

ASX overview

This has been a remarkable year for the Australian Stock Exchange.

Operationally, major systems developments were brought to fruition in both the equities and derivatives markets, a new market to facilitate capital-raising for unlisted companies was established, the year 2000 remediation programme was at a peak of activity and the equities market experienced record trading in the first half-year. Against this

background, a complete restructuring of the organisation and a far-reaching business-planning process were undertaken to prepare for ASX's transformation, proposed for 13–14 October this year, from a mutual organisation of stockbrokers to a listed public company.

It is a tribute to staff throughout ASX that high levels of efficiency and of service to our customers were nevertheless maintained.



"The liquidity and relative lack of volatility of the Australian market have stood it in good stead."

It was also a satisfactory year financially, with an operating profit before tax and abnormal items of \$26.4 million. This was not reflected in the bottom line, however, because of substantial abnormal items, mainly non-recurring expenses and provisions related to demutualisation forecast in the half-year report, which reduced net profit to \$16.7 million.

A thorough review of expenditure during the year achieved significant reductions which, along with a pricing review to reflect the change from a member-owned organisation, produced a projected profit after tax of \$17.8 million for the current financial year. This projection is based on assumptions about a number of variables that are discussed in detail in the listing information memorandum.

Achieving this result is dependent on (among other things) trading volumes on the equities and derivatives markets reaching forecast levels. Both were volatile towards the end of the financial year, possibly because of the uncertainty stemming from financial crises in several Asian countries and a rapid depreciation of the Australian dollar.

Establishing the basis for operating in the interests of our future shareholders, relative to market conditions, was an important part of a complex process leading up to demutualisation, which occupied much management time during the year. Although no capital is being raised, a detailed listing information memorandum was prepared and is being distributed to Eligible Members with this annual report.

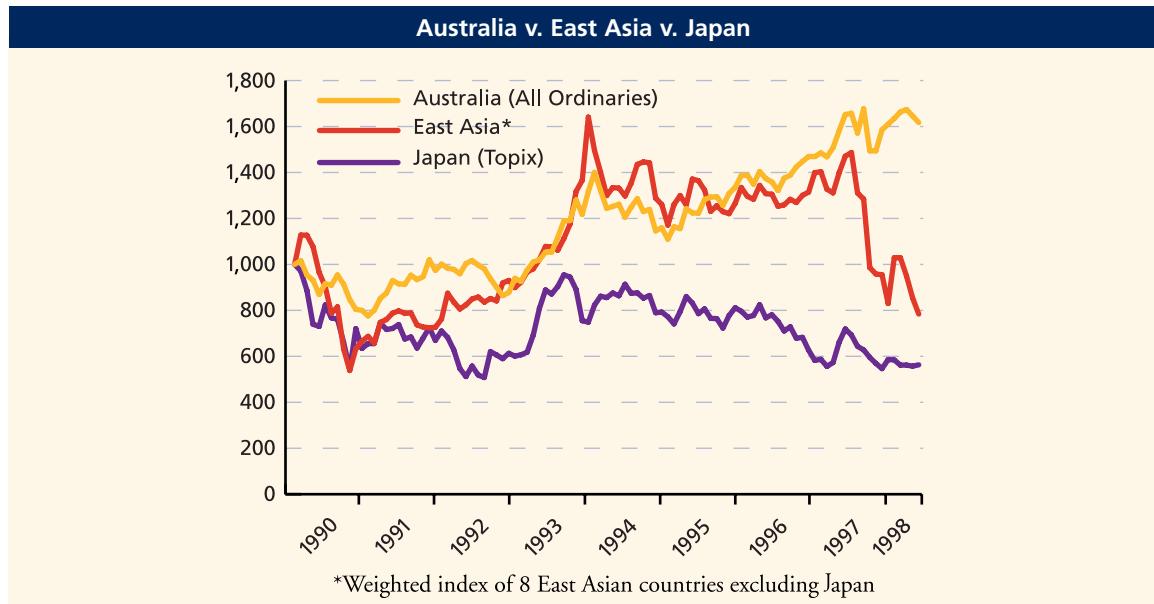
For ASX, one of the principal benefits that the flexibility of demutualisation and listing is designed to bring is the ability to take advantage of the rapid changes in the environment in which stock exchanges are operating. Another is to make it

better placed to meet increasing competitive pressures that come both from overseas exchanges seeking to internationalise their activities and from new domestic markets, including the Newcastle Stock Exchange, the Bendigo Stock Exchange and a proposed Tasmanian securities exchange focusing on small to medium-sized enterprises, whose revival or establishment was assisted during the year by federal government grants. A stock exchange is also planned for Papua New Guinea and would compete with ASX for trading in the stocks of companies domiciled there for which ASX is currently the effective home exchange.

One possible approach to meeting the challenge of globalisation is to make alliances with foreign stock exchanges. This has been done in Europe between the London Stock Exchange and Deutsche Börse, with discussion of extension to a pan-European market, and in Scandinavia where the Danish and Swedish stock exchanges have agreed to trade on a single market. The Nasdaq Stock Market in the U.S.A. has announced a merger with the American Stock Exchange, and has also had discussions with Deutsche Börse about a possible alliance. ASX had informal discussions during the year with Nasdaq, and they will be continued in the current financial year. Regular discussions are also held with regional exchanges, including the New Zealand Stock Exchange, on possible areas of further co-operation.

Maximum competitiveness is particularly important for stock exchanges with relatively small shares of the global market in which they are increasingly competing for investors and issuers. Largely because of the fall in the Australian dollar during the year, ASX's share of the world stock market index calculated in U.S. dollar terms by Morgan Stanley Capital International (MSCI) fell from 1.45 per cent in June 1997 to 1.12 per cent





in June 1998. On the other hand, because of the Australian market's stability, helped by the Australian dollar's strength relative to many Asian currencies, its share of the MSCI index of the Asia-Pacific region, excluding Japan, rose from 28 per cent to 44 per cent over the same period. The maturity and strength of the Australian market is illustrated in the accompanying graph, showing that the Australian market has out-performed the Japanese Topix index and, particularly in recent years, an East Asian index.

Although the Australian market suffered some effect from the financial crises in Asia, its liquidity and relative lack of volatility have stood it in good stead, and should continue to do so in the future. Its status in the region will be strengthened after completion by ASX of its project to minimise the risk that its computer and other date-dependent systems may not function through the century change.

Considerable progress was made with this project during the financial year, and internal testing of all critical systems that are under ASX's control is scheduled to be completed by May 1999. ASX is also exposed to year 2000 failures by third parties, however, and there can be no assurance that its operations will not be affected. All ASX-listed companies were required to disclose their state of year 2000 readiness to the market by 30 June 1998, and means of ensuring the readiness of stockbrokers are being considered.

Stamp duty on share transactions in Australia continued to be higher than in many other countries. Following an academic study demonstrating a \$4.6 billion economic benefit from its halving in 1995 (discussed in the last annual report), a further demonstration was given

by a decision by the New South Wales government to virtually eliminate duty on trading on New Zealand stocks from 1 March 1998, which boosted turnover in these stocks.

ASX participated during the year in the Business Coalition for Tax Reform, and strongly supports the tax reforms proposed by the federal government, which include abolition of this stamp duty as well as other financial transaction taxes. We also welcome the corporate law reforms embodied in the government's Corporate Law Economic Reform Program, which are a significant first step in simplifying the quite appalling complexity of the Corporations Law.

Such steps by government to improve the national competitive environment will interact with ASX's continuing programme of improving its own competitiveness, of which demutualisation will have the most far-reaching effects. Neither can control the external environment, including the future path of Asian economies and their effect on Australia, but within whatever environment we encounter we will be much better equipped to fulfil the expectations of our future shareholders.

Maurice L. Newman AM
Chairman

Richard G. Humphry AO
Managing Director and Chief Executive Officer

ASX financial results

John Hayes – Chief Financial Officer

ASX achieved an operating profit before tax and abnormal items of \$26.4 million in the 1997–98 financial year – its second-highest ever and 60 per cent higher than the previous financial year. Substantial abnormal expenses, mostly associated with the planned change from a mutual-style organisation to a listed public company, offset by a tax benefit, reduced the net profit after tax to \$16.7 million, up \$1 million on the previous year.

"The higher operating profit was mainly attributable to buoyant revenue, up 15 per cent from the previous year."

The higher operating profit was mainly attributable to buoyant revenue, up 15 per cent from the previous year at \$138.4 million. This, in turn, reflected high levels of trading in equities and warrants, offset by slightly lower options volume, and a record \$28.8 billion in new listings, including one-third of Telstra, AMP and TAB. Revenue included \$8.4 million of interest, slightly down on the prior year because of lower interest rates.

The process of demutualisation involved a fundamental reconsideration of many aspects of ASX's operations, including its likely requirements for office space. In Sydney, where most activities are located, a move to new premises in 1999 will take account of this reassessment. In other states, however, it was determined that space held under current leases would be greater than ASX's requirements, and the estimated \$6.4 million net cost of both this surplus space over the terms of the leases (after allowing for rental income) and the fittings forming part of the space were treated as an abnormal expense in 1997–98. The direct costs of demutualisation contributed a further \$5.7 million to abnormal expenditure.

ASX is now well advanced on its programme to minimise the effect of the year 2000 computer problem, and the \$3 million spent in 1997–98 was a further abnormal expense. ASX's technology has proved to be less affected by this problem than

originally predicted, and the total cost of the remediation programme is not expected to exceed the original estimate of \$12.5 million. Other, smaller amounts brought the net abnormal expense for the year to \$15.7 million.

Positive cash flow for the year was \$41.3 million (net of purchases of investment securities), also a record, after capital expenditure of \$22.4 million which was offset by \$30.4 million reimbursed from the Securities Industry Development Account in respect of approved expenditure, which in turn is funded by excess amounts in the National Guarantee Fund. This source of funds for new capital projects is not expected to be available after demutualisation.

ASX's net assets at 30 June 1998 amounted to \$174.8 million.

In the accompanying ten-year summary of ASX's financial results, changes in accounting treatment for 1997–98 affect some of the comparisons. In particular, the cost of sales is now deducted from revenue instead of being included in expenditure, as in prior years. In making balance-sheet comparisons, it should be noted that the amounts of margins and deposits held from Options Clearing Members and money held in trust for Member Organisations, which used to be recorded as exactly offsetting assets and liabilities, have been removed.

Ten-year financial summary

Dollars in thousands Year ended June 30	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Revenue	78,201	75,168	74,990	76,177	76,012	105,862	97,862	104,343	110,971	130,008
Expenditure	76,063	88,514	81,243	73,361	70,737	77,364	82,250	89,256	103,382	112,012
Earnings before interest and tax	2,138	(13,346)	(6,253)	2,816	5,275	28,498	15,632	15,087	7,589	17,996
Net interest income	15,136	10,061	3,431	2,849	2,537	2,398	6,805	9,536	8,919	8,356
Abnormal Income (Expenditure – net of income)	(1,356)	(21,041)	(6,402)	(2,941)	2,162	(5,824)	(4,484)	(2,671)	1,166	(15,666)
Income Tax (Expense)/Benefit	(6,376)	590	1,190	(915)	(2,591)	(1,059)	(3,306)	(2,567)	(2,000)	6,010
Net Operating Surplus/(Deficit)	9,542	(23,736)	(8,034)	1,809	7,383	24,013	14,647	19,385	15,674	16,699
Accumulated Surplus	56,087	32,351	24,317	26,126	33,509	56,999	73,187	92,572	108,270	139,819
Net Assets	88,485	71,704	69,836	66,883	71,175	101,330	120,850	146,653	158,120	174,819
Cash Expenditure on Property, Plant and Equipment	26,745	20,766	7,488	5,939	16,937	22,009	14,623	31,271	32,158	22,423
Depreciation and Amortisation	15,397	13,168	11,417	10,520	9,831	11,591	11,375	12,057	16,356	14,784
Cash Flow – Increase/(Decrease) in Cash Held	(7,046)	(17,414)	7,714	14,133	13,150	33,037	27,946	9,079	12,817	41,317



ASX transformation



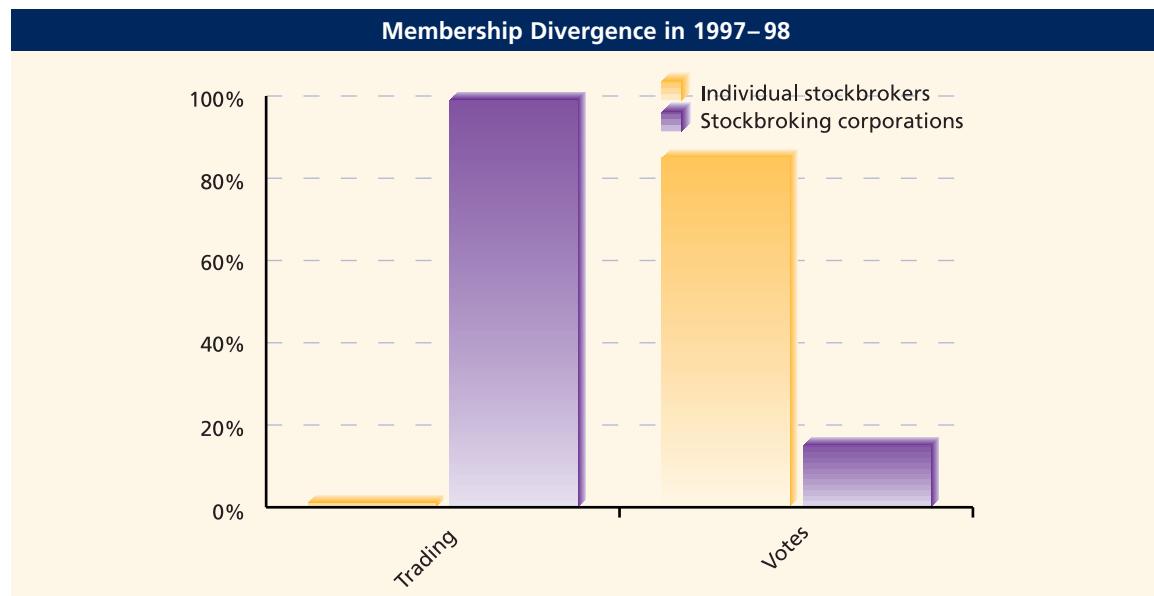
For more than a century, ASX and its predecessor state stock exchanges (along with many overseas exchanges, some for much longer periods) have operated as mutual organisations of stockbrokers. The appropriateness of this structure was not questioned so long as individual stockbrokers, usually trading in partnerships, had sole right of access to the market, which they did in Australia until 1982.

demutualisation background

In 1982, the then Trade Practices Commission ruled that stock exchanges must admit corporations as members. These corporations came to dominate trading, and in the 1997–98 financial year were responsible for 99 per cent of transactions on the equities market. Numerically, however, they were in a minority of 93 compared with 522 individual Members, with Members in both classes having a single vote. A fundamental question facing ASX was whether there were inefficiencies inherent in this mutual structure inhibiting its ability to meet current and future challenges, such that there was a need to reform structural arrangements.

Having considered the task force's report, the Board decided to recommend a demutualisation proposal to Members and a notice of a special general meeting, together with an explanatory memorandum, was distributed on 24 September 1996. The Board put to Members that a decision to pursue demutualisation was strategic, aimed at best positioning ASX to compete in a rapidly changing international market-place.

Key factors that the Board thought relevant were included in the explanatory memorandum. It was emphasised that Members should form their own views on a range of matters on which they were especially qualified to make judgements: whether competition was real and growing for the products and services ASX offers; whether a flexible non-mutual structure would better equip ASX to meet any competition than a mutual structure; whether Members' interests were diverging (and



A special meeting of the Board was held in 1995 to review ASX's business strategy and to consider its goals. The Board considered it appropriate to reconsider ASX's organisational and ownership structure, and to determine whether it provided the flexibility to enable ASX to meet the challenges facing a modern stock exchange in a changing domestic and international environment; it therefore set up a task force to examine options for ASX's future governance.

The task force, led by the chairman, was asked to investigate all options and, if appropriate, to provide a detailed proposal to change the relationship between ASX and its Members by removing the current requirement that those with access to ASX's market also own ASX. The review was conducted in consultation with Members through a reference panel of stockbrokers drawn from each state, which provided feedback to the task force.

were unlikely to reconverge) and whether the same benefits were derived by all Members from services provided by ASX; whether Members' interests would always coincide with those of ASX itself; and whether it was undesirable in the long term for control of an entity to reside with one group of its customers.

The Board recommended that Members vote in favour of the proposal, and at the special general meeting on 18 October 1996 more than 96 per cent of Members supported two resolutions that began the demutualisation process. Following the vote, ASX management worked closely with the federal government to develop the legislation necessary to achieve the change in structure, and the Corporations Law Amendment (ASX) Bill enabling demutualisation and listing became effective on 16 December 1997.

after conversion

A part from enabling the conversion from a company limited by guarantee to a company limited by shares (a transition that was not provided for in the Corporations Law at that time), the legislation imposed a five per cent shareholding entitlement limit and clarified the continuing responsibilities of securities exchanges in supervising their markets and market participants. This supervisory role of ASX's will not be fundamentally changed by demutualisation. Because it is essential for maintenance of market integrity, which in turn largely determines the reputation of the market and its attractiveness for investors and issuers, and hence profitability, ASX regards this role as vital and will continue to devote to it whatever resources it requires after becoming a commercial organisation.

Because ASX could not supervise its own compliance, as a listed company, with the listing rules, the Australian Securities and Investments Commission (ASIC) will fulfil this function, taking over ASX's usual role on these compliance matters. Both the Corporations Law and the listing rules have been amended to permit this arrangement, and are to be supplemented by a memorandum of understanding between the two organisations.

While the demutualisation legislation dealt with ASX's future corporate structure, ASX management had to consider the best organisational structure to meet a demutualised ASX's various responsibilities of customer service, effective supervision and profitable operation. A three-part structure was decided upon, with all customer-focused and revenue-earning operations in one division; the actual provision of markets and settlement systems, and information technology, in another; and strategic planning and business support services in a third. This structure is illustrated on the following page.

Once the structure had been determined, it formed the foundation for a business plan to achieve ASX's strategic objectives while serving all its customers and operating efficiently to earn a commercial profit. Separate business plans were developed for the 30 business units in the new structure, with associated personnel and financial plans, and these were consolidated into an overall plan for ASX, which was approved by the Board.

As a result of the clean-sheet approach to developing a business plan, changes were found to be necessary in some aspects of ASX's operations,

including a more rapid move from traditional, largely paper-based delivery of information to electronic means. ASX's six investor centres around Australia, for example, were used by only about 500 people a day, compared with more than 9,000 who used the ASX ShareNet site on the World Wide Web. It was decided that the resources devoted to the investor centres would be better used in providing information through ShareNet and other efficient electronic means, and the investor centres were closed at the end of the financial year.

Business planning necessarily involved a consideration of pricing. Since the point of a mutual structure is to advance the interests of its members, and profit is not one of its purposes, charges to members are constrained to a greater extent than charges to external customers and there is a tendency to use them as a means of returning benefits to members. Pricing policy throughout the organisation was therefore reviewed as part of the business plan development, and some adjustments were subsequently made.

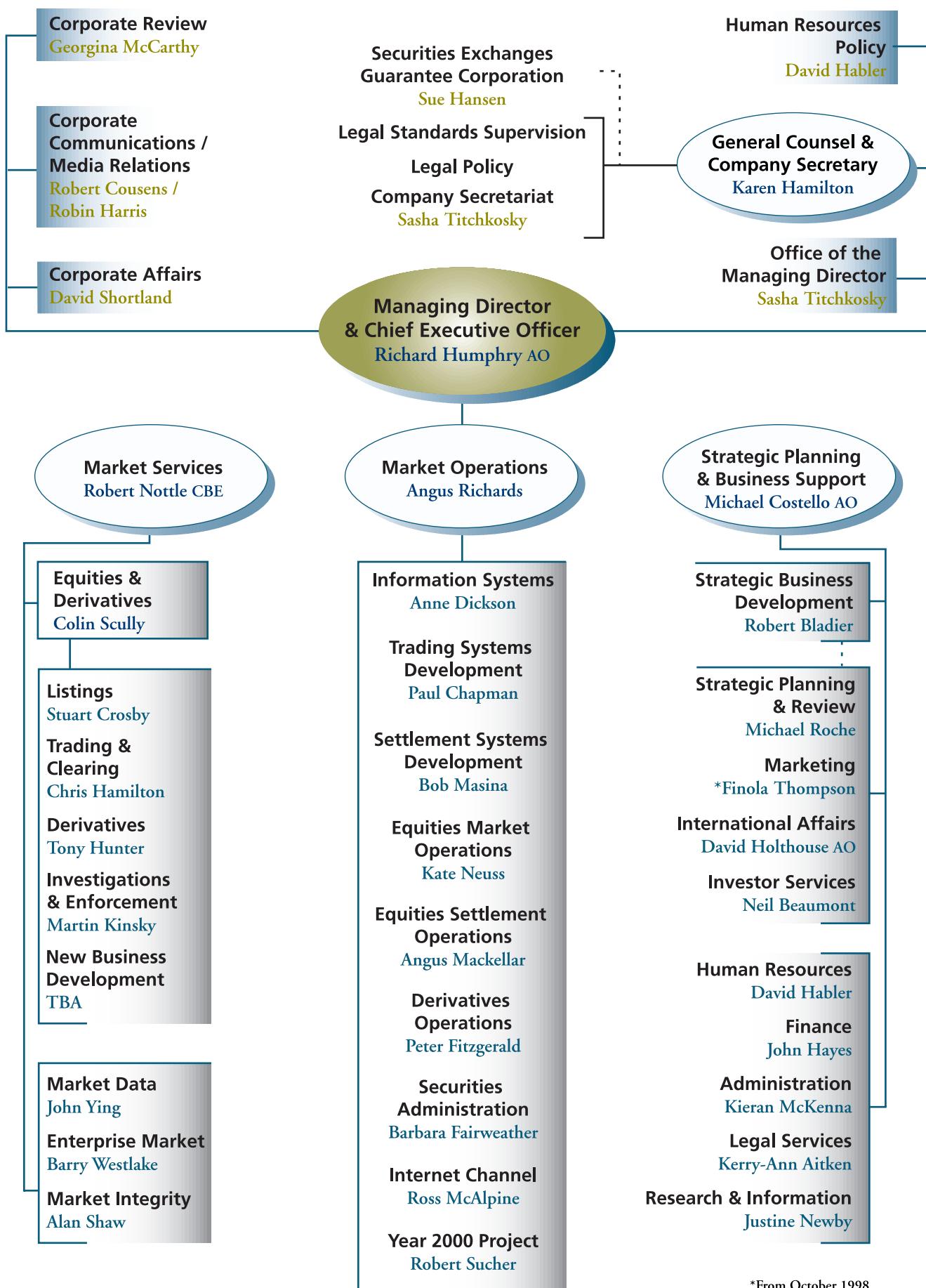
The final step in the demutualisation process was the preparation of a listing information memorandum, which is being published contemporaneously with this annual report and provides much greater detail about the demutualisation decision and its consequences. Demutualisation is expected to occur on 13 October when an issue of shares will be made to Members, with listing on the following day. The annual general meeting on 19 October will be asked to approve two employee share plans.

"A fundamental question facing ASX was whether there were inefficiencies in this mutual structure inhibiting its ability to meet current and future challenges."



Pina Romeo (Participant Services) at an Adelaide staff meeting to discuss demutualisation.

