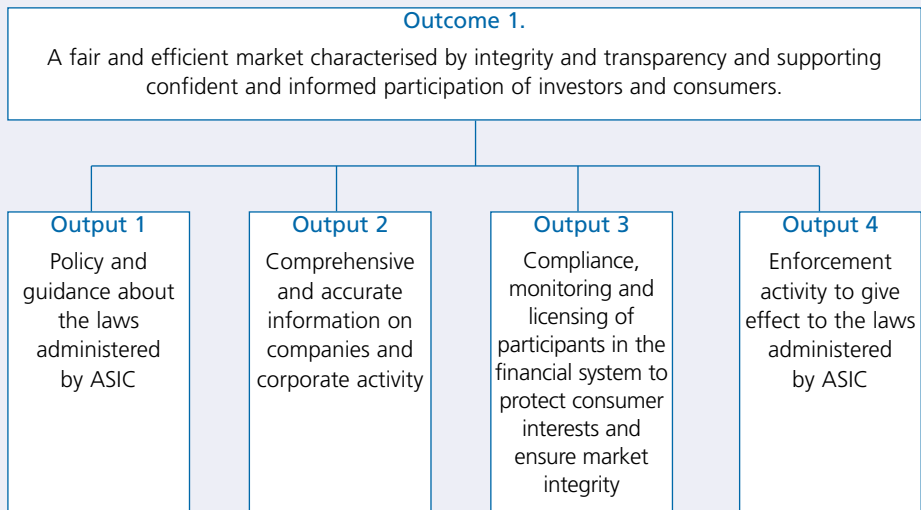


Table A: Total cost/contribution of outcomes (Whole of Government)

Outcome 1. A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers.

	Outcome 1	
	Budget \$'000	Actual \$'000
Net taxation, fees and fines revenues	352,750	368,741
Other administered revenues	41,525	46,698
Net subsidies, benefits and grants expenses	–	–
Other administered expenses	(18,025)	(14,429)
Net cost of departmental outputs	(141,221)	(151,569)
Cost/Contribution of outcome before extraordinary items	235,029	249,441
Extraordinary items	–	–
Administered	–	–
Departmental	–	–
Net cost/contribution to Budget outcome (a)	235,029	249,441

(a) Table A above shows the net contribution to the Commonwealth Budget outcome by adding the net cost of departmental outputs, administered revenue less administered expenditure to produce a positive contribution to the Budget outcome of \$249.441m. This derived amount of \$249.441m is meaningful only when it is used to consider ASIC's contribution to the budget outcome for the purposes of "whole of Government" reporting. It is not intended to represent or portray an alternative operating result for ASIC to that which is disclosed in the Statement of Financial Performance.

Administered expenses represent revenue foregone to the Commonwealth as a result of refunds and waivers and write offs of fees and charges owing to the Commonwealth (not ASIC) under the Corporations Act. Both administered expenses and revenues are detailed in Note 23, Revenues and Expenses Administered on behalf of Government.

ASIC collects administered revenue on behalf of the Commonwealth under the Corporations Act, Banking Act and the Life Insurance Act.

The net cost of entity outputs on the other hand represents the expenses incurred by ASIC less the revenue earned by ASIC from other sources – each of these amounts is detailed in the Statement of Financial Performance.

years: 11 dishonest company office rs and others who cheated investor, \$401 million nds protected, com ers or assets frozen estors an creditors, criminals jailed for s totalling 74 years: dishonest any officers others who cheated estors, \$401 million nds prote cted, com tion orders or assets estors - creditors, 19 minals jailed for ter s totalling 74 ye ars: dishonest company rs an 8 others who nals jailed for terms years: 11 dishonest mpany office rs and others who cheated estor, \$401 million nds prote cted, minals jailed for rms 74 years: 11 dishonest company offi rs and 8 others who eated investor, \$401 nals jailed for terms years: 11 dishonest mpany office rs and others who cheated estor, \$401 million nds protected, com ers or assets frozen estors an creditors, criminals jailed for s totalling 74 years: dishonest any officers others who cheated estors, \$401 million nds prote cted, minals jailed for terms totalling 74 years: dishonest any officers others who cheated estors, \$401 million nds prote cted, com tion orders or assets estors - creditors, 19 minals jailed for terms totalling 74 years: dishonest any officers others who cheated estors, \$401 million nds prote cted, com tion orders or assets estors - creditors, 19