ASX organisation



*From October 1998



*Robert Nottle – Deputy Managing Director
Market Services*

ASX provides markets for equities and related company-issued instruments, exchange-traded options, warrants, fixed-interest securities and capital-raising for unlisted companies. All are traded on computer-based systems, with separate automated clearing and settlement systems (except for the Enterprise Market). The principal equities market recorded good growth in both capitalisation and trading volume during the year, but derivatives trading was mixed, with options volume declining but warrants growing.

equities market

Capitalisation of the domestic equities market grew by 10 per cent in 1997–98, reaching \$489 billion at the end of the year. Almost all the growth came from new listings of Australian companies and other entities. In U.S. dollar terms at 30 June, the market ranked as the 13th largest national stock market in the world by domestic capitalisation, down from 11th place a year earlier because of the weakness of the Australian dollar and very strong growth by some markets of comparable size in Europe. Domestically, however, its value at 30 June represented an estimated 83.7 per cent of Australia's gross domestic product, up from 73.7 per cent a year earlier.

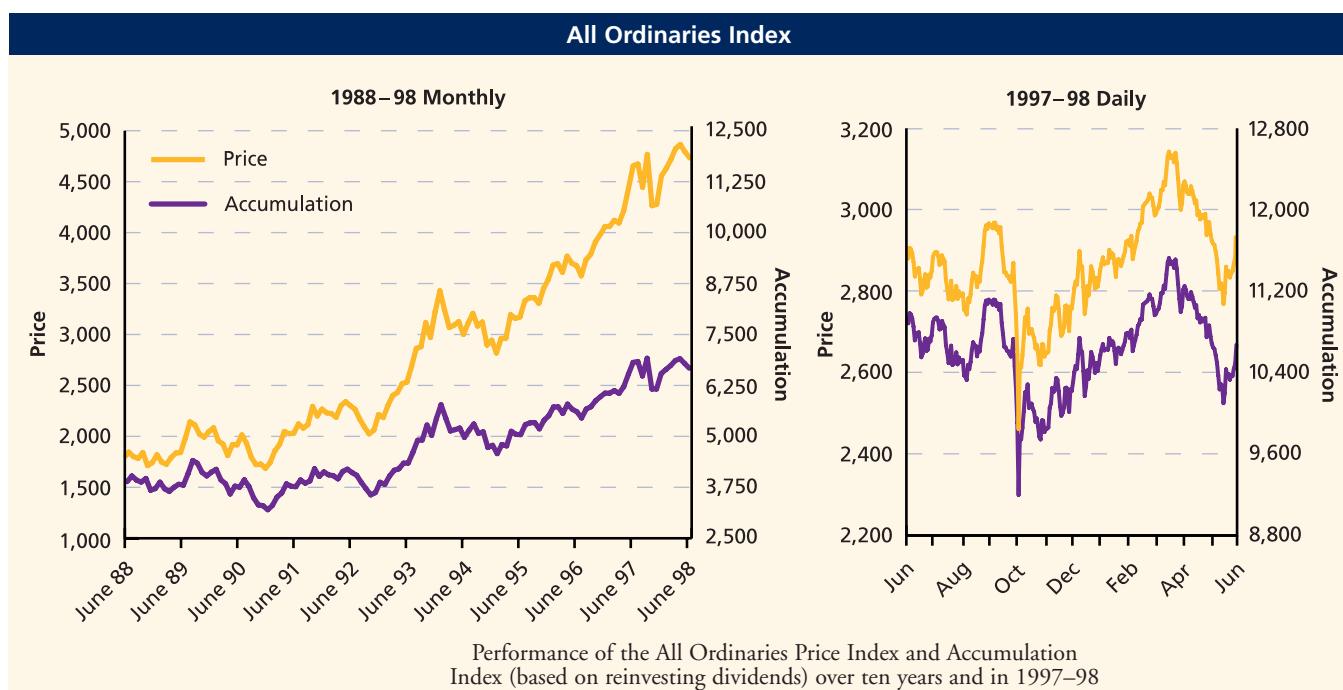
Trading activity grew much more strongly, with a 22 per cent rise in the number of transactions to 6.6 million and a 15 per cent rise in their total value to \$245 billion (both including warrants, which are traded on the equities system). The All Ordinaries Index, which began the financial year at 2725.9, rose to a record level of 2881.4 on 16 April 1998, but then declined to 2668.4 at 30 June, down 2.1 per cent.

Market liquidity for the year also declined slightly, from 54.9 per cent to 53.7 per cent, because average (as distinct from end-of-year) market capitalisation grew by 18 per cent, exceeding the 15 per cent increase in trading value. This level of liquidity remains internationally competitive, being in between the liquidities of the New York Stock Exchange and the domestic market of the London Stock Exchange.

Liquidity is a key competitive factor in a period of increasing globalisation of financial markets, when major companies are often listed on several world stock exchanges, and investors consequently have a choice of markets on which to buy and sell their securities.

A competitive disadvantage in trading New Zealand stocks was removed during the year, when the New South Wales government agreed to reduce stamp duty on these trades (and trades in shares of Papua New Guinea companies) from 0.15 per cent on each side of the transaction to a nominal 0.0025 per cent, effective from 1 March 1998. The effect of this cut was seen not only in increased ASX trading of currently listed New Zealand stocks, but in the quotation the following month of a new series of instalment receipts covering U.S.-held Telecom New Zealand shares, when their liquidity exceeded the market average and qualified them for inclusion in the All Ordinaries Index.

Earlier in the year, a significant innovation made possible the quotation in Australia of an issue by Bell Atlantic in the U.S. of bonds convertible into Telecom New Zealand shares owned by that company. This was achieved by an extension to foreign debt securities of ASX's depositary receipt system called CHESS Units of Foreign Securities (CUFS), which were originally introduced to allow electronic settlement of foreign equity issues. Local quotation of the issue led to applications by Australian investors for more than US\$500 million of the \$2.86 billion in bonds available, but because of heavy demand they were allocated only A\$222 million worth. Although the bond issue is denominated in U.S. dollars, the related CUFS are traded and settled in Australian dollars, as are the interest flows to Australian investors.



The success of the Bell Atlantic issue has led to further work to extend the use of CUFS to foreign debt issued by Australian companies, such as Eurobonds. One key to this is an amendment to a taxation bill introduced into federal parliament on 2 July 1998 which enables Australian companies to issue debt securities to foreign investors free of withholding tax. An amendment to extend this exemption to debt securities issued in bearer form is being sought, to enable the CUFS structure to be used for trading and settling these securities through ASX.

A closing-single-price auction market at the end of normal trading, in which overlapping orders are traded at a single weighted average price, continued to attract moderate interest after being introduced in the previous financial year.

A new trading facility called ASX Match, which operates as an adjunct to the SEATS trading system, was introduced on a trial basis in August 1997, initially at the end of normal equities market trading each day. After a limited period for entry of orders (with a minimum value of \$100,000), they are matched at the last sale price in priority according to the highest order volume and the smallest minimum-fill quantity (which are not disclosed) to ensure that the maximum possible quantity is traded. Although different times of day were tried, this matching facility did not attract significant interest from institutional investors, possibly because it is not a truly anonymous market, with orders having to be entered by (and so disclosed to) stockbrokers. ASX continues to examine such enhancements to its equities trading market.

Access to the equities market after demutualisation will no longer have membership of ASX as a requirement, nor a shareholding, but regulatory requirements will remain. Access will be open to any organisation or individual meeting the existing qualifications. ASX is working to modify capital adequacy requirements, which are necessary at present because traders are directly responsible for settlement of their trades. Amendments to the Corporations Law and ASX business rules would permit third-party clearing, which would enable market participants to transfer their settlement obligations to specialist clearing and settlement organisations. ASX hopes to achieve this in the current financial year.

A significant change to qualifications for inclusion in the All Ordinaries Index took effect from 1 July 1997, and was followed by new requirements for retention in the index on 1 July 1998. The liquidity criterion for inclusion



ASX Managing Director Richard Humphrey, Telstra CEO Mr Frank Blount and Telstra Chairman Mr David Hoare watch Telstra's listing-day trading on ASX's wonderwall in Melbourne

was increased from a fixed 6 per cent to a level equal to half the median liquidity of the market for the previous six months. A company in the index is now downweighted progressively if its liquidity falls substantially below median market liquidity for six consecutive months; a sustained drop below one-eighth of the median triggers removal from the index. The changes resulted in the removal from the index of 10 companies because of inadequate liquidity and 11 for inadequate capitalisation (partly owing to liquidity downweighting), with a further 32 being downweighted.

More than \$110 billion worth of bonds and other fixed-interest securities are listed on ASX, but in recent years most trading has taken place off-market. The value of transactions in 1997-98 was only \$190 million. Ways of increasing the level of on-market trading in debt securities are under study.



capital raising

Nearly \$29 billion of new equity capital was raised in 1997–98 by newly listed entities and through share issues by those already listed – a record for the Australian stock market and 75 per cent above the level of the previous year.

The largest listing of the year was the privatisation of one-third of the federal government's telecommunications company Telstra in November 1997, which was floated in a \$8.6 billion issue of instalment receipts, with a final \$6 billion instalment due in November 1998. The other very large listing did not principally involve capital raising but capital distribution: the demutualisation in June 1998 of AMP. Australia's largest insurer issued more than a billion shares to its policy-holders at an initial value of \$18.20 each, and a further 31 million shares to others which raised \$569 million.

Other substantial raisings included the privatisation of TAB Limited, the New South Wales automated betting organisation, which raised \$945 million; the float of United Energy Limited (\$541 million); and a rights issue by Pasminco Limited (\$500 million).

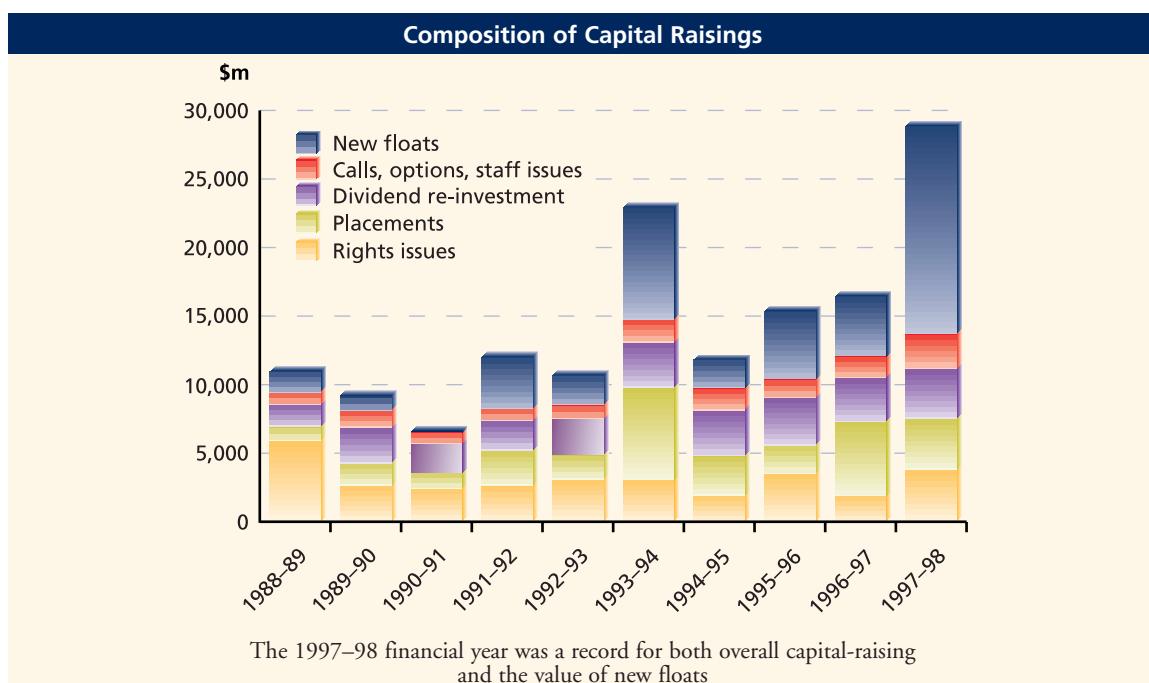
Employee share ownership continued to grow, with \$1.8 billion worth of shares being issued to employees by listed companies in 1997–98, up 17 per cent on the previous year.

The total number of listed entities with quoted equity securities at the end of the financial year was 1,227, a net increase of 29 after 83 new listings and

54 delistings. There are also 15 issuers of fixed-interest securities. New listings were encouraged by introducing new flexibility into administration of the listing rules to facilitate the listing of co-operatives, former co-operatives and mutual organisations such as friendly societies and credit unions, which previously were unable because of their structures to comply with the rules dealing with control issues. A guidance note to the listing rules set out the principles that ASX would apply in giving waivers to enable these entities to list. Particular interest in listing was shown by agricultural co-operatives, and Graincorp Limited and Namoi Cotton Co-operative took early advantage of the policy change. These and similar listings will help to redress the under-representation of the agricultural sector in the Australian stock market.

Another focus of promoting listings during the year was facilitation of the listing of structured securities: securities whose value is determined by reference to something other than the issuer itself, for example a commodity or another security (the Bell Atlantic bonds being an example). Other issuers of structured products listed during the year included Commonwealth Diversified Share Fund, the FXF Trust and Westfield America Inc.

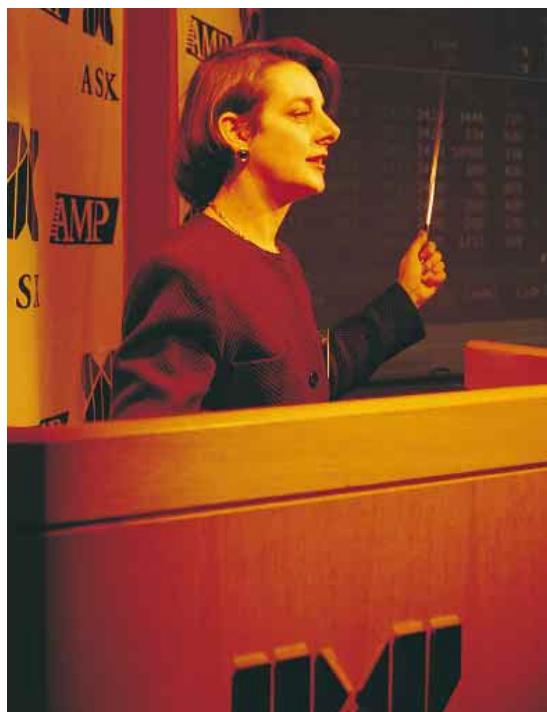
As a safeguard when a company that is to be listed does not have an adequate earnings record and has significant intangible assets, ASX requires securities owned by pre-listing investors to be held in escrow, usually for two years. The provisions governing these escrow arrangements were considerably simplified, and unrelated cash investors who have held securities for more than two years were exempted, removing what some potential listed companies had seen as barriers.



share ownership

The level of share ownership in Australia (broadly defined to include all equity securities) rose steeply in the first part of the financial year. A follow-up in February 1998 of the last full survey, undertaken in May 1997, showed that overall share ownership, including investment through managed equity funds, had risen from 34 per cent to 40.4 per cent. The direct ownership component of this figure increased even more strongly, from 20.4 per cent to 28.5 per cent, about half of which the survey indicated was attributable to first-time shareholders subscribing to the first stage of the privatisation of Telstra. This trend may well have continued with the demutualisation of AMP and the privatisation of the New South Wales TAB later in the year.

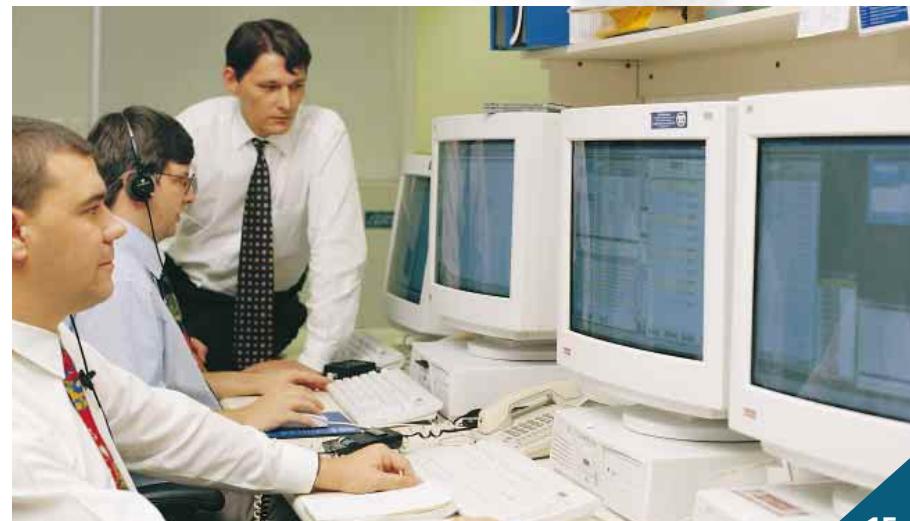
Demographically, the incidence of share ownership was more than 30 per cent in all age groups above 24, peaking in the 45–54 age group at 45.9 per cent. More than half of all share investors had a household income below \$50,000 a year, and the level of share ownership by women increased strongly, from 28.3 per cent in May 1997 to 36.2 per cent in February 1998.



Kate Neuss (Equities Market Operations) explains the SEATS trading system to guests at a ceremony marking AMP's listing on the Australian market.

derivatives market

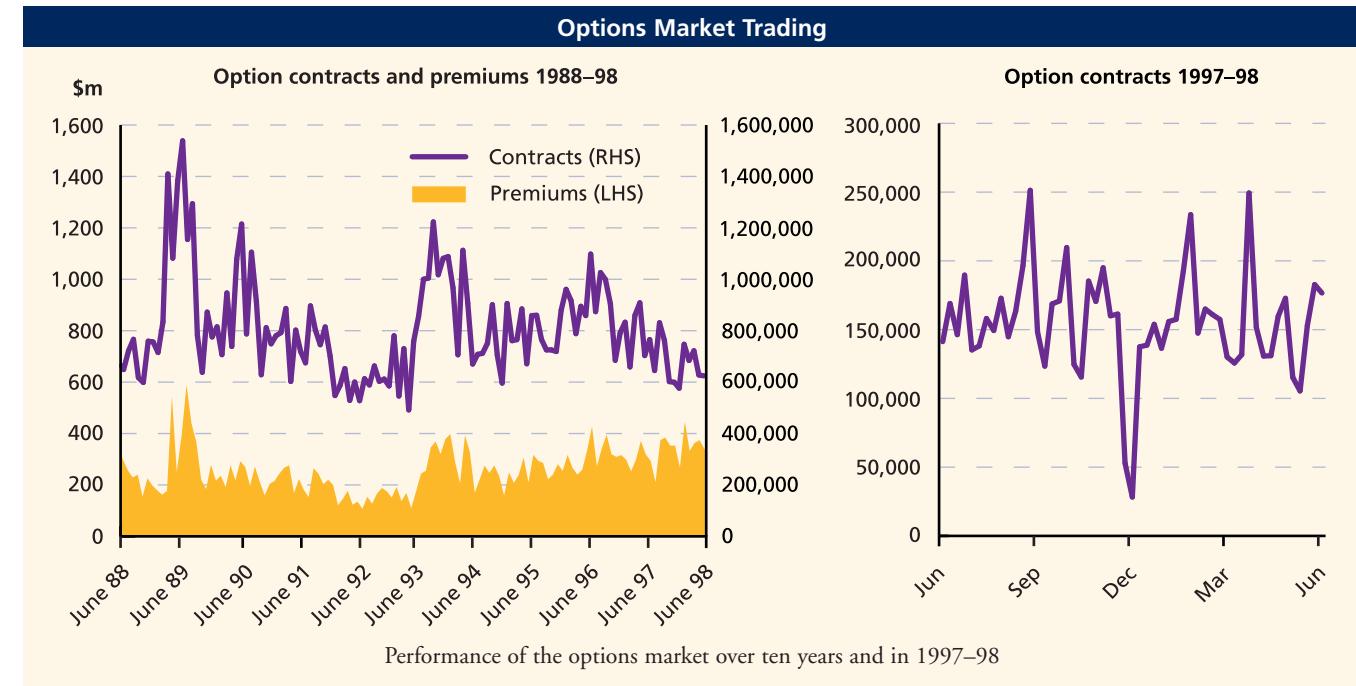
The outstanding feature of the derivatives market during the year was the continued spectacular increase in warrants trading, which was more than 80 per cent above the previous year's level at 4.5 billion, with a premium value of \$2.3 billion. The number of warrant series on issue more than doubled to 411, and the number of issuers rose from 9 to 13.



Graham O'Brien, Mark Tobin and Michael Holubko (Derivatives Operations) operate derivatives market control.

This growth was encouraged by the issue of new types of warrant during the year. Call and put warrants on the All Ordinaries Index were introduced in January 1998, and 13 series were listed from the same number of issuers. The initial index warrants were unduly complex because of legal technicalities, and therefore attracted only moderate trading, but these problems are expected to be resolved in new and simpler series issued in the new financial year.

The level of trading in put and call options was volatile during the year, fluctuating between monthly averages of 29,000 and 38,000. Overall, trading was substantially below the previous year at 8.1 million thousand-share contracts compared with 10.2 million in the previous year, but the 1.1-million-contract open interest at June 30 was only slightly below the previous year-end level. In contrast to raw volume, the premium value of contracts increased more than 4 per cent to \$4.1 billion, reflecting higher share prices and increased price volatility. The underlying share value of the options traded is estimated to be \$80 billion.



The transfer to an automated trading system dampened options volumes, perhaps while participants analysed the new environment. Another factor that may have affected trading was measures announced in the 1997 federal budget that would affect dividend imputation benefits when equities were hedged.

Increasing interest was shown in flex options, where various characteristics can be specified by the parties involved rather than being pre-specified. Until the current year, flex options were available only over classes of options (that is, underlying shares) already traded in the normal options market. This rule was changed to permit options-market participants to request flex options over other underlying securities, and resulted in the initial listing of two such classes, AGL and Wesfarmers.

Low-exercise-price options (LEPOs) continued to trade much higher volumes than the competing individual share futures (ISFs) traded by the Sydney Futures Exchange, although both were lower than in the previous year. More than 50,000 LEPO contracts were traded, compared with 21,000 ISFs, and open interest at the end of the year was more than 18,000 contracts compared with 259.

An accreditation programme for client advisers in stockbroking firms who give advice on exchange-traded options and warrants was begun during the year and is scheduled to be completed in November 1998. The aim of the programme is to ensure that investors in these derivatives, which have different characteristics to the underlying securities, are given the best possible advice on their benefits and risks.



David White (Administration and Listings) talks with Mr Bill Whiting of Taylor Collison at a meeting held at ASX for Adelaide stockbrokers.

equities settlement

Equities settlement is currently mandatory on the fifth business day after the trade (known as T+5), but best practice in the world has now moved to T+3. This cannot be achieved in Australia, not least because of its geography, while investors retain the option of having their holdings evidenced by share certificates, rather than being held in an uncertificated form.

Uncertificated shareholdings through ASX's CHESS settlement system require sponsorship, either by a CHESS participant (generally a stockbroker) or, if the issuer itself maintains an uncertificated share register, by the issuer. In order for all shareholders who currently have share certificates to have the option of choosing either type of sponsorship, ASX encouraged listed companies to adopt fully uncertificated share registers, and by 30 June 1998 about 85 per cent of securities units issued by Australian companies were uncertificated.

To enable T+3 settlement to be introduced in 1999, ASX is seeking regulatory approval to make it mandatory for listed companies to have fully uncertificated registers by the end of 1998. Share certificates will then be automatically converted to uncertificated holdings on the issuer-sponsored register. T+3 settlement is expected to begin in February 1999.

market integrity

ASX believes that the success of its market depends in part upon the investment community's view of market integrity. ASX believes it is high, and intends to maintain that situation. Demutualisation does not fundamentally change ASX's supervisory role or its current supervisory efforts – its core purpose specifically recognises the importance of confidence created by market integrity.

ASX conducts supervision in relation to markets (primarily monitoring activity in the equities and derivatives markets); listed entities; and the risk management, clearing and settlement activities of market participants. It carried out 132 inspections of stockbroking organisations during



Jim Berry, Darryl Harvey and Greg Bowrey (Surveillance) monitor equities trading to ensure the integrity of the market.

the financial year, and the National Adjudicatory Tribunal determined 14 breaches of ASX rules and imposed fines or censures. All but one of the organisations were named. The ASTC Disciplinary Tribunal found five rule breaches proved. ASX maintains a register of tribunal findings, which is available for public inspection.

The Securities Clearing House (SCH) of ASX Settlement and Transfer Corporation, which is responsible for the CHESS settlement system, also carries out routine inspections of participants. In 1997–98, disciplinary proceedings were taken against six participants, all of whom admitted the rule breaches alleged. Three were fined and all were named.

The market surveillance system monitors all transactions that take place on the market, using computers programmed to alert investigators to circumstances possibly indicating that, for example, the market is not fully informed or an attempt is being made to manipulate it. Just over 1 per cent of the 6.5 million trades in 1997–98 generated alerts from this system, but only a small minority of these were found to be significant. After further assessment of these alerts, 297 queries were made to listed entities about movements in the price of their securities, 23 apparent serious breaches were referred to the then Australian Securities Commission (ASC) and 24 cases were referred for further ASX investigation. Many other queries were made to listed companies for other reasons, such as media reports of matters not disclosed to the market and issues arising from disclosure announcements.

A project to develop competency standards for management and staff of stockbroking organisations

enterprise market

was completed in August 1997, and details of the standards were provided to all these organisations. In May 1998, ASX signed a memorandum of understanding with the Financial Planning Association and the Financial Services Complaints Resolution Scheme to enable stockbroker organisations to comply with an ASC requirement that investment advisers to retail investors be members of an external complaints resolution scheme. This will supplement, but not diminish, ASX's own supervision of market participants.

After extensive public consultation and exposure of draft proposals, a change to the basis of capital adequacy requirements for market participants was finalised and was awaiting approval from the Australian Competition and Consumer Commission (ACCC) and the ASC at the end of the financial year. Current capital adequacy requirements are based on a balance-sheet approach and do not take account of risk from all sources, or of the risk-management techniques used to reduce or eliminate risk. The new approach, which is consistent with international best practice, is risk-based, taking separate account of operational risk, principal-position risk, counterparty risk and large-exposure risk. An underwriting-risk requirement is currently being developed in consultation with ASIC.

The Enterprise Market is a start-up Internet-based operation developed by ASX to facilitate capital raising by small and medium-sized enterprises (SMEs); it commenced on 11 March 1998. Development of the Enterprise Market followed a report in 1995 by Marsden Jacobs to the federal government's National Investment Council, and much subsequent investment research. This concluded that there were some 14,000 Australian SMEs seeking equity capital, with a primary need in the range of \$500,000 to \$2 million.

ASX believed that this private capital market was inefficient and not adequately serviced, and established the Enterprise Market to consolidate buying and selling information so that emerging growth businesses and potential investors would have broader access to potential counterparties. Internet experience gained in this development will also be useful for ASX in enhancing use of the Internet in other areas of its businesses.



Barry Westlake (Enterprise Market) accepts the inaugural de Bono Innovation Award for New Thinking in Business from innovative thinker Dr Edward de Bono.

ASX aims to develop the Enterprise Market as a capital market, differentiated from ASX's main equities market, handling both equity and debt capital for non-listed businesses throughout Australia and having the capability to involve investors from all over the world. The market is designed to provide cost-effective alternative capital-raising and occasional trading, suitable for many companies that cannot, or do not wish to, list on a major stock exchange.

Sellers are required to provide basic information about the investment they have available and buyers about the type of investment they wish to make. On each business day, a computer program scans new sellers' information and sends an e-mail message to buyers who have indicated an interest in that type of investment.



The de Bono Innovation Award

Contact between buyers and sellers is initiated by buyers, who need to be approved by ASX as "authorised investors". Approval requires evidence of understanding the risks associated with trading on the Enterprise Market such as the fact that the information provided by sellers is not guaranteed by ASX, that it is not a prospectus, that no established markets exist for trading any securities that may be offered, that it is possible to lose part or all of an investment, and that it is up to a buyer to conduct its own due diligence and obtain professional advice. Further, the system contains a structured series of warnings designed to highlight risks to potential investors. Quality and integrity can be further enhanced through optional "sponsorship" of sellers' businesses by qualified professional advisers who are not active market-makers.

Potential investors, service providers and intermediaries (most of whom are accounting firms, management consultants and corporate advisers) pay a monthly fee for access to the Enterprise Market. Sellers pay an entry fee depending on the amount of capital being sought.

At 30 June 1998, after just three months of operation, the Enterprise Market had 194 buyer, investor or adviser subscribers and 40 capital-seeking companies (of which 26 had full details available on screen).

market data

ASX is a highly automated stock exchange, from trading and settlement to processing of company announcements, but until now it has produced and sold much of its value-added

information related to the stock market in paper form. That is now changing, with the introduction of an Internet-based service called ASXtra.

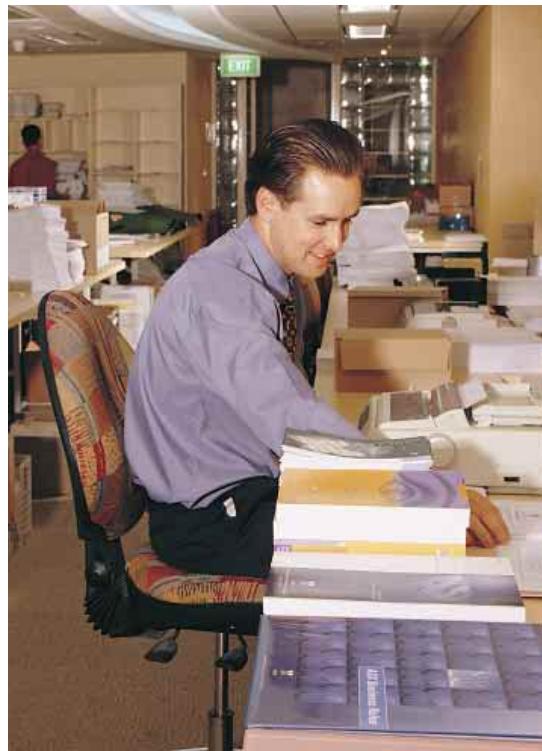
The first stage was introduced in May 1998, when ASX's daily and weekly diaries, daily and weekly schedules, quote sheets, float report and advance notice of meetings were made available through the ASXtra service in parallel to the paper versions. Two existing electronic data signals, containing hourly snapshots of the market in one case and full details of securities and issuers in the other, were also made available to ASXtra subscribers.

The second stage will add to the service a wide range of financial data fact sheets, including all those produced under the FinData title, as well as index portfolio reports, circulars to stockbroking organisations and other general reference information. ASX's listing rules and business rules will be added later.

Electronic delivery of these products via the Internet makes them available hours before the printed versions, with the added advantage of being easily redistributed through internal networks.

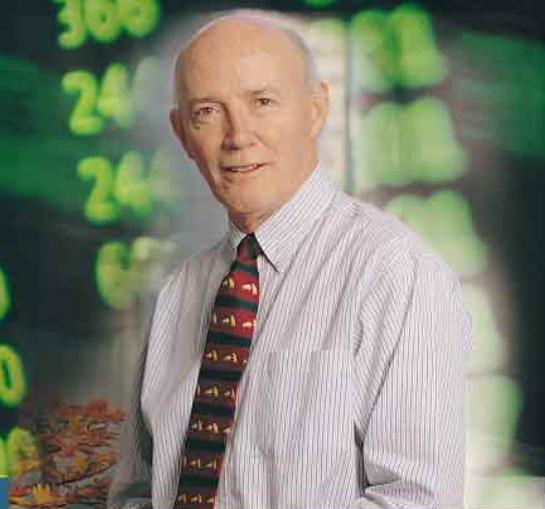
Subject to the response of users, ASXtra could ultimately become the sole means of distributing non-time-critical information about ASX's markets.

As a result of developing a business plan, some printed and CD-ROM products that provided information also available from other sources were discontinued during the year.



Christopher Minenko (Central Mailing) prepares to mail some of the many publications produced by Market Data to inform investors about the market.

ASX operations



*Angus Richards – Deputy Managing Director
Market Operations*

Over the 11 years since its formation, ASX has moved from a traditional trading-floor-based stock and derivatives exchange to a highly automated one. Trading and settlement take place entirely through computer systems; market announcements are processed and distributed automatically, apart from assessment; and our public Internet site, an intranet and an extranet are rapidly taking over the distribution of stock-exchange information both internally and externally. Operation and development of these systems is therefore a vital task.

year 2000

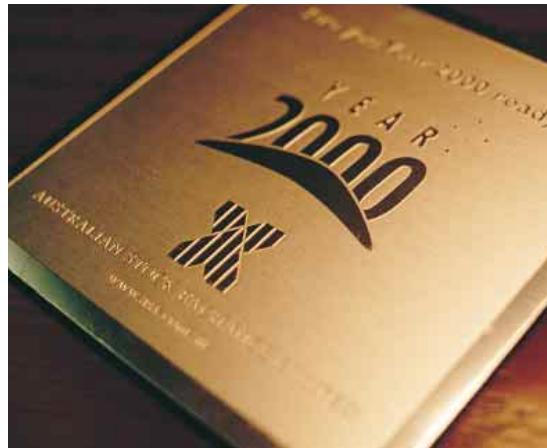
The second year of ASX's programme to minimise the risk that all its critical systems may not function during the transition to the year 2000 made substantial progress in 1997–98. Diagnosis of all these systems was completed, and remediation work was well advanced at the end of the financial year.

Shortly after the end of the financial year, integration testing of internal systems began. This is designed to ensure that individual systems, which have already demonstrated compliance, can work together during the date change at the end of the century. Satisfactory operation of external systems that link to ASX is also crucial, and during the year a test facility was made available for stockbrokers to determine whether their back-office systems will be able to communicate with the CHESS equities clearing and settlement system in 2000. Similar facilities for external users to check their year-2000 compatibility with the equities and derivatives trading systems are under study.

Internal testing of all critical systems that are under ASX's control is scheduled to be completed by May 1999, but there can be no assurance that its operations will not be affected by the year 2000 problem either internally or externally.

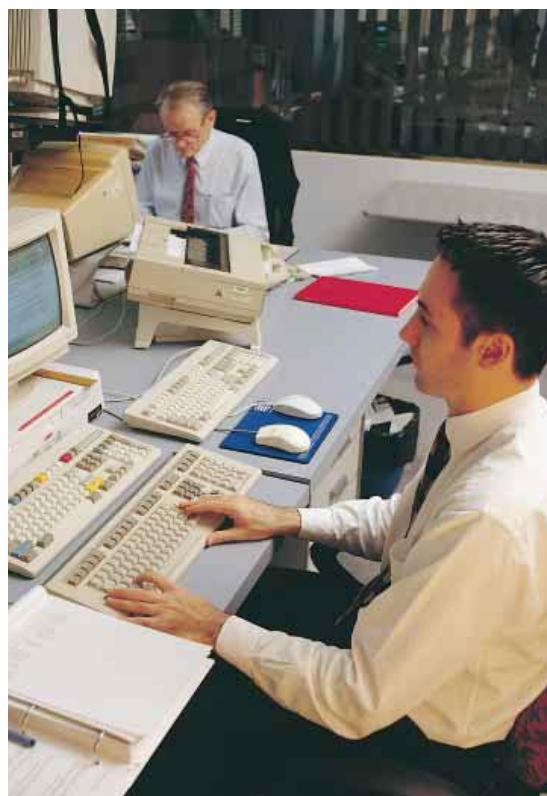
Planning is under way to prepare for the eventuality that a market participant's non-compliant system threatens to have an adverse effect on the market. A survey was sent to stockbroking firms early in 1998 asking them to report their state of readiness for the year 2000, and most responded that their systems and interfaces were scheduled to be compliant by the end of 1998. A follow-up survey is planned for later in the year.

ASX continued to take a leading role in urging federal and state governments to give greater priority to their year-2000 programmes and in raising awareness in the wider business community of the serious threat that year-2000 vulnerability of computer systems, or other systems relying on date-dependent embedded processors, poses for their profitability, or even survival. In the case of listed entities, it is also essential for investors to be informed of their state of readiness, and during the year ASX required all Australian-based listed entities to report their progress to the market by 30 June. Only 23 companies failed to respond, and their names were announced to the market.

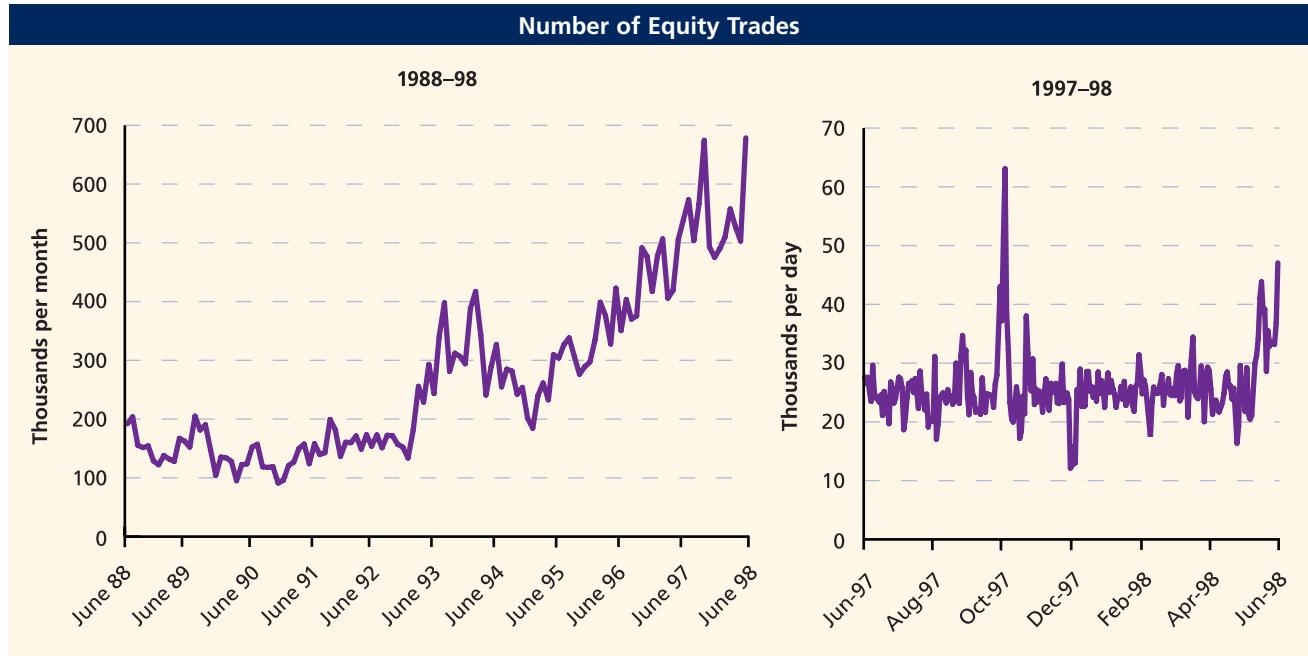


equities trading

A major upgrade of the equities trading system, known as SEATS 97, was substantially completed during the financial year, including an increase in its capacity from 65,000 trades a day to 90,000. This was brought forward from its originally planned date when a sudden surge in market activity on 29 October 1997 caused the market to be closed 15 minutes early to prevent the capacity limit from being reached. By this time 63,081 trades had been executed – more than double the daily average at that time.



Christopher Robilliard and Jim Eady (Equities Market Operations) keep an eye on equities trading operations in the SEATS market control centre.



A large part of the SEATS 97 project involved provision of new equipment to stockbroking organisations, including a new electronic gateway to the trading system and new Windows™-based trader workstation software, with multi-tasking capabilities, to replace relatively inflexible trading terminals. This was installed on more than 600 workstations during the year.

The most revolutionary element of SEATS 97 is the provision of an open interface between market participants and the trading systems, instead of direct connections from dedicated terminals. The open interface allows a stockbroking organisation's entire dealing system to be linked to the market, including access from overseas offices. Open-interface facilities were installed at more than 30 sites.

A fundamental SEATS function is the rapid exchange of messages between trading terminals and ASX. Pilot implementation of a new messaging service



Carmen Cviker (Settlement) checks CHESS statements before they are mailed to investors.

that will triple capacity to about 45 messages per second was undertaken late in the financial year. The final stage of SEATS 97, early in the new financial year, will transfer equities trading to a new network, which is already being used for options trading.

Availability of the SEATS system was better than 99.8 per cent for the twelve-month period.

equities settlement

Equities settlement is carried out through ASX's automated Clearing House Electronic Sub-register System (CHESS), which is the responsibility of the subsidiary ASX Settlement and Transfer Corporation (ASTC). Its performance remained at a very high level in 1997-98, being ranked second in the world in an annual Benchmarks survey by Global Securities Consulting Services (GSCS), an independent British consultant to the global custody industry. ASX has the best average ranking for settlement over the five years that GSCS Benchmarks have been published.

A number of enhancements were made to CHESS during the year, including an electronic trade-confirmation messaging service that enables faster and more efficient communication of transaction details and confirmation of trades between investment managers, stockbrokers and custodians.

A means of recognising confirmed foreign-to-foreign transactions was added to the system, to help issuers that have foreign ownership restrictions on their shares prevent the limit from being exceeded.

Securities of issuers in New Zealand, Bermuda and Papua New Guinea were allowed to participate in CHESS's uncertificated environment following negotiations with regulators in those countries.

The CHESS system had a record of availability of 100 per cent during the year.

When ASTC was established to develop and then operate CHESS as a self-funding entity, it adopted a tariff policy designed to cover operating costs, accumulate a reserve for future system development, and achieve a degree of price stability despite fluctuations in equities trading volumes. This policy recognised that the ACCC had required ASTC's articles to prohibit any transfer of profit or income to ASX.

In August 1998, the ACCC authorised changes that would enable ASTC to operate on a commercial basis and transfer profits to ASX, subject to a number of conditions. They include a requirement that ASX and ASTC explicitly permit stockbrokers to use a clearing and settlement facility other than CHESS to settle trades on ASX, facilitate associated communications, and not use any power under their rules to prevent or unreasonably constrain another entity from competing with ASTC in providing clearing and settlement services. ASTC must also establish objective criteria for determining whether a transaction is eligible for CHESS settlement, with a mechanism for appealing against a determination.

The changes to ASTC's constitution and to business rules necessary to comply with this authorisation remained subject to formal approval by ASIC and the federal treasurer at the date of this report.

derivatives trading

The options market was successfully transferred from a trading floor in Sydney to a nationwide electronic Derivatives Trading Facility (DTF), developed by the operator of the Swedish options and futures exchange and adapted for ASX's use. The change involved not only technology but also a new basis of trading, the automated market being order-driven instead of the quote-driven system that applied on the trading floor.

After system development and testing and installation of a new network and systems infrastructure, including a primary market control centre in ASX's Sydney office and a back-up at its Bondi Junction data centre, option classes were moved progressively to electronic trading, starting

on 31 October 1997. The trading floor closed at the end of business on Friday, 30 January 1998, and the final group of option classes began trading electronically on the following Monday.

The \$24 million project was completed on time and within budget. Despite a few interruptions in its early days, the availability of DTF during trading hours was better than 99.4 per cent for its first five months of full operation.

derivatives settlement

The ASX Board decided in December 1997 to replace the current derivatives clearing system, several aspects of which date back to the beginning of the options market in 1976, with an associated upgrading of both risk-management and collateral-management automated systems.

Although it is still performing satisfactorily, with an availability of better than 99.8 per cent for the year, the current system has reached the end of its development potential, and would be incapable of handling expected future options volumes, of incorporating desirable features such as automatic trade allocation or of adapting to third-party clearing.

The new system is being developed specifically to ASX requirements by an Australian company, Palion Pty Ltd, which has already provided the computerised risk-management and collateral systems used in the market. It will have an electronic interface to Clearing Members of the options market.

data centre

A complete refurbishment of ASX's back-up data centre at Bondi Junction in Sydney was undertaken during the year, including substantial structural and electrical works. Progressively from October 1998, the entire on-site data centre will be relocated from ASX's present Sydney premises at 20 Bond Street to a new building at 20 Bridge Street. Extensive preliminary planning was undertaken to enable these twin projects to be undertaken without jeopardising provision of essential computing services. A new local-area network in Sydney and a new wide-area network linking all ASX sites throughout Australia are also under development.

ASX corporate



*Michael Costello – Deputy Managing Director
Strategic Planning and
Business Support*

The third division of ASX under its new structure is responsible for identifying strategies, trends and opportunities to develop ASX's markets and products which are discussed earlier in this report.

A particular focus is ASX's transition from a traditional financial marketplace to a key position in electronic communications and commerce. It is also responsible for government relations and provides support to other divisions in such areas as finance, human resources, legal services and marketing.

government relations

ASX has a strong interest in a number of aspects of government, with recent emphasis being on corporate law and taxation which are both subjects of reform programmes. Following the report of the Financial Systems (Wallis) Inquiry, the federal government established a Corporate Law Economic Reform Program (CLERP) late in 1997, with a business regulation review group to provide advice. ASX's deputy managing director, market services, was appointed to this group, which is chaired by Mrs Catherine Walter, an ASX director.

ASX made extensive submissions on issues being considered within CLERP, and subsequently commented on draft legislation covering fund-raising, accounting standards, directors' duties, corporate governance and takeovers. Many of the changes proposed are welcome, although ASX remains concerned that some do not go far enough in enabling the corporate sector to achieve optimal efficiency.

Earlier proposals by ASX, and others in the financial sector, bore fruit in the establishment of a financial sector advisory council to advise the federal government on issues affecting financial markets, and of a regional financial centre task force to advise on policies necessary to enhance Australia's position as a significant financial centre. The chairman of ASX is chairman of the first body, and ASX's managing director is a member of the second.

In response to an announcement by the prime minister of a programme of taxation reform, ASX lodged a submission arguing particularly that introduction of a broad-based indirect tax covering services as well as goods (which are the exclusive focus of current sales taxes) should be accompanied by abolition of wholesale sales tax and of the present heavy taxation burden on financial transactions, including the buying and selling of shares. The latter, it was argued, was a serious impediment to Australia's becoming a financial centre for the Asia-Pacific region. The submission also pointed out the adverse effects on risk-taking and entrepreneurial investment of the present regime of capital-gains tax. ASX is an active participant in the Business Coalition for Tax Reform.

At state government level, ASX argued the benefits of public floats rather than trade sales as a means of privatising government assets, in submissions to the New South Wales, South Australian and Western Australian governments.

Following submissions from ASX, the New South Wales government introduced a concessionary rate of stamp duty for New Zealand and Papua New Guinea entities listed on ASX, removing ASX's disadvantage in trading these securities.