Table B: Major departmental revenues and expenses by output (Output Group)

	Output 1		Output 2		Output 3		Output 4		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Operating Revenues										
Revenue from government	8,240	13,500	39,049	39,860	40,360	23,465	58,321	54,640	145,970	131,465
Sale of goods & services	–	–	2,709	1,914	–	–	–	–	2,709	1,914
Interest	120	196	574	554	593	340	898	818	2,185	1,908
Proceeds from sale of assets	14	1	60	6	62	6	94	10	230	23
Other	–	–	–	–	–	–	3,124	8,735	3,124	8,735
Operating expenses										
Employees	4,802	4,983	22,758	21,593	23,522	22,424	33,989	33,895	85,071	82,895
Suppliers	3,480	3,027	16,493	13,118	17,047	13,623	24,634	20,686	61,654	50,454
Depreciation & amortisation	660	569	3,129	2,465	3,234	2,559	4,674	3,886	11,697	9,479
Write-down of assets	22	16	106	70	109	73	159	111	396	270
Written down value of assets disposed	60	5	260	20	270	21	409	32	999	78

Table C: Major classes of departmental assets and liabilities by output (or Output Group)

	Output 1		Output 2		Output 3		Output 4		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Output specific departmental assets										
Leasehold improvements	633	474	2,744	2,055	2,849	2,134	4,327	3,242	10,553	7,905
Infrastructure, plant & equipment	678	527	2,940	2,285	3,053	2,373	5,301	3,604	11,972	8,789
Intangibles	315	322	1,363	1,395	1,415	1,449	2,149	2,201	5,242	5,367
Other	68	55	295	238	307	247	466	376	1,136	916
Other departmental assets										
Cash	–	–	4,224	1,682	–	–	12,322	10,595	16,546	12,277
Receivables	–	–	2,814	1,969	–	–	–	–	2,814	1,969
Output specific departmental liabilities										
Other departmental liabilities										
Finance lease liability	520	–	2,254	–	2,341	–	4,219	–	9,334	–
Unearned revenue	–	–	–	–	–	–	2,910	63	2,910	63
Other non interest bearing liabilities	249	282	1,080	1,220	1,122	1,267	1,703	1,924	4,154	4,693
Provisions - Employees	1,616	1,580	7,001	6,847	7,270	7,110	11,039	10,796	26,926	26,333
Payables - Suppliers	352	237	1,523	1,027	1,582	1,067	2,402	1,619	5,859	3,950

Table D: Major classes of administered revenues and expenses by outcomes

	Outcome 1	
	2002 \$'000	2001 \$'000
Revenues		
Other taxes, fees and fines	379,351	362,596
Monies from banks and deposit taking institutions	29,953	24,716
Monies from life insurance institutions	3,912	5,006
Government appropriation for refunds under the Banking Act	10,000	15,000
Government appropriation for refunds under the Life Insurance Act	2,500	1,500
Drawdown from the official public account for refunds	200	1,300
Interest	133	189
Expenses		
Write-down of assets	10,610	6,969
Other	14,429	13,504

Table E: Major classes of Administered assets and liabilities by outcome

	Outcome 1	
	2002 \$'000	2001 \$'000
Outcome specific administered assets		
Cash	3,453	4,844
Receivables	85,892	85,956
Other – accrued revenues	11,127	11,636
Outcome specific administered liabilities		
Provisions – refunds	74,149	66,328
Payables – other	6,528	480

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For consumers and investors

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Information for consumers and complaints about financial services and products, investors' rights, companies, company directors, auditors and liquidators, company administration, policy and procedures:

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