ASX people

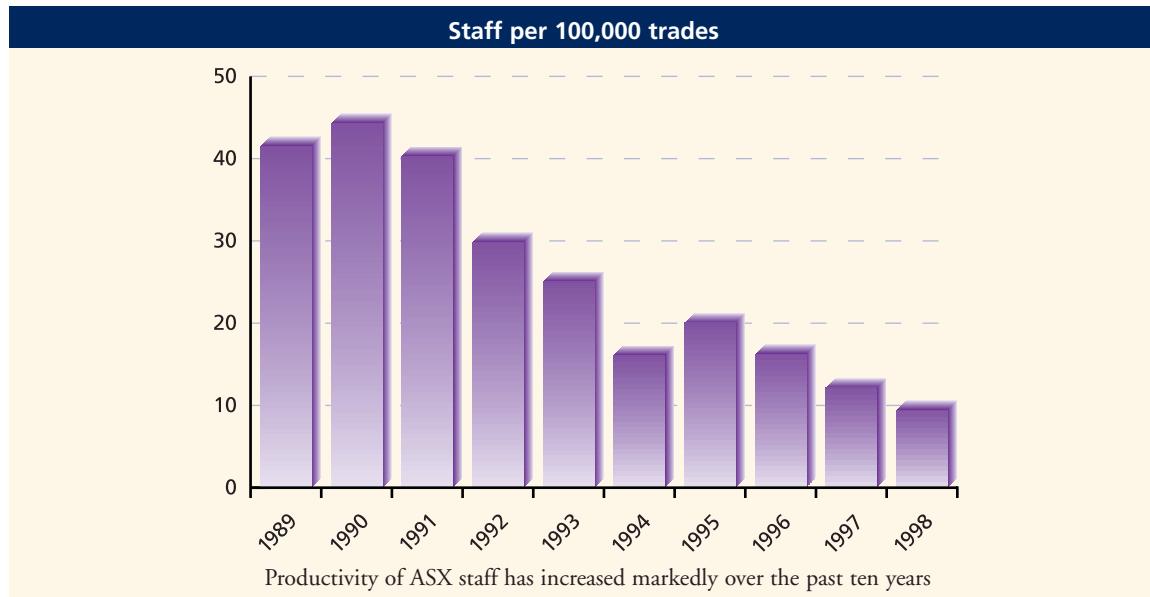
Despite record market activity and an unprecedented range of projects under development or study, the number of full-time-equivalent staff at 30 June 1998 was 621, a reduction of five per cent from the level at the end of the previous year, partly because of the closure of the options trading floor. A decision to close the investor centres in each state capital, in favour of electronic distribution of information, led to a further reduction of 13 staff from 1 July.

A new remuneration strategy was approved by the Board for implementation when ASX becomes a listed public company, with increased emphasis on at-risk remuneration.

ASX believes that employees' ownership of shares in their employer is an important part of motivating and retaining employees, which in turn enhances the employer's ability to achieve its objectives. Accordingly, subject to approval at the 1998 annual general meeting, all (or substantially all) permanent employees will be issued with a parcel of ASX shares worth approximately \$1,000, and will be able to purchase a limited number of additional shares using an interest-free non-recourse loan.



Participants at a leadership training course arranged by Human Resources Development included Cressida Mort (Marketing), Richard Murphy (Structured Products), Paul Miley (Market Data), Katarina Zearo (Market Data), Claire Corney (Regulatory Policy), and Mikael Michau (Project Services).



An intranet for staff was redesigned and greatly expanded during the year. It now has 17 sites, with more to be added, enabling all staff with access to a PC to look up the ASX Fact Book or the latest developments in computer systems, to study personnel policies and the organisation's code of ethics, to read an economic commentary or learn of the latest ideas for developing new businesses while they are still only at the study stage. Access to a wide range of ASX data bases is to be added in the current year.

Considerable effort was devoted to ensuring staff understanding of the reasons for and the effects of demutualisation, of the core purpose and values that had been agreed, and of the need for a new organisational structure to operate in a commercial framework. Training, ranging from technical courses to advanced management programmes, also continued at a high level. A health plan for staff was introduced, providing substantial discounts for private health insurance, as was an executive fitness programme.

corporate citizenship

ASX provides a high level of financial support to the Securities Industry Research Centre of Asia-Pacific (SIRCA), whose senior academics produce a wide range of research on significant aspects of the financial markets. During the year ASX was also the principal sponsor of a new trading-room laboratory named StarLab at the Australian Graduate School of Management in the University of New South Wales. The laboratory is being used both for teaching the trading aspects of markets and for research into financial-market behaviour.

ASX continued its support of other organisations including The Garvan Institute of Medical Research and the Australian Marine Mammal Research Centre.

international affairs

ASX has been developing bilateral relationships with other stock exchanges in the Asia-Pacific region, as a basis for future co-operation. In September 1997 a memorandum of understanding was signed with the Taiwan Stock Exchange, adding to those previously entered into with the Kuala Lumpur, Korea, Jakarta and Surabaya stock exchanges. Agreement was reached on a similar arrangement with the Philippines Stock Exchange, which will be formalised in November 1998.

ASX also participates in a number of multilateral organisations. It is an active member of the Fédération Internationale des Bourses de Valeurs (FIBV), the international federation of stock exchanges, and is a member of its executive



David Holthouse (International Affairs) welcomes the then vice premier (now premier) of the People's Republic of China, Mr Zhu Rongji, to ASX.

committee. ASX will be the host of an international FIBV conference on supervision of markets in Sydney in October, and the organisation's annual general meeting will be held in Brisbane in 2000. At the regional level, ASX initiated a review of the governance of the East Asian and Oceanian Stock Exchanges Federation which was accepted by the organisation's general assembly in May 1998.

More than 500 visitors from 28 countries came to ASX during the year; a large proportion were from China, including the then vice-premier (now premier), Mr Zhu Rongji. The prime minister of the Netherlands, Mr Wim Kok, and the Spanish minister of industry and energy, Mr Josep Piqué i Camps, were among other distinguished visitors.

education & marketing

ASX encourages participation in the stock market and the options market in a number of ways. Regular lunch-time lectures held in state capitals were attended by more than 80,000 people during 1997–98, while 40,000 attended special Share Days and 11,000 attended more formal investment courses. Educational activity was extended to regional centres, with seminars and availability of share market and options courses on videotape.

ASX's World Wide Web site, ShareNet, remained Australia's most-visited finance site and in the top ten of all Australian sites, the average number of daily visits rising to 7,356 from 2,852 in the previous year. A centralised customer service centre handled a steadily increasing number of telephone enquiries, and introduced a fax-back service as an additional way of supplying information. Electronic wallboards showing market prices were installed in Qantas Club lounges in Brisbane, Melbourne and Sydney.

ASX's investor centres and bookshops in state capitals, in contrast, attracted only about 500 people a day throughout Australia. This clear preference for electronic distribution of information led to a decision to close these centres on 30 June 1998.

new premises

ASX's Sydney offices will move in 1999 to nine floors of a new 13-storey building at 20 Bridge Street, to be called Exchange



Exchange Centre on the corner of Bridge and Pitt Streets will be ASX's new Sydney home.

Centre. The building was chosen as the one that would best meet ASX's needs for commercial, technological and public-area facilities, and is being tailored for ASX occupation.

A feature of the building will be a large lobby known as Exchange Square, with similarly large electronic display boards showing market data and other information. This area will also be used for functions and is complemented by a 300-seat auditorium.

ASX's computer systems will be relocated to the new building starting in December 1998. Because of the complexity of the technology the relocation has been divided into ten phases, with physical relocation taking place at weekends to avoid disturbance to operations. A major refurbishment of the back-up data centre at Bondi Junction will be completed before the move starts, and this centre will be able to provide reliable fall-back facilities.

Business units will be moved to the Bridge Street premises progressively during the later part of 1999.



Kieran McKenna (Administration) is overseeing the transition of ASX's new Sydney premises from the model stage to a completed building.

ASX governance

28



Karen Hamilton – General Counsel and Company Secretary

Australian Stock Exchange Limited (ASX) is currently incorporated as a company limited by guarantee. However, as outlined on pages 7 to 9, ASX is proposing to alter its status to a company limited by shares in October 1998. In its current form it is a mutual entity, with Members of the company being individual stockbrokers and stockbroking organisations in Australia, each having one vote at general meetings.

ASX is currently governed by a Board of 15 directors, of whom ten are Member directors (including one from each state) elected by the Members; one is the managing director (who is the sole executive director); and four are senior members of the business community appointed by the Board subject to confirmation by Members. The composition of the Board is prescribed in ASX's constitution and reflects ASX's status as a mutual entity and its origin as an amalgamation of the six state stock exchanges.

Post-demutualisation, ASX will be adopting a new constitution, framed in accordance with generally accepted principles of sound corporate governance. There will no longer be any distinction between Member and non-Member directors, and the Board itself, as with any other commercial corporate entity, will fill any vacancy and shareholders will be asked to confirm the appointments at the following annual general meeting. On demutualisation, ASX will be governed by a Board of 11 directors, with a view to a further reduction to 9 directors in the medium term. It is considered appropriate that both these be achieved by reducing the number of Member directors on the Board. In addition, the current Board committee structure will be revised to reflect demutualisation. This revised structure will take effect on demutualisation.

The Board is accountable to its Members for the business operations and affairs of ASX. Key responsibilities of the Board include setting corporate objectives, establishing policy guidelines, overseeing the strategic direction of ASX and monitoring management's performance within that framework. Responsibility for the operation and administration of ASX has been delegated by the Board to the managing director. In further recognition of the differing responsibilities of the Board and management, the roles of chairman and managing director are, as a matter of policy, separate.

Requirements for the appointment, retirement and remuneration of directors are set out in ASX's constitution. Except for the managing director, whose position on the Board derives from that executive role, all directors (Member and non-Member) are appointed for three-year terms, with one-third in each category retiring by rotation each year. Retiring directors are generally eligible for re-election or re-appointment provided they are less than 70 years of age.

Vacancies for Member directors at the end of three-year terms are filled by the membership at large voting for nominated candidates.

A Nomination and Remuneration Committee of the Board recommends to the full Board candidates for non-Member directorships, based on their perceived ability to complement the skills of Member directors and their understanding of the perspectives of ASX's customers. It also recommends appointments to subsidiary boards and committees. The committee's charter, which has been approved by the Board, specifies that the committee consist of a minimum of five directors, including the chairman of the Board as committee chairman and at least three other non-executive directors. At present, committee members are the chairman and two vice-chairmen, the managing director, one non-Member director and one Member director.

The committee's duties include reviewing the effectiveness of the Board as a whole, committees of the Board and the managing director based on criteria and performance measures that it is establishing. The outcomes of these reviews will then used as the basis for determining the remuneration of the managing director, and for making recommendations concerning any changes to the remuneration of non-executive directors for consideration by the full Board, and subsequent submission to Members for approval at a general meeting.



With the help of Brisbane staff Sheree King (Participant Services) and Ken Riekie (Administration), Duncan Lugstein (Production Support) set up videoconference facilities before a management meeting.



Michele Schroeter (Marketing) with one of the new share-price wallboards placed in Qantas Club lounges in Sydney, Melbourne and Brisbane.

The committee's charter permits it to seek advice from external consultants if necessary in order to meet any of its responsibilities.

Directors are provided on election or appointment with a guide to their duties and responsibilities prepared by ASX's general counsel. This guide covers not only the general obligations imposed on directors by the Corporations Law, but also the specific obligations that apply to directors of ASX. Any director or member of a committee who feels a need for professional advice beyond that obtained from management or company officers or advisers may approach the chairman or a vice-chairman, who may authorise the obtaining of that advice at the company's expense, such authorisation to be noted at the next Board meeting. No instance of such a request for external professional advice at the company's expense has arisen.

The Board has an Audit Committee comprising three non-Member and two Member directors. The committee's charter, which has been approved by the Board, specifies that the committee be composed entirely of non-executive directors of

whom a majority must be non-Member directors, and that the chairman of the committee must be a non-Member director who is not the chairman of the Board. The committee reports to the Board throughout the year on its activities and minutes of all its meetings are tabled at the Board. Under its charter, the committee has the right to consult the managing director directly and to consult the external and internal auditors in the absence of management. It is also permitted to obtain independent professional advice at the cost of ASX if that is necessary to meet its responsibilities.

A key responsibility of the committee is to conduct a detailed review of the company's financial statements and announcements of results before consideration by the Board. This review includes considering accounting and other matters that may materially affect the financial statements and determining that management, the external auditors and the internal auditors are satisfied with the contents, and the adequacy and appropriateness, of all disclosures made in the financial statements.

In relation to audit matters, the committee is responsible for considering the scope of the audit work of the external and internal auditors and the results of their audits and for recommending the appointment and remuneration of the external auditors. When nomination of new external auditors is required, the committee would also be responsible for recommending an appointment to the Board for submission to a general meeting of Members.

The committee's terms of reference extend to internal control, where its responsibility is to assess whether controls are adequately detailed in policy and procedures documents and are operating effectively to provide reasonable assurance that the ASX group's assets are safeguarded and that reliable financial records are maintained.

The committee also has a role in reviewing the processes and procedures implemented by management for the identification, assessment, control and monitoring of significant risks and exposures associated with ASX business operations. Long-term business risks are considered regularly by special Board meetings devoted to strategic planning. The Board also monitors risk-management performance through half-yearly representations required from management.

A detailed code of ethics for staff, which has been endorsed by the Board, elaborates an overall requirement for staff to obey the law and to behave towards all market participants with the highest standards of honesty, integrity, fairness and equity.

A number of other committees comprising directors and non-directors also assist the Board. Those marked with an asterisk will be disbanded on demutualisation. The functions of these committees will be assumed either by management or by a new committee, as appropriate.

The Membership Issues Committee* exercises delegated powers from the Board over a number of membership matters, including qualified power to amend the business rules of ASX and admit and accept the resignations of Members. It also advises the Board and management on membership issues. In accordance with its charter, the committee is composed of five Member directors (one being the committee chairman), one non-director Member and a representative of management.

The National Listing Committee* is an executive committee to which the Board has delegated powers in respect of maintenance of the official list, admitting and removing corporations and other entities to and from the official list and granting official quotation of their securities. It is chaired by a director and its membership comprises four ASX Members, four non-Members and a representative of management.

The ASX Equities Committee* and the ASX Derivatives Board* advise the Board in respect of matters affecting the operation of the equities and derivatives markets provided by ASX. Their membership consists in both cases of senior managers of stockbroking organisations who are experienced practitioners in the respective markets together with ASX executives, under the chairmanship of a Member director. The Derivatives Board also includes non-broker experts in clearing and risk management.

ASX Settlement and Transfer Corporation Pty Ltd is a subsidiary company responsible for the operation and maintenance of the CHESS settlement system, and it advises the Board on settlement matters. Details of members of its board of directors are on pages 38–39.

The National Adjudicatory Tribunal, with a permanent chairman and deputy chairman and a panel from which tribunal members are drawn for hearings (all being ASX Members), adjudicates disciplinary matters concerning Members. Its decisions may be appealed to an Appeal Tribunal chaired by a solicitor.

The ASTC Disciplinary Tribunal fulfils a similar role in relation to participants in CHESS, who are not exclusively ASX Members. The tribunal comprises a cross-section of users of the settlement system and an investor advisory group.

Decisions of the tribunal can be appealed to an Appeal Tribunal chaired by a Queen's Counsel or, in the case of a decision adversely affecting a payment-provider participant in CHESS, to a Payment Provider Appeal Tribunal consisting of a Queen's Counsel.

Options Clearing House Pty Ltd is a subsidiary responsible for the operation and maintenance of clearing and risk-management facilities for the options market.

Biographies of directors and membership of boards and committees during the financial year ended 30 June 1998, along with a table showing attendance by directors, are on the following pages.



board of directors



board of directors

Chairman

- 1 **Maurice L. Newman AM**, FSIA, age 60. Member since 1978. Elected to the Board 1990. Chairman since November 1994. Director of Securities Exchanges Guarantee Corporation. Member of the Nomination and Remuneration Committee. Chairman, Australia: Deutsche Bank, AG. Chairman: Morgan Grenfell (Australia) Limited, Benchmark Securities Management Limited, Financial Sector Advisory Council, National Year 2000 Steering Committee, East Asian and Oceanian Stock Exchanges Federation 1995–96 and Australia–Taiwan Business Council 1995–98. Director: Lombard Capital Australia Limited. Commissioner: National Commission of Audit 1996. Chairman: Sydney Legacy, 1998–present.

Managing Director

- 2 **Richard G. Humphry AO**, FCA, FAIM, AAIB, MACS, age 59. Managing Director and Chief Executive Officer since May 1994. Member of the Nomination and Remuneration Committee. President: Commonwealth Remuneration Tribunal. Chairman: Australian Financial Institutions Commission and NSW Financial Institutions Commission. Director: State Super Financial Services Limited. Former Director-General of NSW Premier's Department and Auditor-General of Victoria, with 20 years' experience in the Commonwealth public service and 13 years in the banking industry. Fellow: Australian Society of CPAs and the Australian Institute of Company Directors.

Vice-Chairman

- 3 **Clive M. Batrouney**, ASIA, FAIM, age 57. Member since 1976. Elected to the Board 1990. Director of Securities Exchanges Guarantee Corporation, ASX Settlement and Transfer Corporation and Options Clearing House Pty Limited. Member of the Audit Committee and Nomination and Remuneration Committee. Director: Victorian Funds Management Corporation and Hansen Yuncken Pty Limited. Former Chairman of ANZ McCaughan Securities Limited.

Vice-Chairman

- 4 **Michael H. Shepherd**, ASIA, age 48. Member since 1974. Elected to the Board 1988. Director: Options Clearing House Pty Limited and ASX Settlement and Transfer Corporation. Member of the Nomination and Remuneration Committee. NSW Council Member: Securities Institution of Australia. Chairman: Australian Hearing Services. Director: Asia Pacific Capital Markets Limited, The Shepherd Centre and The Shepherd Foundation. Governor: Sir David Martin Foundation. Foundation Member: The Committee for Sydney.
- 5 **Philip A. Chisholm**, LLB, age 51. Member since 1985. Elected to the Board 1994. Chairman of the National Adjudicatory Tribunal. Managing Director: Todd Partners Stockbroking Pty Limited.

- 6 **Brendan C. M. Egan**, FSIA, age 56. Member since 1983. Elected to the Board 1992. Partner and Director: Ord Minnett group since 1972. Deputy Chairman: Ord Minnett group since 1989. Director: Ord Minnett Securities Limited, Paterson Ord Minnett Limited.

- 7 **Max Fowles**, BComm, age 45. Member since 1985. Elected to the Board 1993. Chairman of the National Listing Committee. Chairman: DJ Carmichael Pty Ltd. Member: Australian Securities and Investments Commission's Regional Liaison Committee in Western Australia.

- 8 **John A. Fraser**, BEcon (Hons), age 47. Appointed to the Board 1997. Member of the Audit Committee. Executive Chairman and Chief Executive Officer: UBS Brinson Ltd in Australia and New Zealand. Director: Australian Unity Funds Management Ltd, Mayban-UBS Asset Management Sdn Bhd in Malaysia and UBS Brinson Pte Ltd in Singapore. Commissioner: National Commission of Audit 1996. Former Deputy Secretary (Economic), Australian Treasury.

- 9 **James J. Kennedy AO CBE**, DUniv (QUT), FCA, ASIA, FAIM, FCPA, age 64. Appointed to the Board 1990. Chairman: Queensland Investment Corporation. Deputy Chairman: GWA International Limited. Director: Qantas Airways Limited, Industrial Property Management Limited and Suncorp-Metway Limited.

- 10 **Timothy T. B. Lewis**, BEc, CPA, age 48. Member since 1981. Elected to the Board 1995. Director and company secretary: Shadforths Limited. Member: ASIC Regional Liaison Committee in Tasmania.

- 11 **J. Bruce Parncutt**, BSc, MBA, age 47. Member since 1981. Elected to the Board 1994. Member of the Audit Committee. Senior Vice President: Merrill Lynch International. Former Managing Director: McIntosh Securities Limited (1990–96).

- 12 **Ross M. Petfield**, FSIA, FAIM, age 54. Member since 1970. Elected to the Board 1992. Director: Astra Energy Corp Limited. Managing Director: Henderson Charlton Jones Limited. Member of Executive Committee, Queensland Private Enterprise Centre Inc. Member of Senior Advisory Group, Project Australia. Member of Advisory Board, QUT Faculty of Business. Past National President, Securities Institute of Australia 1991–1993. Fellow: Australian Institute of Company Directors.

- 13 **Phillip J. Schudmak**, age 57. Member since 1977. Elected to the Board 1994. Member of the Nomination and Remuneration Committee. Director: JB Were & Son, JB Were Capital Markets (1989–97).

- 14 **Michael J. Sharpe AM**, BEc, FCA, age 60. Appointed to the Board 1995. Chairman of the Audit Committee. Director of Securities Exchanges Guarantee Corporation and ASX Settlement and Transfer Corporation. Chairman: State Super Financial Services Limited. Director: State Super Trustee Boards (NSW), Military Superannuation Benefits Board and National Australia Trustees Limited. Member: Corporations and Securities Panel. President: Cranbrook School. Past President: The Institute of Chartered Accountants in Australia. Former Chairman: International Accounting Standards Committee. Former Partner: Coopers & Lybrand (1968–98).

- 15 **Catherine M. Walter**, LLB (Hons), LLM, MBA, age 46. Appointed to the Board 1996. Member of the Audit Committee and Nomination and Remuneration Committee. Director: National Australia Bank Limited, Victorian WorkCover Authority, Melbourne Business School Limited. Chairman: Business Regulation Advisory Group. Council Member: The University of Melbourne.

boards & committees

ASX BOARD

M. L. Newman AM (*Chairman*)
 C. M. Batrouney (*Vice-Chairman*)
 M. H. Shepherd (*Vice-Chairman*)
 R. G. Humphry AO (*Managing Director*)
 P. A. Chisholm
 B. C. M. Egan
 M. Fowles
 J. A. Fraser
 J. J. Kennedy AO CBE
 T. T. B. Lewis
 J. B. Parncutt
 R. M. Petfield
 P. J. Schudmak
 M. J. Sharpe AM
 C. M. Walter
Company Secretary
 K. L. Hamilton¹
 C. Jones (Acting)²

AUDIT COMMITTEE

M. J. Sharpe AM (*Chairman*)
 C. M. Batrouney
 J. A. Fraser
 J. B. Parncutt
 C. M. Walter

NOMINATION AND REMUNERATION COMMITTEE

M. L. Newman AM (*Chairman*)
 C. M. Batrouney
 R. G. Humphry AO
 M. H. Shepherd
 P. J. Schudmak
 C. M. Walter

MEMBERSHIP ISSUES COMMITTEE

M. H. Shepherd (*Chairman*)
 B. C. M. Egan
 R. B. McCrory
 J. B. Parncutt
 R. M. Petfield
 P. J. Schudmak
 R. W. Nottle CBE (*Management*)

ASX SUPERANNUATION POLICY COMMITTEE

R. M. Petfield (*Chairman*)
 B. C. M. Egan
 W. A. Gay³
 J. M. Hayes⁴
 T. T. B. Lewis

NATIONAL LISTING COMMITTEE

M. Fowles (*Chairman*)
 B. I. Berold (*Vice-Chairman*)
 F. Bush
 S. C. Gillies
 J. Green
 A. Lansley
 P. H. Lawson
 R. R. Rorrison
 C. Williams
 R. W. Nottle CBE (*Management*)

ASX DERIVATIVES BOARD

M. H. Shepherd (*Chairman*)
 R. A. Aboud
 R. E. Barker
 B. C. M. Egan (*ex officio*)
 R. H. Jenkins
 I. W. T. McGaw
 A. R. N. Sisson
 A. G. Richards (*Management*)
 C. Scully (*Management*)

ASX EQUITIES COMMITTEE

B. C. M. Egan (*Chairman*)
 G. W. Dickinson
 W. Evans
 N. F. Falkiner
 P. Halstead
 R. B. McCrory
 A. J. MacNab
 P. Masi
 J. M. C. Mesley
 M. H. Shepherd (*ex officio*)
 A. Dickson (*Management*)⁵
 A. G. Richards (*Management*)
 C. Scully (*Management*)⁶

OPTIONS CLEARING HOUSE PTY LTD

I. McGaw (*Chairman*)
 M. H. Shepherd
 W. A. Gay (*Management*)³
 A. G. Richards (*Management*)
 C. Scully (*Management*)

NATIONAL ADJUDICATORY TRIBUNAL

P. A. Chisholm (*Chairman*)
 C. M. Batrouney (*Vice-Chairman*)
 Members are chosen from a panel

APPEAL TRIBUNAL

R. Barrett (*Chairman*)
 J. Steven (*Vice-Chairman*)
 Members are chosen from a panel

ASTC DISCIPLINARY TRIBUNAL

C. M. Williams (*President*)

ASTC APPEAL TRIBUNAL

Hon Ken Marks QC (*President*)
Members are chosen from a panel

ASTC PAYMENT PROVIDER APPEAL TRIBUNAL

Hon Ken Marks QC

ASX SUPERANNUATION PTY LTD

R. M. Petfield (*Chairman*)

K-A. Aitken⁷

J. H. Berry

B. C. M. Egan

C. J. Hamilton

W. A. Gay³

J. M. Hayes⁴

D. J. Hellier

T. T. B. Lewis

D. S. McGlynn⁸

¹ on leave to July 1998

² Acting from December 1997

³ to March 1998

⁴ from March 1998

⁵ to February 1998

⁶ from April 1998

⁷ from February 1998

⁸ to November 1997



directors' attendance

ASX Board	Audit Committee	Nomination & Remuneration Committee	Membership Issues Committee	National Listing Committee	Superannuation Policy Committee	ASX Equities Committee	ASX Derivatives Board Pty Ltd	Options Clearing House Pty Ltd	National Adjudicatory Tribunal	ASX Superannuation Pty Ltd
-----------	-----------------	-------------------------------------	-----------------------------	----------------------------	---------------------------------	------------------------	-------------------------------	--------------------------------	--------------------------------	----------------------------

	A	B	A	B	A	B	A	B	A	B	A	B	B*	A	B	
M. L. Newman	11(1)	10(1)			6	6										
C. M. Batrouney	11(1)	11(1)	4	4	6	5									6	
M. H. Shepherd	11(1)	11(1)			6	6	14(3)	14(3)					10	9 [†]	10(4)	10(2)
R. G. Humphry	11(1)	11(1)			6	6							9(1)	8(1)	2	
P. A. Chisholm	11(1)	10(1)													9	
B. C. M. Egan	11(1)	11(1)					14(3)	14(3)			5	5	10	10	10(4)	10(0) [†]
M. Fowles	11(1)	11(1)							53(2)	50(2)						2
J. A. Fraser	11(1)	11(1)	4	2												2
J. J. Kennedy	11(1)	11(1)														
T. T. B. Lewis	11(1)	11(1)								5	5				3	4(7)
J. B. Parncutt	11(1)	9(1)	4	3			14(3)	12(2)								4(6)
R. M. Petfield	11(1)	11(1)					14(3)	11(2)			5	5				3
P. J. Schudmak	11(1)	10(1)			6	6	14(3)	12(1)								4(7)
M. J. Sharpe	11(1)	11(1)	4	4												4(5)
C. M. Walter	11(1)	11(1)	4	4	6	6										1

A = Meetings held while a director or member

B = Meetings attended while a director or member

Numbers in parentheses are circular resolutions

[†] Ex officio member

* Meetings are chaired by the chairman or the deputy chairman, with other members drawn from a panel.

For Securities Exchanges Guarantee Corporation, see page 37.

For ASX Settlement and Transfer Corporation, see page 39.

Securities Exchanges Guarantee Corporation

chairman's report

Securities Exchanges Guarantee Corporation is a subsidiary of ASX that operates independently under the Corporations Law as the trustee of the National Guarantee Fund. The fund protects stock market investors against loss caused by failed completion of a reportable transaction through a stockbroker, unauthorised transfer by a stockbroker of quoted securities, wrong certificate cancellations or the insolvency of a stockbroker, in the circumstances specified in the Corporations Law. The 1997–98 financial year was its eleventh year of operation.

The fund had net assets of \$137.4 million at 30 June 1998, compared with \$150.4 million the previous year.

One claim against the fund amounting to \$11,205 was paid during the year. SEGC attempts to recover from third parties amounts paid to claimants and during the year was successful in recovering \$96,491 in connection with claims paid in the current and previous years. SEGC also agreed to fund recovery action by the liquidator of a stockbroker of which SEGC is a substantial creditor.

During the financial year, \$26.2 million was transferred from the fund to the Securities Industry Development account, which was established to finance (subject to the approval of the federal treasurer) development of the securities industry in Australia, so long as the fund itself has assets in excess of a minimum amount determined by the Board. Payments to this account were for ASX's SEATS, DTF and Internet projects, for infrastructure for Securities Industry Research Centre of Asia-Pacific and for industry research. The Board also approved in principle funding for a financial markets teaching and research laboratory at the Australian Graduate School of Management.

The minimum amount of the fund determined by the Board is currently \$70 million, but this is periodically reviewed taking into account factors that might influence the fund's risk exposure. The Board closely monitors developments that could affect this exposure, including changes in the regulatory environment and new product development. SEGC maintains close liaison with ASX on the development of new products so that any changes to risk from this source can be assessed.

Future changes in the regulatory environment may also affect the way in which SEGC operates. During the year, the company adopted new articles to ensure that it has the flexibility to adapt to such changes, while maintaining the highest standard of corporate governance.

Since it operates independently of ASX and may approach issues from a different perspective, SEGC makes its own submissions to government on issues that might affect the fund and its risk profile. During the financial year a submission was made to the federal Treasury in relation to the Corporate Law Economic Reform Programme proposals for reform of financial markets and investment products.

A sub-committee of the Board was established to oversee the selection and appointment of a new external fund manager for one half of the fund.

The previous chairman, Mr Charles Moore, retired at the end of the financial year. Mr Moore had been chairman since the formation of SEGC in 1987. The Board thanks him for his leadership and is grateful for his significant contribution over the past 11 years.



Clive M. Batrouney
Chairman

- 1 ▶ **Charles F. Moore**, ASIA, age 53. Appointed May 1987, retired 30 June 1998.
- 2 ▶ **Clive M. Batrouney**, ASIA, FAIM, age 57. Appointed October 1997. Elected Chairman July 1998. See page 33.
- 3 ▶ **Geoffrey W. Hone**, LLB(Hons), age 54. Appointed May 1991. A solicitor and a partner with the national law firm Blake Dawson Waldron, practising in the area of securities regulation and corporate law. Member of the Legal Committee of the Companies and Securities Advisory Committee and a director of Melbourne University Law School Foundation and The Queens Trust for Young Australians.
- 4 ▶ **F. Allan McDonald**, BEc, FCPA, FCIS, FAIM, age 58. Appointed May 1993. Directorships include Cologne Life Reinsurance Company of Australia Ltd,
- General and Cologne Reinsurance Australasia Ltd, Brambles Industries Ltd, Development Capital of Australia Ltd, Delfin Property Group Ltd, and TAB Ltd. Director of a number of private companies.
- 5 ▶ **Maurice L. Newman AM**, FSIA, age 60. Appointed January 1995. See page 33.
- 6 ▶ **J. Graham Tucker AO MBE**, DUniv, FCA, age 69. Appointed May 1987. Chairman Stradbroke Ferries Pty Ltd, Deputy Chairman of Evans Deakin Industries Limited Group, and Director of Queensland Cement Limited. Chairman of the Royal Brisbane Hospital Research Foundation. Formerly the senior partner in Queensland of KMG Hungerfords.
- 7 ▶ **Michael Sharpe AM**, BEc, FCA, age 60. Appointed 1 July 1998. See page 33.

Directors' attendance at Board meetings

	BOARD MEETINGS		SUB-COMMITTEE MEETINGS	
	A	B	A	B
C. F. Moore	9(6)	9(6)		
G. W. Hone	9(6)	8(6)	(1)	(1)
F. A. McDonald	9(6)	9(6)	3	3
M. B. McLachlan ¹	4(0)	0(0)		
M. L. Newman	9(6)	6(6)		
J. G. A. Tucker	9(6)	9(6)	(1)	(1)
C. M. Batrouney ²	5(6)	5(6)	3	3

A = Meetings held (Resolutions circulated)

B = Meetings attended (Resolutions signed)

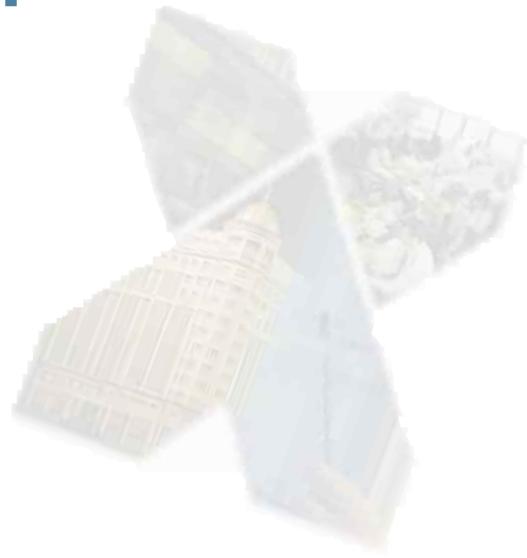
¹Granted special leave from May 1997

²From October 1997

SEGC board



ASX Settlement & Transfer Corporation



1 ▶ Ronald L. Coppel AM, FCA, age 64. Appointed February 1992. Elected Chairman February 1992. Deputy Managing Director of Australian Stock Exchange Limited ("ASX") (1990–1993). Executive Director ASX (1987–1990). Director of Asia-Pacific Capital Markets Limited. Various senior positions with Stock Exchanges in Australia (1970–1987). Member of Australian Accounting Standards Board (1988–1991).

2 ▶ Antonia C. Barnes, age 46. Appointed November 1995. Director of Operations and Administration in Investment Banking for ABN AMRO Bank NV in Australia. Also Director of ABN AMRO Securities Australia Limited and ABN AMRO Facilities Australia Limited.

ASTC board



- 3** **Leigh L. Hall**, BEc (Syd), FCA, FCPA, FAII, FCIS, FCIM, FSIA, age 57. Appointed February 1992, Deputy Managing Director of AMP Asset Management Australia Limited, Chairman of: Quay Mining Limited, AMP Investment Services Pty Limited. Director: Australia Pacific Airports Corporation Limited, Gove Aluminium Limited, Gove Aluminium Finance Limited, Power Partnership Pty Limited, Securities Institute Education, Securities Institute of Australia, United Energy Limited. Co-Chairman of International Council of Investment Associations. Member of: Companies and Securities Advisory Committee, Business Regulation Advisory Group.
- 4** **John C. Lawson**, AAIB, age 52. Appointed February 1992, Director of Westpac Financial Services Limited, Westpac Custodian Nominees Limited, Westpac Life and Insurance Services Limited, Westpac Insurance Services (Brokers) Limited and Westpac Securities Administration Limited, General Manager of Custodian Services, Westpac Banking Corporation.
- 5** **Robert W. Nottle CBE**, MCom, age 54. Appointed June 1998. Deputy Managing Director, Market Services, ASX. Director of ASX Operations Pty Ltd. Member of ASX National Listing Committee and Business Regulation Advisory Group.
- 6** **John C. Rennie**, LLB, FICS, FCIM, age 54. Appointed February 1992. Company Secretary of Pacific Dunlop Limited. Other directorships include Pacific Dunlop Limited Group Subsidiaries. Branch Councillor and Member of a number of committees within the Chartered Institute of Company Secretaries, Member Course Advisory Committee, Faculty of Business, Royal Melbourne Institute of Technology.
- 7** **Angus G. Richards**, BE, MSc (Computer Science), ASIA, age 60. Appointed Managing Director in February 1992. ASX Deputy Managing Director, Market Operations. Other directorships include TNS Clearing Pty Limited, ASX Operations Pty Limited, SECH Nominees Pty Limited, Options Clearing House Pty Limited and CHESS Depositary Nominees Pty Limited.
- 8** **Dieter O. Rinke**, age 55. Appointed Director in July 1993. Manager, Share Department of BHP (1990–1996). Member of Australian Taxation Office Consultive Forum for Dividend and Interest Payers (1989–1996).
- 9** **Michael Sharpe AM**, age 60. Appointed December 1996. See page 33.
- 10** **Michael H. Shepherd**, age 48. Appointed February 1992. See page 33.

Directors' attendance at Board meetings

	BOARD MEETINGS		CIRCULAR RESOLUTIONS	
	A	B	A	B
R. L. Coppel	8	8	9	7
A. G. Richards	8	8	9	9
A. C. Barnes	8	8	9	9
L. L. Hall	8	5	9	8
J. C. Lawson	8	7	9	8
R. W. Nottle ¹	0	0	0	0
J. C. Rennie	8	8	9	8
D. O. Rinke	8	7	9	9
M. J. Sharpe	8	7	9	8
M. H. Shepherd	8	8	9	8

A = Meetings held/Resolutions circulated

B = Meetings attended/Resolutions signed

¹From June 1998

stockbroking organisations

Four new stockbroking organisations were admitted as ASX Members during the financial year: Andrew West & Co Ltd, ANZ MeesPierson Clearing Services Pty Ltd, Cresvale Securities Ltd and Morgan Stanley Australia Securities Ltd. At 30 June 1998 there were 89 active Member Organisations and 15 inactive including Cresvale Securities Limited which was admitted late in the financial year and had not yet commenced trading.

ACTIVE

ABN AMRO Equities Australia Limited
ABS White & Co Ltd
Andrew West & Co. Limited
ANZ MeesPierson Clearing Services Pty Ltd
ANZ Securities Limited
Austock Brokers Pty Ltd
Australian Discount Stockbroking Limited
Baker Young Stockbrokers Limited
Barton Capital Securities Pty Ltd
Bell Securities Limited
Berndale Securities Limited
BNP Equities (Australia) Limited
Bridges Financial Services Pty Ltd
BT Alex. Brown Australia Limited
Burdett Buckeridge Young Limited
Burrell & Co
Cameron Securities
Cazenove Australia Pty Ltd
Chartpac Securities Limited
CIBC Wood Gundy Australia Limited
CJ Weedon & Co
Colonial Stockbroking Limited
Commonwealth Securities Limited

Credit Suisse First Boston Australia Equities Limited
D&D-Tolhurst Ltd
Daiwa Securities Stockbroking Ltd
Day Cutten Limited
Deutsche Morgan Grenfell Securities Australia Limited
Dicksons Limited
DJ Carmichael Pty Limited
E.L. & C. Baillieu Stockbroking Ltd
EPIC Securities Limited
Falkiners Stockbroking Limited
Findlay & Co Stockbrokers
FW Holst & Co Pty Ltd
Gillon Securities Ltd
Green Line Investor Services Limited
Hartley Poynton Limited
Harvey Bayley & Co
Henderson Charlton Jones Ltd
Herbert P Cooper & Son Limited
Hogan & Partners
HSBC Securities Australia Limited
Hudson Securities Pty Ltd
Intersuisse Limited
ITG Australia Limited
Johnson Taylor Limited
Joseph Palmer & Sons
Kirke Securities Pty Ltd
KJ Polkinghorne & Co Pty Limited
Lodge & Partners
Lonsdale Securities Limited
Macquarie Equities Limited
Merrill Lynch Equities (Australia) Limited
Merrill Lynch Private (Australia) Limited
Montagu Pty Ltd
Morgan Stanley Australia Securities Limited
Morgan Stockbroking Limited
Nevitts Limited
Nova Pacific Securities Limited
Ord Minnett Limited
Ord Minnett Securities Limited

Paterson Ord Minnett Ltd
Paul Morgan Securities Pty Ltd
Peake Lands Kirwan Pty Ltd
Pembroke Josephson Wright Limited
PG Intercapital Limited
Phileo Allied Securities Australia Pty Limited
Phillips Henderson Ward Ltd
Porter Western Limited
Potter Warburg Securities Pty Ltd
Prudential-Bache Securities (Australia) Limited
Reynolds & Co Pty Limited
Salomon Smith Barney Australia Securities Pty Limited
Sanford Securities Pty Limited
Saw James Capel Limited
Scott Foster & Partners
Shadforths Limited
SHAW Stockbroking Limited
Statton Securities
TA Securities Australia Pty Limited
Taylor Collison Limited
Thonemann Robertson Thompson Pty Ltd
TIR Securities (Australia) Limited
Todd Partners Stockbroking Pty Ltd
Warburg Dillon Read Australia Equities Limited
Were Stockbroking Limited
William Noall Limited
Wilson HTM Ltd

INACTIVE

ABN AMRO Australia Hoare Govett (Securities) Limited
BBL Financial Services Limited
Credit Lyonnais May Mellor Limited
Credit Suisse First Boston Australia Stockbrokers Limited
Cresvale Securities Limited
Gilbert Harriman & Son Pty Limited
Grenfell Brokers Pty Ltd
Jardine Fleming Australia Securities Limited
Lance Jones Limited
MC Stockbrokers Limited
Merrill Lynch (Australia) Equities Limited
Pembroke Securities Limited
Rivkin Croll Smith
Thompson Brindal Limited
Vinton Smith, Dougall Ltd

The markets in brief

1 YEAR	5 YEARS	10 YEARS	GROWTH		
+2.4%	+5.5%	-15.2%	Number of companies and trusts	With equities ¹ traded on ASX Main Board ²	30 June
+107.1%	-69.8%	-77.2%		Added to/removed from Main Board	
+10.0%	+70.0%	+192.2%		Net change	
+0.8%	+71.4%	+542.6%	Market capitalisation	Domestic equities ³ (A\$ million)	
+6.4%	+70.5%	+267.1%		Overseas-based equities (A\$ million)	
-10.0%	+3.5%	+140.4%		All equities (A\$ million)	
+21.6%	+66.4%	+132.0%		Bonds/ fixed-interest securities (A\$ million)	
-5.7%	+29.6%	+131.6%	Equities trading ⁴	Transactions ('000)	
+15.4%	+91.1%	+262.9%		Volume (million shares)	
+21.1%	+65.8%	+131.1%		Value (A\$ million)	
+15.0%	+90.4%	+261.5%	Daily averages	Transactions	
				Value of turnover (A\$ million)	
				Number of trading days	
-29.6%	-51.7%	-99.5%	Fixed-interest trading	Value (A\$ mill)	
-2.2%	+18.0%	+36.6%	Market liquidity: Equity turnover value as % of average domestic market capitalisation		
+75.8%	+26.0%	+115.3%	Equity capital raisings from new shares quoted during year (A\$ million)		
			Equity capital raisings as % of average domestic market capitalisation		
ASX INDEXES					
-2.1%	+34.2%	+71.6%	All Ordinaries Share Price Index (base 31/12/79 = 500)	30 June	
				High	
				Low	
+1.6%	+57.5%	+165.2%	All Ordinaries Accumulation (gross) Index (base 31/12/79 = 1000)	30 June	
			ASX100 Share Price Index (base 31/12/97 = 1000)		
+9.0%	+60.1%	+88.7%	All Industrials Share Price Index (base 31/12/79 = 500)	30 June	
+13.5%	+92.8%	+209.0%	All Industrials Accumulation (gross) Index (base 31/12/79 = 1000)	30 June	
-14.8%	-9.8%	-7.7%	Number of companies on All Ordinaries Index	30 June	
+5.5%	+65.2%	+213.5%	Market capitalisation of All Ordinaries Index stocks (A\$ million)	30 June	
AVERAGE P/E RATIOS AND YIELDS 30 JUNE					
			Index-linked P/E ratio (all companies on All Ordinaries Index)		
			Index-linked P/E ratio (excluding companies reporting losses)		
			Index-linked dividend yield (all companies on All Ordinaries Index)		
			10-year government bond yield (non-rebatable)		
			90-day bank bill yield		
OPTIONS MARKET					
-20.8%	-30.1%	+53.0%	Put and call contracts traded (1000 shares per contract) (million)		
+4.6%	+10.8%	+38.7%	Value of premiums on contracts (A\$ million)		
EXCHANGE RATES AND OTHER STATISTICS					
-17.7%	-15.9%	-22.7%	A\$ expressed in US\$	30 June	
-12.6%	-1.2%	-6.4%		12-month average	
+1.8%	+9.2%	-3.2%	Trade-weighted index	30 June	
			Inflation (Consumer Price Index increase)		
			Number of securities firms active on ASX	30 June	
ASX AND THE AUSTRALIAN ECONOMY					
+18.0%	+61.8%	+165.2%	Market capitalisation of domestic equities (A\$ billion) 12-month average		
+5.4%	+26.4%	+82.0%	Gross Domestic Product (income) subject to adjustment by ABS (A\$ billion)		
			Average market capitalisation of domestic equities as % of GDP ⁵		

e: Provisional figure or estimate

n.c.: Not calculated

¹Includes preference shares, securities converting to shares and stapled securities²Includes preference shares, securities converting to shares and stapled securities³Second Boards existed until 1 July 1992⁴Single counting (sale/purchase counted as single trade)⁵ABS revision of GDP data has reduced these percentages between 1992–93 and 1996–97

TEN-YEAR PERFORMANCE										
1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
1447	1379	1254	1096	1,116	1,067	1,163	1,186	1,184	1,198	1,227
201/74	73/141	35/160	14/172	169/149	43/92	159/63	68/45	53/55	83/69	83/54
127	-68	-125	-158	20	-49	96	23	-2	+14	29
167,309	162,564	162,681	167,191	198,316	227,772	287,642	299,141	346,993	444,426	488,885
45,522	47,277	56,853	60,875	78,506	186,215	170,688	190,495	218,868	290,072	292,519
212,831	209,841	219,534	228,066	276,822	413,987	458,330	489,636	565,861	734,498	781,404
45,792	59,236	60,040	63,642	77,000	93,567	106,363	119,739	116,794	122,339	110,099
2,825	1,836	1,720	1,531	1,926	2,315	3,938	3,052	4,016	5,389	6,554
36,623	26,118	27,089	23,467	30,189	39,321	65,460	46,717	68,399	89,964	84,823
67,636	49,331	56,728	54,507	63,054	72,691	128,426	118,105	159,330	212,670	245,444
11,164	7256	6,825	6,100	7,554	9,077	15,567	12,064	15,936	21,300	25,803
267·3	195·0	225·1	217·2	247·3	285·1	507·6	466·8	632·3	840·6	966·3
253	253	252	251	255	255	253	253	252	253	254
39,264	13,446	13,635	21,636	14,336	1,029	392	337	87	269	190
39.3%	30.0%	32.9%	34.9%	33.9%	36.0%	45.5%	40.6%	48.0%	54.9%	53.7%
13,395	10,960	9,147	6,596	11,975	10,651	22,892	11,801	15,320	16,403	28,843
7.8%	6.7%	5.3%	4.2%	6.4%	5.3%	8.1%	4.1%	4.6%	4.2%	6.3%
1555·0	1521·1	1500·7	1506·2	1644·7	1738·1	1989·1	2017·0	2242·1	2725·9	2668·4
2306·2	1657·6	1781·8	1624·0	1696·3	1760·4	2340·6	2122·1	2326·0	2725·9	2881·4
1151·0	1412·9	1434·5	1204·5	1502·1	1357·2	1755·3	1823·3	2003·3	2167·5	2299·2
4423·8	4579·8	4767·1	5046·6	5720·1	6287·1	7447·6	7872·5	9119·0	11541·1	11730·6
2485·4	2476·8	2367·3	2315·7	2529·6	2678·4	2928·4	3026·0	3360·2	4301·8	4689·0
7799·3	8274	8405·7	8734	9950·4	10996·5	12500·9	13594·9	15848·8	21240·8	24100·5
300	293	260	231	243	270	307	316	322	325	277
139,229	146,584	150,222	156,665	184,200	213,362	264,168	282,363	318,085	413,613	436,442
12·50	10·20	11·95	15·50	31·90	29·59	18·54	17·21	16·77	22·88	23·00 e
n.c.	10·00	11·10	12·34	17·93	19·04	16·65	15·60	15·50	20·77	21·00 e
4·50	5·85	5·91%	4·83%	3·65%	3·53%	3·58%	4·03%	4·11%	3·67%	3·50% e
12·19	13·67	13·45%	10·83%	8·82%	7·37%	9·63%	9·23%	8·80%	7·03%	5·58%
13·15	18·30	15·10%	10·50%	6·30%	5·25%	5·40%	7·55%	7·60%	5·28%	5·40%
5·30	9·50	11·53	10·25	8·39	7·27	11·60	8·94	9·85	10·24	8·11
2,956	2,929	3,609	2,764	2,256	1,812	3,700	2,793	3,311	3,919	4,099
0·7940	0·7553	0·7890	0·7681	0·7488	0·6722	0·7291	0·7086	0·7890	0·7455	0·6135
0·7295	0·8117	0·7693	0·7854	0·7690	0·7021	0·6908	0·7396	0·7588	0·7813	0·6828
59·8	59·4	61·6	59·7	55·2	49·5	53·0	48·4	58·1	56·9	57·9
6·9%	7·8%	7·7%	3·4%	1·2%	1·9%	1·7%	4·5%	3·1%	0·3%	0·7%
114	112	104	106	98	84	85	86	87	87	89
172·3	164·4	172·6	156·3	186·0	201·8	282·3	291·1	332·2	387·1	456·9
300	340	371	380	390	409	432	460	492	518	546 e
57·4	48·4	46·5	41·1	47·7	49·3	65·3	63·3	67·5	74·7	83·7 e

Australian Stock Exchange 1998 Annual Report
Financial Reports for the Year Ended 30 June 1998



MOVING TOWARDS THE 21ST CENTURY



ASX Financials

Australian Stock Exchange Limited and Controlled Entities

Directors' Report

The directors present their report together with the financial statements of Australian Stock Exchange Limited ("ASX") (a company limited by guarantee) and the consolidated financial statements of the economic entity, being ASX and its controlled entities, for the year ended 30 June 1998 and the independent auditors' report thereon.

Directors

The directors of ASX in office at the date of this report are:

Maurice Lionel Newman AM (Chairman)

Richard George Humphry AO (Managing Director)

Clive Michael Batrouney (Vice-Chairman)

Michael Henry Shepherd (Vice-Chairman)

Philip Anthony Chisholm

Brendan Charles Macquarie Egan

Max Fowles

John Arthur Fraser

James Joseph Kennedy AO, CBE

Timothy Tulloch Brock Lewis

Jeffrey Bruce Parncutt

Ross Matthew Perfield

Phillip John Schudmak

Michael John Sharpe AM, and

Catherine Mary Walter

For details of the directors' qualifications and experience, refer to page 33 of the Annual Report, which is to be read as part of this report.

Directors' meetings and their attendance at those meetings (including meetings of committees of directors) are detailed on page 35 of the Annual Report, which is to be read as part of this report.

Principal Activity

The economic entity provides stock exchange and ancillary services in Australia.

Result

The consolidated operating surplus, after income tax, of the economic entity for the year was \$16,699,000 (1997: \$15,674,000). Included in the after tax consolidated operating surplus is \$12,043,000 (1997: \$11,000,000), arising from ASX Settlement and Transfer Corporation Pty Ltd ("ASTC"), a controlled entity. ASTC's Articles state that no part of the profit or income of the entity shall be paid or transferred directly or indirectly by way of profit or gain to its shareholder. An Australian Competition and Consumer Commission ("ACCC") determination during the year stated that profits earned prior to demutualisation are to be treated in accordance with its articles of association. ASTC is applying under the Corporations Law to change its articles to permit distribution of profits. ASTC has represented to the ACCC that it has a "Development Reserve" for the future development of the CHESS system and it is not intended that ASX have access to this reserve. The balance of the Development Reserve at 30 June 1998 is \$35,000,000.

The results for both years were affected by abnormal items which are set out in Note 6 to the financial statements.

The contribution by each entity in the economic entity to the surplus is set out in Note 28 to the financial statements.

The entities in the economic entity are subject to company tax. However, under the mutuality provisions of the Income Tax Assessment Act, no income tax is payable on net member revenue derived from stock exchange services to Member Organisations. The mutuality provisions will no longer apply to ASX from the date it demutualises during the 1998/99 financial year.

The financial statements of ASX and the consolidated financial statements of the economic entity have been reviewed and approved by the Board on the recommendation of the Audit Committee.

Review of Operations and Likely Developments

The review of operations during the year and likely developments in subsequent financial years are discussed on pages 2 to 27 of the Annual Report, which are to be read as part of this report.

Derivatives and other financial instruments

The economic entity's activities expose it to credit, liquidity and interest rate risks.

It is the economic entity's policy to use derivative financial instruments to hedge cash flows subject to interest rate risk. Derivative financial instruments are not held for speculative purposes.

The economic entity has a strict credit policy for all customers trading on credit terms, and only deals with financial market intermediaries with an acceptable credit rating determined by a recognised rating agency.

Australian Stock Exchange Limited and Controlled Entities

Directors' Report (continued)

Financing facilities and operating cash flows are managed to ensure that the economic entity is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review other than progress made in relation to demutualisation, as reported elsewhere in the annual report.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of ASX, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

Directors' Interests and Benefits

Since the end of the previous financial year, no director of ASX has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the consolidated financial statements) by reason of a contract made by ASX, its controlled entities or a related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial financial interest, with the exception of any benefits which Messrs Chisholm, Egan, Fowles, Lewis, Newman, Parncutt, Petfield and Schudmak may have received by virtue of their interest in Member Organisations of ASX which transact business in securities quoted on ASX and to whom ASX or a controlled entity or a related body corporate of ASX may supply market information products. During the year Mr MJ Sharpe was a partner in the firm of Coopers & Lybrand, Chartered Accountants, which rendered services to the economic entity in the ordinary course of business. Mr JA Fraser is executive chairman and chief executive officer of UBS Brinson Limited, which renders services to Securities Exchanges Guarantee Corporation Limited (a non-controlled entity) in the ordinary course of business.

Details of directors' benefits are contained in Note 26.

Indemnification and insurance of officers and auditors

Since the end of the previous financial year, the economic entity has paid insurance premiums in respect of directors' and officers' liability insurance for current and former officers of ASX, its controlled entities and a related body corporate.

The officers of ASX covered by the insurance include the current directors as listed on the previous page, the secretary KL Hamilton, former directors and other executives.

The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

The Articles of Association of ASX provide that the officers of ASX, as detailed above, and the auditors of ASX are indemnified out of the property of ASX against any liability incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgment is given in their favour or in which they are acquitted or in connection with any application in relation to any such proceedings in which relief is granted under the Corporations Law.

The officers are also indemnified out of the property of ASX against any liability incurred in that capacity after 15 April 1994 (other than to ASX, a related entity or related body corporate) provided that liability does not arise out of conduct involving a lack of good faith.

Corporate Governance

ASX's corporate governance matters are discussed on pages 28 to 31 of the Annual Report.

Rounding Off of Amounts

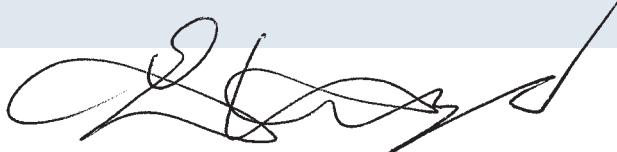
ASX is an entity of the kind referred to in Regulation 3.6.05(6) of the Corporations Regulations, and amounts in this report and the accompanying financial statements have been rounded off to the nearest one thousand dollars in accordance with Section 311 and the Regulations unless otherwise indicated.

Dated at Sydney this 25th day of August 1998.

Signed in accordance with a resolution of the directors:



Maurice L Newman AM
Chairman



Richard G Humphry AO
Managing Director

Australian Stock Exchange Limited and Controlled Entities
Statements of Revenue and Expenditure for the year ended 30 June 1998

			Consolidated		Chief Entity	
		Note	1998 \$000	1997 \$000	1998 \$000	1997 \$000
TOTAL OPERATING REVENUE	3		138,363	119,890	1,602	3,350
OPERATING SURPLUS/(DEFICIT) BEFORE						
TAX AND ABNORMAL ITEMS	4		26,355	16,508	(5,578)	(4,065)
Abnormal items	6		(15,666)	1,166	–	–
OPERATING SURPLUS/(DEFICIT) BEFORE TAX			10,689	17,674	(5,578)	(4,065)
Income tax benefit/(expense)	7(a)		6,010	(2,000)	937	–
OPERATING SURPLUS/(DEFICIT) AFTER TAX			16,699	15,674	(4,641)	(4,065)
ACCUMULATED SURPLUS AT THE BEGINNING						
OF THE FINANCIAL YEAR			108,270	92,572	8,810	12,875
Aggregate of amounts transferred from reserves	18		14,850	24	19,962	–
ACCUMULATED SURPLUS AT THE END			139,819	108,270	24,131	8,810

The Statements of Revenue and Expenditure are to be read in conjunction with the notes to the financial statements set out on pages 49 to 72.

Australian Stock Exchange Limited and Controlled Entities
Balance Sheets as at 30 June 1998

	Note	Consolidated		Chief Entity		1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
		1998 \$000	1997 \$000	1998 \$000	1997 \$000	
Current Assets						
Cash and short-term securities	8	60,884	82,421	—	—	5
Other investment securities	8	108,454	45,600	—	—	6
Receivables	9	13,161	12,819	—	3,945	7
Inventories	10	94	484	—	—	8
Other	11	2,988	5,249	—	4,153	9
Total Current Assets		185,581	146,573	—	8,098	10
Non-Current Assets						11
Investments	12	—	—	138,628	138,628	12
Property, plant and equipment	13	48,553	75,981	9	15	13
Total Non-Current Assets		48,553	75,981	138,637	138,643	14
TOTAL ASSETS		234,134	222,554	138,637	146,741	15
Current Liabilities						16
Accounts payable	14	10,435	6,433	—	—	17
Borrowings	15	192	124	690	—	18
Provisions	16	20,471	10,701	—	—	19
Other	17	6,183	11,016	—	4,153	20
Total Current Liabilities		37,281	28,274	690	4,153	21
Non-Current Liabilities						22
Borrowings	15	477	282	—	—	23
Provisions	16	21,557	35,878	—	—	24
Total Non-Current Liabilities		22,034	36,160	—	—	25
TOTAL LIABILITIES		59,315	64,434	690	4,153	26
NET ASSETS		174,819	158,120	137,947	142,588	27
Accumulated Funds						28
Reserves	18	35,000	49,850	113,816	133,778	29
Accumulated surplus		139,819	108,270	24,131	8,810	30
TOTAL ACCUMULATED FUNDS		174,819	158,120	137,947	142,588	31

The Balance Sheets are to be read in conjunction with the notes to the financial statements set out on pages 49 to 72.

**Australian Stock Exchange Limited and Controlled Entities
Statements of Cash Flows for the year ended 30 June 1998**

			Consolidated		Chief Entity	
		Note	1998 \$000	1997 \$000	1998 \$000	1997 \$000
			Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash Flows From Operating Activities						
Receipts from members, listed companies and customers			135,756	118,567	7,176	8,918
Payments to suppliers and employees			(110,456)	(104,639)	(7,176)	(8,918)
Dividend received			–	4,207	–	–
Interest received			7,596	8,919	–	–
Cash received from Securities Industry Development Account	30(a)		30,446	15,703	–	–
NET CASH PROVIDED BY OPERATING ACTIVITIES	23		63,342	42,757	–	–
Cash Flows From Investing Activities						
Expenditure on internally developed software			(6,569)	(15,854)	–	–
Purchase of property, plant and equipment			(15,854)	(16,304)	–	–
Cash received on sale of property, plant and equipment	3,13		398	975	–	–
Cash received on sale of shares in associated entity			–	1,243	–	–
Cash (paid)/received on (purchase)/sale of investment securities			(62,854)	8,959	–	–
NET CASH (USED IN) INVESTING ACTIVITIES			(84,879)	(20,981)	–	–
NET (DECREASE)/INCREASE IN CASH HELD			(21,537)*	21,776	–	–
CASH AT THE BEGINNING OF THE FINANCIAL YEAR			82,421	60,645	–	–
CASH AT THE END OF THE FINANCIAL YEAR			60,884	82,421	–	–

RECONCILIATION OF CASH

For the purposes of the Statements of Cash Flows, cash includes cash on hand and in banks and investments in trading securities with a term to maturity of less than three months. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:

Cash at bank and on hand	8	650	123	–	–
Short-term securities – at market value	8	60,234	82,298	–	–
TOTAL CASH AND SHORT-TERM TRADING SECURITIES		60,884	82,421	–	–

*The decrease in "cash and short-term securities" held reflects the reclassification of securities from short-term to investment securities, and is in accordance with the revised accounting standard AASB 1026: "Statement of Cash Flows".

Australian Stock Exchange Limited and Controlled Entities

Notes to and forming part of the Financial Statements

1. Statement of Significant Accounting Policies

The significant policies that have been adopted in the preparation of these financial statements are:

(a) Basis of Preparation

The financial statements of Australian Stock Exchange Limited (“ASX”), the chief entity, and the consolidated financial statements of the economic entity have been drawn up in accordance with the standards and disclosure requirements of the Australian accounting bodies, applicable Accounting Standards, other professional reporting requirements, the requirements of the Corporations Law and the disclosures required by International Accounting Standards (“IASs”) and are presented in Australian dollars. Discussion on application of IASs are set out in Note 2. The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. Except where stated the accounting policies have been consistently applied.

The International Accounting Standards Committee is an independent private sector body, with the objective of achieving uniformity in the accounting principles which are used by businesses and organisations for financial reporting around the world.

In these financial statements, the terms: “chief entity” refers to ASX; “controlled entities” refers to companies that are controlled by ASX; “economic entity” refers to ASX and its controlled entities; “entity” refers to a corporation or company; “related entity” refers to a related corporation or company and “related body corporate” to an entity that is not controlled by ASX.

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of ASX and its controlled entities. All inter-entity balances and transactions have been eliminated in the consolidated financial statements. ASX owns 100% of Securities Exchanges Guarantee Corporation Limited (“SEGC”). The financial statements of SEGC have not been included in the consolidated financial statements as during the year ASX did not have the capacity to control that entity’s Board of Directors, nor was it entitled to the entity’s assets.

(c) Revenue Recognition

Revenue comprises amounts received (net of returns, discounts and allowances) from the provision of products or services to entities outside the economic entity.

Revenue is recognised when the goods are provided or, in relation to the provision of services, when services have been performed.

(d) Taxation

The economic entity adopts the liability method of tax-effect accounting. Income tax expense for the year is calculated on the accounting surplus after adjusting for permanent differences and before making adjustments for differences in the time at which items of income and expense are taken into account for income tax purposes.

ASX and the entities in the economic entity are subject to company tax. At present, however, under the mutuality provisions of the Income Tax Assessment Act, no income tax is payable on net member revenue derived from stock exchange services to member organisations. The mutuality provisions will no longer apply to ASX from the date it demutualises during the year ending 30 June 1999.

(e) Inventories

Inventories are valued at the lower of cost and net realisable value.

(f) Trading Securities

Trading securities at balance date are stated at market value to appropriately reflect the market value of the economic entity’s treasury assets. Gains and losses in the market value of trading securities are recognised in the Consolidated Statements of Revenue and Expenditure.

Trading securities comprise only short-term deposits, bank bills, financial futures contracts and government and other fixed-interest securities. Details of interest and credit rate risk are contained in Note 29.

(g) Financial Futures Contracts

Financial futures contracts are used for investing and hedging purposes provided that all open futures positions are backed by cash or assets forming part of the portfolio being invested or hedged and other risk and maturity parameters are met.

The financial futures contracts are valued at prevailing market rates. Gains and losses on such contracts are recognised in the Consolidated Statements of Revenue and Expenditure as forming part of interest.

Australian Stock Exchange Limited and Controlled Entities

Notes to and forming part of the Financial Statements (continued)

1 1. Statement of Significant
2 Accounting Policies (continued)

3 (h) Property, Plant and Equipment

4 *Assessment of Recoverable Amount*

5 The carrying amounts of all significant property, plant
6 and equipment are reviewed at least annually to determine
7 whether they are in excess of their recoverable amount.

8 The recoverable amount means, in relation to an asset,
9 the net amount that is expected to be recovered through
10 the cash inflows and outflows arising from its continued
11 use and subsequent disposal or subsequent transfers from
12 the Securities Industry Development Account ("SIDA").
13 If the carrying amount of an item of property, plant and
14 equipment exceeds the recoverable amount, the asset is
15 written down to the lower amount.

16 In assessing recoverable amount, the relevant cash flows
17 have not been discounted to their present value.

18 *Property, Plant and Equipment acquired by the
19 Economic Entity*

20 Items of property, plant and equipment are capitalised
21 at historical cost and depreciated as outlined below.

22 *Depreciation of Property, Plant and Equipment*

23 Items of property, plant and equipment, including
24 buildings and leasehold property but excluding freehold
25 land, are depreciated over their expected lives. The
26 straight-line method is used. Assets are first depreciated
27 in the year of acquisition.

28 Major depreciation periods are:

Plant and equipment	3-7 years
Computer equipment	3 years
CHESS	7 years
Motor Vehicles	4-6 years
Leased motor vehicles capitalised	3-4 years
Leasehold improvements	3-14 years

29 *Leased Plant and Equipment*

30 Leases of plant and equipment under which the
31 economic entity assumes substantially all of the risks
32 and benefits of ownership are classified as finance leases.
33 Other leases are classified as operating leases.

34 Finance leases are capitalised; a lease asset and liability
35 equal to the present value of the minimum lease payments,
36 excluding executory costs, are recorded at the inception
37 of the lease. Capitalised lease assets are amortised on a
38 straight-line basis against the revenue of the accounting
39 periods which are expected to benefit from their use. Lease
40 liabilities are reduced by repayments of principal. The
interest components of the lease payments are expensed.

Leased Premises

Lease incentives are included in several of the operating leases negotiated by the economic entity. These vary with individual leases. Lease incentives include cash inducements, rent-free periods and free fit-out of leased areas.

The estimated value of the lease incentives has been apportioned over future accounting periods. The net lease costs are charged against the results for those periods to permit a proper matching of expenditure and revenue.

Other operating lease payments are charged against the result in equal instalments over the accounting periods covered by the lease term.

Surplus Lease Space

Provision is made for surplus leased premises when it is determined that no substantive future benefit will be obtained by the economic entity from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and the economic entity either:

- currently does not occupy the premises and does not expect to occupy it in the future;
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease;
- currently occupies the premises, but the premises have been assessed to be of no substantive benefit beyond a known future date.

The provision has been calculated on the basis of discounted net future cashflows.

Details of finance lease assets and liabilities are contained in Note 13 and 24 respectively.

SEATS 97 Computer Development Project in Progress

The SEATS 97 computer development project in progress relates to computer software development, purchased software, capitalised depreciation of property, plant and equipment and other costs associated with the development of SEATS 97. This expenditure is regarded as research and development.

Costs incurred during the feasibility stage of the project were expensed. The costs incurred during the development phase are capitalised to the extent that they meet the recoverability test. Transfers from SIDA are treated as a reimbursement of expenditure and are either credited to revenue or to the capitalised carrying amount, depending on whether the expenditure has been expensed or capitalised. Any expenditure incurred during the development phase which has not been offset by a transfer from SIDA is valued at cost.

Australian Stock Exchange Limited and Controlled Entities

Notes to and forming part of the Financial Statements (continued)

1. Statement of Significant Accounting Policies (continued)

DTF Computer Development Project in Progress

The DTF computer development project in progress relates to computer software development, purchased software, capitalised depreciation of property, plant and equipment and other costs associated with the development of DTF and is valued at cost. Expenditure on the DTF project is not regarded as research and development. This development expenditure is deferred to future periods to the extent that it is expected to be recoverable. Future transfers from SIDA for the funding of DTF will be credited to revenue.

CHESS

"Phase 1" of the CHESS project was first amortised on 20 September 1994 and "Phase 2" of the CHESS project was first amortised on 1 June 1996 and is valued at cost. Costs incurred during the implementation stage of the project were expensed. The costs incurred during the development phase were capitalised to the extent that their recoverability was assured beyond any reasonable doubt. Transfers received from SIDA were treated as a reimbursement of expenditure and were either credited to revenue or to the capitalised carrying amount, depending on whether the expenditure had been expensed or capitalised. Any expenditure incurred during the development phase that was not offset by a transfer from SIDA is valued at cost. The carrying value is reviewed at least annually. CHESS is amortised over seven years on a straight-line basis, being the expected life of the system.

(i) Provisions

Employee Entitlements

The provisions made in the financial statements for amounts expected to be paid to employees by way of annual leave, long service leave, sick leave and other monetary and non-monetary benefits are based on the statutory and contractual entitlements.

Employee entitlements to wages and salaries, annual leave, long service leave, sick leave and other monetary and non-monetary benefits and relevant employee on-costs expected to be settled within twelve months of the reporting date are measured at current remuneration rates. Long-term employee entitlements are measured at the present value of the future cash outflows. Details of aggregate employee entitlements are disclosed in Note 16.

Doubtful Debts

Trade debtors to be settled within thirty days are carried at amounts due. The collectibility of debts is assessed at balance date and a general provision is made in addition to a provision for any specific doubtful debts.

(j) Investments in Controlled Entities

Investments in controlled entities are valued in the chief entity's financial statements at directors' valuation.

(k) Superannuation Fund

The economic entity has a superannuation fund which exists to provide benefits for employees and their dependents on retirement, disability or death. The economic entity contributes to the fund in addition to contributions made by employees.

In prior years there was an actuarial surplus in the fund resulting in the economic entity being on a contribution holiday. During that period, the amount that would have been paid was being provided for over a period recommended by the fund's actuary to permit a proper matching of expenditure and revenue.

An actuarial valuation conducted during the year determined that the surplus has been reduced. As a result, the contribution holiday has ceased with contributions made to the fund being applied in part against the provision raised.

(l) Cash/Collateral lodged with OCH for margin and mark to market obligations

As the clearing house for exchange traded options traded on ASX, OCH registers market contracts between participants and those contracts are replaced by novation with a contract between selling clearing members and OCH, and a contract between buying clearing members and OCH (refer also to Note 20).

Where a clearing member fails to meet a net payment obligation, OCH has a right to claim on the National Guarantee Fund to the extent of the failed obligation pursuant to section 954N of the Corporations Law. At 30 June 1998 there were no outstanding obligations.

(m) Moneys Held in Trust for Member Organisations

Member Organisations are required to lodge deposits with the chief entity in accordance with Section 889 of the Corporations Law. The deposits are held in trust for member organisations until repaid.

Australian Stock Exchange Limited and Controlled Entities

Notes to and forming part of the Financial Statements (continued)

1. Statement of Significant Accounting Policies (continued)

As the funds are held in trust, they are not recorded as assets and liabilities of the economic entity. Neither the reported results or the net financial position of the economic entity are affected by the exclusion of these funds from the financial statements.

At 30 June 1998, trust funds held in accordance with section 889 of the Corporations Law were \$77,392,000 (1997: \$80,035,000).

(n) Securities Industry Development Account ("SIDA")

SEGC holds the assets of the National Guarantee Fund ("the Fund") in trust for the purposes set out in the provisions of Part 7.10 of the Corporations Law and administers the Fund in accordance with those provisions. SEGC is able to determine that, without limiting its guarantee capacity, funds in excess of the Fund's "minimum amount" may be transferred to SIDA. Transfers from SIDA to the economic entity for development projects and other purposes can only be made with the approval of the Federal Treasurer. In some instances, some moneys are transferred back to SIDA. It is anticipated that after demutualisation future SIDA funding will only be made available in limited circumstances. Refer to Note 30 for details of movements in SIDA.

SIDA receipts are credited to either revenue or the capitalised carrying amount of development expenditure. Receipts in respect of research and development expenditure previously capitalised are taken as a reduction of the carrying value of the assets. Receipts in respect of capitalised costs which are not research and development and receipts in respect of costs previously expensed are taken to revenue. The impact of SIDA receipts on the carrying value of property, plant and equipment is contained in Note 13. SIDA receipts received prior to July 1996 were credited to the General Reserve.

(o) Development Reserve

The ACCC has reauthorised the CHESS arrangements on the basis that the ASTC articles will be amended to remove an article restricting the capacity of ASTC to pay dividends. ASTC intends to amend its articles to permit distribution of profits. ASTC has represented to the ACCC that it has a "Development Reserve" for the future development of the CHESS system. It is not intended that ASX have access to this reserve. The balance of the General Reserve and part of Accumulated Surplus has been transferred to the Development Reserve at 30 June 1998. Future CHESS development will be expensed and/or capitalised as appropriate, with a corresponding transfer from the Development Reserve to Accumulated Surplus. The balance of the Development Reserve at 30 June 1998 is \$35,000,000 (refer to Note 18).

(p) Foreign Currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. At 30 June 1997 and 1998 there were no significant outstanding balances in foreign currency.

(q) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company or economic entity. Trade accounts payable are normally settled within 30 days.

(r) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. International Accounting Standards

As stated in Note 1, the consolidated financial statements of ASX have been prepared in accordance with Australian accounting standards and, to the extent there is no conflict with these, IASs. IASs differ in certain respects from Australian accounting standards. At 30 June 1998 there are no differences in the application of accounting principles between Australian accounting standards and applicable IASs in relation to the preparation of these financial statements.

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

	Note	Consolidated		Chief Entity		1 2 3
		1998 \$000	1997 \$000	1998 \$000	1997 \$000	
3. Operating revenue						4
Sales revenue:						5
Settlement fees on securities transactions		37,837	32,989	174	1,841	6
Listing and companies fees		34,274	29,289	—	—	7
Market data products		20,951	19,809	—	—	8
Derivatives trading and settlement fees		19,344	17,312	—	—	9
SEATS fees		11,837	7,128	—	—	10
Membership charges and fees		1,428	1,509	1,428	1,509	11
Other Services		7,870	6,260	—	—	12
Other revenue:						13
Interest	5	8,356	8,919	—	—	14
Proceeds on sale of property, plant and equipment	13	398	975	—	—	15
Gross operating revenue		142,295	124,190	1,602	3,350	16
Less:						17
Proceeds on sale of property, plant and equipment	13	(398)	(975)	—	—	18
Cost of goods sold		(3,534)	(3,325)	—	—	19
Total operating revenue		138,363	119,890	1,602	3,350	20
4. Operating Surplus						21
Included in the operating surplus are the following expense items:						22
Amortisation of:						23
Leased motor vehicles		159	230	—	—	24
Computer software		3,189	3,737	—	—	25
		3,348	3,967	—	—	26
Depreciation of property, plant and equipment		11,436	12,389	5	5	27
Lease rental expenses		9,303	9,808	772	668	28
Amounts set aside to/(write back of) provision for:						29
Employee entitlements		2,097	1,848	(234)	(126)	30
Superannuation		1,017	1,611	—	—	31
Diminution in value of inventories		85	17	—	—	32
Doubtful debts		77	(13)	—	—	33
Bad debts written off		8	4	—	—	34
5. Interest						35
The operating surplus before tax is arrived at after crediting/(charging) the following specific items:						36
Interest received or due and receivable from other persons		7,713	9,057	—	—	37
Unrealised gains on trading securities		713	—	—	—	38
Unrealised loss on trading securities		—	(67)	—	—	39
Interest paid or due and payable:						40
Finance charges on capitalised leases		(70)	(71)	—	—	41
		8,356	8,919	—	—	42

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

		ConsolidATED		Chief Entity
		1998 \$000	1997 \$000	1998 \$000
1	6.	Abnormal Items		
2		Items credited/(charged)		
3				
4		Staff redundancy and reorganisation costs	(765)	(316) — —
5		Income tax effect	275	114 — —
6			(490)	(202) — —
7		Demutualisation project expenses	(5,675)	(959) — —
8		Income tax effect	1,191	— — —
9			(4,484)	(959) — —
10		Premises relocation project expenses	(485)	(446) — —
11		Income tax effect	175	161 — —
12			(310)	(285) — —
13		Year 2000 computer systems project expenses	(3,032)	(425) — —
14		Income tax effect	1,092	153 — —
15			(1,940)	(272) — —
16		Surplus lease space:		
17		Provision for surplus lease space	(1,486)	— — —
18		Write-off non-current assets relating to surplus lease space	(4,868)	— — —
19			(6,354)	— — —
20		Income tax effect	991	— — —
21			(5,363)	— — —
22		DTF:		
23		Write-off computer development	(18,337)	— — —
24		Write-off computer equipment	(3,312)	— — —
25		SIDA receipts	22,028	— — —
26			379	— — —
27		Income tax effect	7,794	— — —
28			8,173	— — —
29		Other SIDA receipts	1,087	— — —
30		Income tax effect	—	— — —
31		Accelerated depreciation on plant and equipment	(821)	(4,748) — —
32		Income tax effect	296	1,709 — —
33			(525)	(3,039) — —
34		SIDA receipt for SEATS 97 pre-development costs	—	2,875 — —
35		Income tax effect	—	— — —
36			—	2,875 — —
37		SIDA receipt for CHESS implementation costs	—	978 — —
38		Income tax effect	—	— — —
39			—	978 — —

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

	Note	Consolidated		Chief Entity		1 2 3
		1998 \$000	1997 \$000	1998 \$000	1997 \$000	
6. Abnormal Items (continued)						4
Dividend received from an associated entity*		—	4,207	—	—	5
Aggregate abnormal items before income tax effect		(15,666)	1,166	—	—	6
Aggregate income tax effect		11,814	2,137	—	—	7
Aggregate abnormal items after income tax effect		(3,852)	3,303	—	—	8
*The dividend received was partially franked.						9
7. Taxation						10
(a) Income Tax Benefit/(Expense)						11
Prima facie income tax (expense)/benefit calculated at 36% (1997: 36%) on the operating surplus/(deficit) before tax		(3,848)	(6,363)	2008	1,464	12 13
Movement in income tax (expense)/benefit due to:						14
Non-tax (deductible) items		(1,086)	(330)	—	93	15
Rebate on dividend		—	1,515	—	—	16
SIDA non-assessable income		10,961	5,654	—	—	17
Research and development concession		359	626	—	—	18
Future income tax benefit:						19
Not previously taken to account		1,171	(1,602)	937	(93)	20
Prior years' tax charge		461	(36)	—	—	21
Non-taxable net member (expense)/revenue		(2,008)	(1,464)	(2,008)	(1,464)	22
Total income tax benefit/(expense)		6,010	(2,000)	937	—	23
Total income tax benefit/(expense) is made up of:						24
Current income tax provision		(6,037)	—	—	—	25
Deferred income tax provision		5,569	(539)	—	—	26
Future income tax benefit		6,478	(1,461)	937	—	27
		6,010	(2,000)	937	—	28
(b) Provision for current income tax						29
Current year's income tax expense on operating surplus	16	6,037	—	—	—	30
(c) Future Income Tax Benefit						31
Future income tax benefit reflects the future benefit at an income tax rate of 36% (1997: 36%) of the following items:						32
Provisions for:						33
Doubtful trade debts		75	50	—	—	34
Employee entitlements		2,596	2,501	—	—	35
Reorganisation		260	451	—	—	36
Demutualisation		375	—	—	—	37
Leased premises		4,604	3,645	—	—	38
Superannuation		2,006	1,894	—	—	39
Accrued expenses		1,681	101	—	—	40
Other		10	155	—	—	

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

			Consolidated		Chief Entity
		Note	1998 \$000	1997 \$000	1998 \$000
7.	Taxation (continued)				
	(c) Future Income Tax Benefit (continued)				
	Difference in depreciation of property, plant and equipment for accounting and income tax purposes		3,304	2,136	—
	Tax losses recognised		6,258	7,923	937
			21,169	18,856	937
	Applied against provision for deferred income tax	7(d)	(6,904)	(426)	—
	Future income tax benefit not taken to account	7(e)	(8,007)	(11,731)	—
	Tax losses utilised		(6,258)	(6,699)	(937)
			—	—	—
	(d) Provision For Deferred Income Tax				
	Provision for deferred income tax comprises the estimated expense at an income tax rate of 36% (1997: 36%) of the following items:				
	Deferred income		249	377	—
	Prepayments		428	347	—
	Capitalised project costs		276	—	—
	Capitalised software		5,544	11,367	—
	Difference in depreciation of property, plant and equipment for accounting and income tax purposes		407	382	—
			6,904	12,473	—
	Provision for deferred income tax no longer required	7(c)	(6,904)	(426)	—
		16	—	12,047	—
	(e) Future Income Tax Benefit Not Taken To Account				
	The future income tax benefit arising from tax losses and timing differences that has not been recognised as an asset because recovery is not assured beyond reasonable doubt:				
	Tax losses carried forward		—	856	—
	Timing differences		8,007	10,875	—
		7(c)	8,007	11,731	—
			850	850	

The directors have determined that, having regard to the strict nature of the Accounting Standard requirements for the recognition of a future income tax benefit, and the cyclical nature of and changes in the business environment, it is not prudent to fully recognise the future income tax benefit at this time. The asset will only be recognised if:

- (i) there is the ability to derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another entity in the economic entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the economic entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the economic entity in realising the benefit.

The entities in the economic entity are subject to company tax. At present, however, under the mutuality provisions of the Income Tax Assessment Act, no income tax is payable on net member revenue derived from stock exchange services to Member Organisations. The mutuality provisions will no longer apply from the date ASX demutualises during the year ending 30 June 1999.

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

	Note	Consolidated		Chief Entity	
		1998 \$000	1997 \$000	1998 \$000	1997 \$000
8. Cash and Securities					
Cash at bank and on hand		650	123	—	—
Short-term securities – at market value		60,234	82,298	—	—
Other investment securities – at market value		108,454	45,600	—	—
		169,338	128,021	—	—
9. Receivables					
Current					
Trade debtors		12,606	12,562	—	—
Provision for doubtful trade debts		(208)	(139)	—	—
		12,398	12,423	—	—
Other debtors		763	396	—	—
Loans to controlled entities		—	—	—	3,945
		13,161	12,819	—	3,945
10. Inventories					
Current					
Goods for resale – at cost		101	642	—	—
Provision for diminution in value		(7)	(158)	—	—
		94	484	—	—
11. Other Assets					
Current					
Prepayments		1,197	964	—	—
Accrued revenue		1,791	—	—	—
Securities Industry Development Account	30(a)	—	4,153	—	4,153
Dividend Trust Account		—	132	—	—
		2,988	5,249	—	4,153
12. Investments					
Non-Current					
Investments in controlled entities (unquoted)					
At directors' valuation – 1997	28	—	—	138,628	138,628
		—	—	138,628	138,628

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

		Consolidated		Chief Entity
		1998 \$000	1997 \$000	1998 \$000
1	13. Property, Plant and Equipment			
2	• Plant and equipment – at cost			
3	Opening value	44,281	41,484	228
4	Additions	886	2,045	–
5	Transfers from capital works in progress	4,233	1,955	–
6	Write-offs	(7,411)	(1,203)	(181)
7	Closing value	41,989	44,281	47
8	Accumulated depreciation			
9	Opening value	25,550	16,955	213
10	Depreciation expense	10,424	9,161	5
11	Depreciation written back	(7,283)	(566)	(180)
12	Closing value	28,691	25,550	38
13	Provision for diminution			
14	Opening value	–	97	–
15	Transferred to equipment costs	–	(97)	–
16	Closing value	–	–	–
17	Plant and equipment at net book value	13,298	18,731	9
18	• Computer equipment and purchased software – at cost			
19	Opening value	66,171	56,387	–
20	Additions	7,312	12,217	–
21	Write-offs	(27,476)	(116)	–
22	SIDA Receipts – DTF	(3,312)	–	–
23	SEATS	(2,204)	(886)	–
24	CHESS	–	(1,431)	–
25	Closing value	40,491	66,171	–
26	Accumulated depreciation			
27	Opening value	50,857	43,279	–
28	Depreciation expense	5,828	7,673	–
29	Depreciation written back	(27,204)	(95)	–
30	Closing value	29,481	50,857	–
31	Computer equipment and purchased software at net book value	11,010	15,314	–
32	• SEATS 97 Computer development project in progress – at cost			
33	Opening value	5,229	6,182	–
34	Additions	2,918	6,225	–
35	SIDA Receipts	(5,127)	(7,178)	–
36	Closing value	3,020	5,229	–
37	• DTF Computer development project in progress – at cost			
38	Opening value	15,928	6,299	–
39	Additions	3,651	9,629	–
40	Write-off	(18,337)	–	–
41	Closing value	1,242	15,928	–
42	Computer development projects in progress	4,262	21,157	–

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

	Consolidated		Chief Entity		
	1998 \$000	1997 \$000	1998 \$000	1997 \$000	
13. Property, Plant and Equipment (continued)					
• CHESS – at cost					
Opening value	22,977	25,332	–	–	1
SIDA Receipts	–	(2,355)	–	–	2
Closing value	22,977	22,977	–	–	3
Accumulated amortisation					4
Opening value	7,672	3,935	–	–	5
Amortisation expense	3,189	3,737	–	–	6
Closing value	10,861	7,672	–	–	7
CHESS at net book value	12,116	15,305	–	–	8
• Motor vehicles – at cost					9
Opening value	1,566	1,485	–	–	10
Additions	674	483	–	–	11
Disposals	(601)	(402)	–	–	12
Closing value	1,639	1,566	–	–	13
Accumulated depreciation					14
Opening value	756	684	–	–	15
Depreciation expense	333	303	–	–	16
Depreciation written back on disposals	(348)	(231)	–	–	17
Closing value	741	756	–	–	18
Motor vehicles at net book value	898	810	–	–	19
• Leased motor vehicles – at cost					20
Opening value	506	523	–	–	21
Additions	452	314	–	–	22
Disposals	(63)	(331)	–	–	23
Closing value	895	506	–	–	24
Accumulated amortisation					25
Opening value	162	95	–	–	26
Amortisation expense	159	230	–	–	27
Disposals	(5)	(163)	–	–	28
Closing value	316	162	–	–	29
Leased motor vehicles at net book value	579	344	–	–	30
• Capital works in progress – at cost					31
Opening value	4,320	4,175	–	–	32
Additions	6,303	2,100	–	–	33
Transfers to plant and equipment	(4,233)	(1,955)	–	–	34
Closing value	6,390	4,320	–	–	35
Total property, plant and equipment – net book value	48,553	75,981	9	15	36
• Proceeds from sale of property, plant and equipment	398	975	–	–	37

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

			Consolidated		Chief Entity	
		Note	1998 \$000	1997 \$000	1998 \$000	1997 \$000
13.	Property, Plant and Equipment (continued)					
5	Financial effect of SIDA receipts for the year					
6	ending 30 June 1998:					
7	Total property, plant and equipment – at cost		147,623	160,978	47	228
8	SIDA receipts – computer equipment		(5,516)	(2,317)	–	–
9	– computer development projects		(23,464)	(9,533)	–	–
10			(28,980)	(11,850)	47	228
11	Total property, plant and equipment – accumulated depreciation and amortisation		(70,090)	(73,147)	(38)	(213)
12	Total property, plant and equipment – net book value		48,553	75,981	9	15
14.	Accounts Payable					
15	Current					
16	Trade creditors		4,601	3,750	–	–
17	Accrued expenses		5,834	2,683	–	–
18			10,435	6,433	–	–
19.	Borrowings					
20	Current					
21	Lease liabilities	24	192	124	–	–
22	Loans from controlled entities		–	–	690	–
23			192	124	690	–
24	Non-Current					
25	Lease liabilities	24	477	282	–	–
16.	Provisions					
26	Current					
27	Employee entitlements		5,458	5,322	–	–
28	Reorganisation		723	1,253	–	–
29	Leased premises		3,773	3,882	–	–
30	Superannuation		558	–	–	–
31	Income tax	7(b)	6,037	–	–	–
32	Demutualisation		3,902	–	–	–
33	Other		20	244	–	–
34			20,471	10,701	–	–
35	Non-Current					
36	Employee entitlements		2,108	2,123	–	–
37	Leased premises		14,434	16,446	–	–
38	Superannuation		5,015	5,262	–	–
39	Deferred income tax	7(d)	–	12,047	–	–
40			21,557	35,878	–	–

Australian Stock Exchange Limited and Controlled Entities
Notes to and forming part of the Financial Statements (continued)

	Note	Consolidated		Chief Entity		
		1998 \$000	1997 \$000	1998 \$000	1997 \$000	
17. Other Liabilities						
Current						
Listing fees received in advance		1,080	586	—	—	
Revenue received in advance		4,952	6,135	—	—	
Securities Industry Development Account	30(a)	—	4,153	—	4,153	
Deposits from scrip borrowers		20	20	—	—	
Dividends held in trust		110	122	—	—	
Other		21	—	—	—	
		6,183	11,016	—	4,153	
18. Reserves						
Movements in reserves during the financial year were as follows:						
Asset Revaluation Reserve:						
Balance at the beginning of the financial year		—	4,231	113,816	113,816	
Revaluation (decrement) – investment in an associated entity		—	(4,207)	—	—	
Prior years' revaluation increment transferred to Accumulated Surplus upon sale of the investment during the year		—	(24)	—	—	
Balance at the end of the financial year		—	—	113,816	113,816	
General Reserve:						
Balance at the beginning of the financial year		49,850	49,850	19,962	19,962	
Transfer (to) Development Reserve		(29,888)	—	—	—	
Transfer (to) Accumulated Surplus		(19,962)	—	(19,962)	—	
Balance at the end of the financial year		—	49,850	—	19,962	
Development Reserve:						
Balance at the beginning of the financial year		—	—	—	—	
Transfer from General Reserve		29,888	—	—	—	
Transfer from Accumulated Surplus		5,112	—	—	—	
Balance at the end of the financial year		35,000	—	—	—	
Total Reserves		35,000	49,850	113,816	133,778	

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

19. Commitments

(a) Superannuation Commitments

The economic entity and employees contribute to the Australian Stock Exchange Superannuation Fund ("ASXSF") which provides lump sum benefits for employees who are members of ASXSF or their dependents on retirement, resignation, total and permanent disablement or death, although the option exists for members to take retirement benefits in the form of a pension, subject to legislative provisions. The members and ASX make contributions as specified in the trust deed governing ASXSF. The economic entity is legally obliged to contribute to ASXSF subject to its right to reduce or discontinue contributions on three months notice to the Trustee.

At 30 June 1998, the market value of ASXSF assets available after meeting all other liabilities was sufficient to satisfy all benefits that would have been vested in members of ASXSF in the event of termination of the fund or the voluntary or compulsory termination of employment of all members.

The economic entity was on a contribution holiday from 1 October 1992, as recommended by the fund's actuary, Mr MA Stevenson BSc, FIA, FIAA in his 30 June 1992 and 30 June 1995 actuarial assessments, due to an actuarial surplus in ASXSF. The cessation of contributions was confirmed by the Trustees and the ASX Board of Directors.

Due to the depletion of the surplus, the contribution holiday ceased during the current financial year as advised by the actuary, Mr J Newman FIAA, in the December 1997 assessment. At 30 June 1998 the review has confirmed that a small surplus remains in the Fund.

The actuarial valuation methods of attributing benefits to past membership in respect of defined benefit members are:

1. Retirement, death and disablement benefits

Accrued benefits have been based on the actual accrued multiple at the review date.

2. Resignation benefit

Based on members' accumulated contributions plus interest to the review date, plus interest to the date of resignation.

The benefit is then increased by the vesting factor applying according to membership assumed to have been served at each future year of the projection.

The principal assumptions used by the actuary in determining the cost of retirement benefits are:

1. Investment returns: 7.25% per annum net of investment tax and investment expenses. This represents the expected rate of return on the fund's assets. The weighted average term of the accrued benefit liabilities is 7.1 years.
2. Salary increases: 4.5% per annum plus age-related promotional salary increases.
3. Rates at which employees will leave the fund on account of retirement, death, disablement and resignation have been based on the experience of similar funds.

ASXSF is categorised as follows:

	Categories A & B	Categories C & D
Benefit provided	Defined benefit. Lump sum with pension option.	Cash accumulation benefit. Lump sum with pension option.
Basis of contributions	Fixed percentage of member's salary contributed by the member and a variable percentage contributed by the economic entity as determined by the directors of the trustee company on actuarial advice.	Variable contribution by the members at their choice and a contribution by the economic entity as defined by the trust deed.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

19. Commitments (continued)

(a) Superannuation Commitments (continued)

In addition, 3% of employees' salaries is contributed to the Australian Retirement Fund ("ARF"), an external industry fund, on behalf of employees deemed to be covered by the provisions of the various State Clerks awards. The economic entity is legally obliged to make these contributions under award legislation. As a result of these contributions, employees receive a cash accumulation lump sum or pension retirement benefit.

To comply with the Superannuation Guarantee (Administration) Act 1992, an additional 3% is contributed to ARF for employees deemed to be covered by the various State Clerks awards where those employees are not members of ASXSF. For employees who are members of both ARF and ASXSF, 3% is contributed to ASXSF. Contributions for other employees and non-executive directors are met through their membership of ASXSF.

At 30 June 1998, the following information relating to the fund is available:

	1998 \$000	1997 \$000
Net market value of assets	19,631	20,417
Accrued benefits	19,393	19,597
Excess of net assets over accrued benefits	238	820
Vested benefits	19,307	19,286

(b) Capital Commitments

Capital expenditure commitments contracted for but not yet incurred as at balance date are as follows:

	Consolidated		Chief Entity	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Due:				
Not later than one year	20,384	23,425	—	—
Later than one year but not later than two years	751	—	—	—
	21,135	23,425	—	—

(c) Operating Lease Rental Commitments

Future operating lease rental of premises and office equipment:

	Consolidated		Chief Entity	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Due:				
Not later than one year	12,442	13,227	—	—
Later than one year but not later than two years	12,779	12,363	—	—
Later than two years but not later than three years	15,138	7,981	—	—
Later than three years but not later than four years	15,533	5,616	—	—
Later than four years but not later than five years	16,072	5,619	—	—
Later than five years but not later than ten years	77,654	25,436	—	—
Later than ten years but not later than fifteen years	54,909	20,892	—	—
	204,527	91,134	—	—

The increase in lease rental commitments reflects the commitment relating to the future ASX premises at 20 Bridge Street.

The summary does not include any surplus lease space provision or incorporate the effects of any subletting.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

20. Contingent Liabilities

(a) Support for National Guarantee Fund

If the amount of the National Guarantee Fund falls below the minimum amount determined in accordance with the Corporations Law, SEGC is entitled to levy the chief entity or to impose a levy on sales or purchases of securities by Member Organisations of the chief entity which are reportable transactions under its business rules or on certain guaranteed securities loans. Where a levy becomes payable the chief entity can determine that Member Organisations must pay a levy for payment towards the levy it has to pay to SEGC. Failure by either the chief entity or a Member Organisation to pay a levy constitutes an offence under the Corporations Law.

(b) Related Entities

Pursuant to Class Order 95/1530 dated 10 November 1995 (as amended), relief has been granted to certain controlled entities from the Corporations Law requirements for preparation, audit and publication of financial statements. These controlled entities are listed in Note 28.

It is a condition of the Class Order that the chief entity and each participating controlled entity enter into a Deed of Cross Guarantee ("Deed"). The effect of the Deed, dated 1 June 1992, is that the chief entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations Law. If a winding up occurs under other provisions of the Law, the chief entity will only be liable in the event that after six months any creditor has not been paid in full.

At 30 June 1998, the chief entity and controlled entities that are parties to the Deed have aggregate assets of \$317,374,000 (1997: \$320,859,000) and aggregate liabilities of \$108,794,000 (1997: \$106,739,000). Their contribution to the consolidated operating surplus after income tax for the year was \$955,000 (1997: \$1,523,000).

A summarised consolidated balance sheet of the entities that are parties to the Deed, after the elimination of relevant inter-entity balances, is as follows:

	Consolidated	
	1998 \$000	1997 \$000
Current assets	144,396	116,199
Non-current assets	34,340	57,722
Total assets	178,736	173,921
Current liabilities	30,379	23,257
Non-current liabilities	24,303	30,269
Total liabilities	54,682	53,526
Net assets	124,054	120,395
Total accumulated funds	124,054	120,395

(c) Support for ASX Futures Exchange Pty Limited.

ASXO has guaranteed to support ASX Futures Exchange Pty Limited, a controlled entity that has a deficiency of shareholder's funds of \$1,026,872 (1997: \$1,025,192).

(d) Transaction Netting Service

A controlled entity, TNSC, operates a facility ("Transaction Netting Service") for the purpose of enhancing the efficiency of the settlement of transactions in marketable securities. Under this facility, transactions between Member Organisations through SEATS trades are replaced by novation of a contract between the selling Member Organisation and TNSC and a contract between TNSC and the buying Member Organisation.

The selling Member Organisation's obligation to deliver the securities is an obligation owed to TNSC, which has a corresponding obligation to deliver the same quantity of securities to the buying Member Organisation, while the buying Member Organisation's right to delivery from the selling Member Organisation is assumed by TNSC.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

20. Contingent Liabilities (continued)

(d) Transaction Netting Service (continued)

Similarly, the buying Member Organisation's obligation to pay for the securities is an obligation owed to TNSC, which has a corresponding obligation to pay the selling Member Organisation for the securities, while the selling Member Organisation's right to payment is assumed by TNSC.

Pursuant to this facility, TNSC has a liability due to selling Member Organisations at 30 June 1998 totalling \$265,395,029 (1997: \$471,388,795), which is matched by a right to receive funds due by buying Member Organisations.

Where a Member Organisation fails to meet its net delivery obligation or net payment obligation, TNSC has the right to claim on the National Guarantee Fund to the extent of the failed obligation pursuant to sections 954N and 954P of the Corporations Law. At 30 June 1998, \$nil (1997: \$nil) was owing by a Member Organisation arising from failed settlements.

(e) Options Clearing House

Under ASX Business Rules clearing members must provide cover (collateral or cash) for margin, mark to market, and other obligations in respect of the accounts which they are required to maintain with OCH. The total margins required by OCH at 30 June 1998 were \$411,147,271 (1997: \$374,729,508). At that date, clearing members had lodged collateral with OCH in the form of securities with a market value of \$1,166,054,980 (1997: \$1,144,076,719), bank guarantees for the amount of \$28,514,000 (1997: \$62,339,000), and cash of \$84,413,763 (1997: \$48,806,739).

No part of these amounts has been recorded as an asset and corresponding liability in the balance sheet of OCH or the economic entity at 30 June 1998.

(f) Termination benefits

	Consolidated		Chief Entity	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Termination benefits under service agreements with directors and officers who take part in the management of the economic entity	3,887	3,163	1,440	788

(g) Year 2000 Computer Systems

The economic entity is continuing to evaluate its systems to ensure that they will operate satisfactorily with the change of date from 31 December 1999 to 1 January 2000. The reason for this is that some computer systems process transactions based on storing two digits for the year of transaction, rather than a full four digits (for example "98" for 1998). These systems may require modification to ensure that transactions are accurately processed in the year 2000.

The costs of this evaluation and of any systems modifications, being in the nature of maintenance, are expensed as obligations are incurred. Refer to Note 6 for details of current and prior year expenses incurred.

(h) Litigation

The economic entity is defendant from time to time in legal proceedings arising from the conduct of its business. Where appropriate, the economic entity takes legal advice. The economic entity does not consider that the outcome of any current proceedings are likely to have a material effect on its operations or financial position.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

21. Member Contributions

The liability of Members is limited on a winding-up. Pursuant to the Memorandum of Association of the chief entity, every Member undertakes to contribute to the assets of the chief entity in the event it is wound up while he is a Member or within one year after he ceases to be a Member, for debts and liabilities contracted while he was a Member and for the expenses of the winding up and adjustment of rights of contributors, an amount not exceeding \$1,000.

At 30 June 1998, the total of these guarantees was \$625,000 (1997: \$625,000). Under the terms of the constitution of the chief entity in force throughout the reporting period, natural person Members and Member Organisations can be required to pay fees and levies to provide funds required to operate the chief entity. This provision will not be contained in the new constitution of the chief entity which will take effect on its conversion to a company limited by shares.

22. Segment Reporting

ASX provides stock exchange and ancillary services in Australia.

23. Note to and forming part of the statements of cash flows

	Consolidated		Chief Entity	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Reconciliation of Net Cash provided by Operating Activities to Operating Surplus/(Deficit) after Income Tax				
Operating surplus/(deficit) after tax	16,699	15,674	(4,641)	(4,065)
Amortisation of leased motor vehicles	159	230	—	—
Depreciation of property, plant and equipment	16,611	17,137	5	5
Amortisation of internally developed software	3,189	3,737	—	—
Net loss/(profit) on sale of non-current assets	514	(25)	1	—
SIDA receipts	28,980	11,850	—	—
(Decrease)/increase in tax items	(6,010)	2,000	—	—
Increase in employee entitlements provisions	432	2,292	—	—
Increase/(decrease) in provision for doubtful trade debts	69	(5)	—	—
Increase/(decrease) in other provisions	876	(6,031)	—	—
Changes in assets and liabilities:				
(Increase) in current receivables	(411)	(4,750)	3,945	4,060
Decrease in inventories	541	56	—	—
Decrease in other current assets	2,261	6,489	—	—
Increase/(decrease) in trade creditors	851	(1,007)	—	—
(Decrease) in current liabilities	(1,614)	(4,836)	690	—
Increase/(decrease) in non-current liabilities	195	(54)	—	—
Net cash provided by operating activities	63,342	42,757	—	—

Non-Cash Investing Activities

During the financial year the economic entity acquired property, plant and equipment with an aggregate fair value of \$nil (1997: \$855,000) by means of a free fitout on an operating lease. The acquisition is not reflected in the Statements of Cash Flows.

Australian Stock Exchange Limited and Controlled Entities Notes to and Forming Part of the Financial Statements (continued)

	Note	Consolidated		Chief Entity		1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
		1998 \$000	1997 \$000	1998 \$000	1997 \$000	
24. Lease Liabilities						
Included as lease liabilities are the present values of future rentals for leased motor vehicles capitalised.						
Current	15	192	124	—	—	
Non-current	15	477	282	—	—	
		669	406	—	—	
Lease commitments in respect of capitalised finance leases are payable as follows:						
Due:						
Not later than one year		259	171	—	—	
Later than one year but not later than two years		226	144	—	—	
Later than two years but not later than three years		181	150	—	—	
Later than three years but not later than four years		92	31	—	—	
Later than four years but not later than five years		44	—	—	—	
		802	496	—	—	
Future finance charges		(133)	(90)	—	—	
Total lease liabilities		669	406	—	—	

25. Related Party Disclosures

Inter-Entity Transactions

ASX Operations Pty Limited ("ASXO") acts as the operating entity for most of the transactions of the economic entity. Expenses paid, revenues collected and purchases of capital items on behalf of other entities within the economic entity are booked to inter-entity loan accounts. In accordance with economic entity policy, loan accounts are not settled except for Options Clearing House Pty Limited, ASX Settlement and Transfer Corporation Pty Limited ("ASTC") and SEGC. Commercial rates of interest are charged on loan accounts between ASXO and ASTC. Interest is not charged on other inter-entity loan accounts. At balance date the amount owed by ASXO to ASTC was \$49,760,000 (1997: \$30,586,000).

During the year, ASXO transacted the normal trading of ASX as disclosed in the Consolidated Statements of Revenue and Expenditure and the Balance Sheets. ASXO received a management fee of \$547,000 (1997: \$532,000) in respect of administration, accounting and legal services provided by ASXO on behalf of SEGC. Included in other debtors is an amount receivable from SEGC of \$57,000 (1997: \$71,000).

ASX received \$30,446,000 (1996: \$10,939,000) and ASTC received \$nil (1997: \$4,764,000) from SIDA (refer Note 30).

Directors

The names of each person holding the position of director of ASX during the financial year are Maurice Lionel Newman, Clive Michael Batrouney, Michael Henry Shepherd, Richard George Humphry, Philip Anthony Chisholm, Brendan Charles Macquarie Egan, Max Fowles, John Arthur Fraser, James Joseph Kennedy, Timothy Tulloch Brock Lewis, Jeffrey Bruce Parncutt, Ross Matthew Petfield, Phillip John Schudmak, Michael John Sharpe and Catherine Mary Walter.

The directors, except Messrs C. M. Batrouney, M. H. Shepherd, R. G. Humphry, J. A. Fraser and M. J. Sharpe, are or were directors of either Member Organisations and/or listed companies during the year. Products purchased by, and fees levied on, both Member Organisations and listed companies are on the standard terms and conditions available to all Member Organisations and listed companies.

Mr J. A. Fraser is executive chairman and chief executive officer of UBS Brinson Ltd, which renders services to SEGC (a non-controlled entity) in the ordinary course of business.

Mr R. G. Humphry is a director of The Garvan Medical Research Foundation. During the year, the economic entity made a contribution to that foundation.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

25. Related Party Disclosures (continued)

Directors (continued)

During the year Mr M. J. Sharpe was a partner in the firm of Coopers & Lybrand, Chartered Accountants, which rendered services to the economic entity in the ordinary course of business. In addition, Mr Sharpe is the past Chairman of the International Accounting Standards Committee ("IASC"). During the year the economic entity made a contribution to the IASC.

Mr M. H. Shepherd, along with Mr R. L. Coppel, a director of ASX Settlement and Transfer Corporation Pty Limited, is a director of the Asia-Pacific Capital Markets Foundation ('ACMF'). During the year, the research arm of ACMF, Securities Industry Research Centre of Asia-Pacific ('SIRCA'), received funding from SIDA for research into securities market matters. SIRCA also has access to ASX data to assist in its research.

Details of directors' remuneration, superannuation and retirement payments are disclosed in Note 26.

Chief Entity

	1998	1997
--	------	------

26. Directors' and Executives' Remuneration

Remuneration of Directors

The number of directors of the chief entity, including executive directors, who were paid income, or in respect of whom income is payable or otherwise made available, by the chief entity, controlled entities or any related party, within the following bands is:

\$10,000 – \$19,999	–	1
\$20,000 – \$29,999	–	1
\$30,000 – \$39,999	2	1
\$40,000 – \$49,999	2	2
\$50,000 – \$59,999	4	5
\$60,000 – \$69,999	2	1
\$80,000 – \$89,999	2	2
\$110,000 – \$119,999	1	1
\$150,000 – \$159,999	1	1
\$520,000 – \$529,999	–	1
\$600,000 – \$609,000	1	–

	Consolidated		Chief Entity	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000

Total income paid or payable, or otherwise made available to the directors, including executive directors of the chief entity and non-executive directors of controlled entities or any related party, from:

ASX	1,373	1,281	1,373	1,281
Controlled entities	341	351	168	166
	1,714	1,632	1,541	1,447

Australian Stock Exchange Limited and Controlled Entities
Notes to and Forming Part of the Financial Statements (continued)

26. Directors' and Executives' Remuneration (continued)

Consolidated	Chief Entity
1998	1997

Remuneration of Executives

The number of executive officers, including executive directors, whose income from the chief entity and controlled entities falls within the following bands is:

\$110,000 – \$119,999	–	1	–	–	8
\$120,000 – \$129,999	1	1	–	–	9
\$130,000 – \$139,999	3	–	–	–	10
\$140,000 – \$149,999	–	1	–	–	11
\$150,000 – \$159,999	1	1	–	–	12
\$170,000 – \$179,999	–	2	–	–	13
\$180,000 – \$189,999	–	1	–	–	14
\$190,000 – \$199,999	3	1	–	–	15
\$200,000 – \$209,999	–	1	–	1	16
\$210,000 – \$219,999	2	2 (a)	1	–	17
\$220,000 – \$229,999	1	1	–	–	18
\$230,000 – \$239,999	1	–	–	–	19
\$250,000 – \$259,999	1	–	–	–	20
\$260,000 – \$269,999	–	1	–	–	21
\$330,000 – \$339,999	–	2	–	–	22
\$370,000 – \$379,999	–	1	–	–	23
\$390,000 – \$399,999	3	–	–	–	24
\$410,000 – \$419,999	1 (a)	–	–	–	25
\$480,000 – \$489,999	1 (a)	–	–	–	26
\$510,000 – \$519,999	1 (a)	–	–	–	27
\$520,000 – \$529,999	–	1	–	1	28
\$600,000 – \$609,999	1	–	1	–	29

Consolidated	Chief Entity
1998	1997
\$000	\$000

Total income paid or payable, or otherwise made available, from the chief entity and controlled entities to executive officers, including executive directors, whose income exceeds \$100,000.

5,617	3,965	824	734
--------------	--------------	------------	------------

(a) includes termination and/or retirement payments to one executive in this band in the relevant financial year

Australian Stock Exchange Limited and Controlled Entities
Notes to and Forming Part of the Financial Statements (continued)

27. Auditors' Remuneration

		Consolidated		Chief Entity	
		1998 \$000	1997 \$000	1998 \$000	1997 \$000
Amounts received or due and receivable for audit services by:					
	Auditors of the chief entity	258	290	46	45
Amounts received or due and receivable for non-audit services by:					
	Auditors of the chief entity	483	467	—	42
		741	757	46	87
Amounts received or due and receivable for non-audit services capitalised:					
	Auditors of the chief entity	141	78	—	—

28. Particulars in Relation to Entities in the Economic Entity (Excluding SEGC – refer Note 1(b))

Name	Note	Class of Share	Parent Entity's Investment at Directors' Valuation (a)		Contribution to Economic Entity Surplus	
			1998 \$000	1997 \$000	1998 \$000	1997 \$000
Australian Stock Exchange Limited					(4,641)	(4,065)
Controlled Entities						
ASX Operations Pty Limited**	(b)	Ord	70,130	70,130	5,596	5,588
Controlled Entities						
ASX Superannuation Pty Limited**		Ord	*	*	—	—
ASX Futures Exchange Pty Limited**		Ord	(1,019)	(1,019)	(2)	(6)
Australian Options Market						
Pty Limited**	(b)	Ord	*	*	—	—
Options Clearing House Pty Limited		Ord	37,591	37,591	3,703	3,157
SECH Nominees Pty Limited**	(b)	Ord	*	*	—	—
ASX Settlement and Transfer						
Corporation Pty Limited	(c)	Ord	31,926	31,926	12,043	11,000
Controlled Entities						
CHESS Depositary Nominees						
Pty Limited**		Ord	*	*	—	—
TNS Clearing Pty Limited**		Ord	*	*	—	—
			138,628	138,628	16,699	15,674

(a) Parent entity refers to the immediate controlling entity of the entity in which the investment is shown.

(b) Controlled entities that have entered into a Deed of Cross Guarantee with the chief entity in respect of relief granted from specified accounting and financial reporting requirements in accordance with a Class Order.

(c) The entity's articles provide that profits cannot be distributed to its shareholder. ASTC is applying under the Corporations Law to change its articles to permit distribution of profits.

* \$2 investment rounded to \$nil.

** Denotes those controlled entities for which an audit is not required.

The interest of the chief entity in each controlled entity has remained at 100% for the last two financial years and is eliminated on consolidation. All entities in the economic entity were incorporated in Australia. No dividends have been received or paid by any entity.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

29. Financial Instruments

(a) Credit Risk

The credit risk on financial assets of the economic entity which has been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Credit risk relating to trading securities is managed by placing certain funds with a minimum of two professional fund managers who invest the portfolio in accordance with Investment Agreements approved by the Board. The Investment Agreements provide guidelines limiting the exposure of the portfolio to an optimum level of liquidity in investments with a number of counterparties. These guidelines include restricting the maximum value of the portfolios held by each counterparty dependent upon each of those counterparties' published credit ratings except that Commonwealth government issued or guaranteed investments attract no maximum limit.

(b) Interest Rate Risk

The economic entity has minimal exposure to interest-rate risk. Interest-rate risk arises in relation to trading securities comprising short-term deposits, bank bills and fixed interest securities. The economic entity's exposure to interest-rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.

	Note	Floating Interest Rate		Fixed Interest Rate*		Non-Interest Bearing		Total	
		1998	1997	1998	1997	1998	1997	1998	1997
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets									
Cash and trading securities	8	60,234	82,298	—	—	650	123	60,884	82,421
Other Investment securities	8	—	—	108,454	45,600	—	—	108,454	45,600
Receivables	9	—	—	—	—	13,161	12,819	13,161	12,819
Other	12	—	4,153	—	—	2,988	1,096	2,988	5,249
		60,234	86,451	108,454	45,600	16,799	14,038	185,487	146,089
Weighted Average Interest Rates									
Cash and trading securities		5.13%	5.45%	5.22%	5.37%				
Other		—	5.34%	—	—				
Financial Liabilities									
Accounts payable	14	—	—	—	—	10,435	6,433	10,435	6,433
Borrowings	15	—	—	669	406	—	—	669	406
Other	17	—	4,153	—	—	6,183	6,861	6,183	11,014
		—	4,153	669	406	16,618	13,294	17,287	17,853
Weighted Average Interest Rates									
Borrowings		—	—	12.97%	16.75%				
Other		—	5.34%	—	—				
Net financial assets/(liabilities)		60,234	82,298	107,720	45,189	246	749	168,200	128,236

* All fixed interest securities have a term to maturity of less than 12 months.

Australian Stock Exchange Limited and Controlled Entities

Notes to and Forming Part of the Financial Statements (continued)

1 29. Financial instruments (continued)

2 (c) Financial Futures Contracts

3 There were no open positions as at 30 June 1998 (1997: nil).

4 (d) Net Fair Values of Financial Assets and Liabilities

5 Valuation Approach

6 Net fair values of financial assets and liabilities are determined by the economic entity on the following bases:

7 On-Balance-Sheet Financial Instruments

8 Trading securities are valued at market value. Investments in private companies are reflected at valuation. Directors' appraisals are undertaken as necessary to reflect substantial changes affecting the net fair value of the investments.

9 Off-Balance-Sheet Financial Instruments

10 The valuation of off balance sheet financial instruments reflects the estimated amounts which the economic entity expects to pay or receive to terminate the contracts (net of transactions costs) or replace the contracts at their current market rates at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

11 Net Fair Values

12 On-Balance-Sheet Financial Instruments

13 The economic entity's financial assets and liabilities carried in the balance sheet are carried at amounts that approximate net fair value.

14 30. Securities Industry Development Account

15 Consolidated

	1998 \$000	1997 \$000
(a) Opening balance 1 July 1997	4,153	8,498
Interest received	79	465
Transfers from the National Guarantee Fund	26,215	10,939
Payments to ASTC for CHESS	–	(4,764)
Payments to SIRCA	(600)	(46)
Payments to ASXO for SEATS 97	(7,332)	(10,939)
Payments to ASXO for DTF	(22,028)	–
Payments to ASXO for Internet Project	(465)	–
Payments to ASXO for Commissioned Research	(22)	–
Closing balance at 30 June 1998	–	4,153

29 (b) The Board of SEGC has approved in principle payments from the National Guarantee Fund for the development of ASX's new trading platform (SEATS 97) (\$24,475,000), the automation of ASX Derivatives Trading Facility (DTF) (\$24,970,000), the Internet Project (\$965,000) and infrastructure financing for SIRCA and its research over three years (\$1,200,000). Each approval is subject to the purpose's being approved by the Federal Treasurer in accordance with the Corporations Law, and payments will be dependent upon the National Guarantee Fund's financial position at the time each transfer of funds to SIDA is requested. ASX has received the Federal Treasurer's approval in respect of each funding application on the basis that the projects are for the development of the securities industry.

35 At 30 June 1998, expenditure incurred in relation to SEATS 97 is \$22,215,000 (1997: \$17,184,000), to DTF is \$24,955,000 (1997: \$18,254,000), to the Internet Project is \$618,000 (1997: \$465,000), and to SIRCA is \$622,000. Since 30 June 1998, SIDA has paid a further \$2,747,000 in respect of SEATS 97. Nothing has come to the attention of the directors which would lead them to believe that future claims for these projects on SIDA will not be approved, for expenditure incurred up to the date of ASX Demutualisation.

Australian Stock Exchange Limited and Controlled Entities Statement by Directors

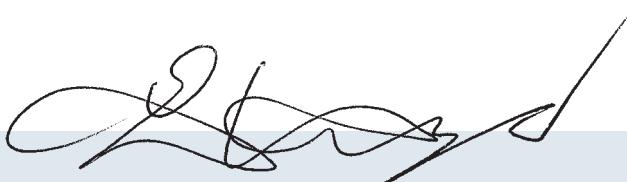
- 1 1. In the opinion of the directors of Australian Stock Exchange Limited:
 - 2 (a) the financial statements set out on pages 46 to 72 are drawn up so as to give a true and fair view of the results and cash
 - 3 flows for the financial year ended 30 June 1998, and the state of affairs at 30 June 1998, of the chief entity and the
 - 4 economic entity;
 - 5 (b) the consolidated financial statements have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the
 - 6 Corporations Law;
 - 7 (c) at the date of this statement, there are reasonable grounds to believe that the chief entity will be able to pay its debts as and
 - 8 when they fall due; and
 - 9 (d) at the date of this statement, there are reasonable grounds to believe that the chief entity and certain controlled entities will,
 - 10 as an economic entity, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the
 - 11 Deed of Cross Guarantee between the chief entity and those controlled entities pursuant to a Class Order. Refer to Note 28
 - 12 for further details.
- 13 2. The financial statements of the chief entity and the consolidated financial statements of the economic entity have been made
- 14 out in accordance with applicable Accounting Standards, disclosures required by International Accounting Standards and other
- 15 professional reporting requirements.

Dated at Sydney this 25th day of August 1998.

Signed in accordance with a resolution of the directors:



Maurice L. Newman AM
Chairman



Richard G. Humphry AO
Managing Director

Australian Stock Exchange Limited and Controlled Entities

Independent Auditors' Report to the Members of Australian Stock Exchange Limited

Scope

We have audited the financial statements of Australian Stock Exchange Limited for the financial year ended 30 June 1998, consisting of the statements of revenue and expenditure, balance sheets, statements of cash flows, accompanying notes, and the statement by directors set out on pages 46 to 73. The financial statements comprise the financial statements of the chief entity and the consolidated financial statements of the economic entity, being the chief entity and its controlled entities. The chief entity's directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the chief entity.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, disclosures required by International Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view that is consistent with our understanding of the chief entity's and the economic entity's financial position and the results of its operations and its cash flows.

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

Audit Opinion

In our opinion, the financial statements of Australian Stock Exchange Limited are properly drawn up:

- (a) so as to give a true and fair view of:
 - i) the state of affairs of the chief entity and the economic entity at 30 June 1998 and of the results and cash flows of the chief entity and the economic entity for the financial year ended on that date; and
 - ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with applicable Accounting Standards, disclosures required by International Accounting Standards and other mandatory professional reporting requirements.

KPMG

Chartered Accountants

Mark S. Epper

Partner

Sydney 25 August 1998

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40

SEGC Financials

Securities Exchanges Guarantee Corporation Limited

Directors' Report

The directors present their report together with the financial statements of Securities Exchanges Guarantee Corporation Limited ("SEGC") for the year ended 30 June 1998, including the separate financial statements of the National Guarantee Fund ("the Fund") and the independent auditors' report thereon.

Directors

The directors of SEGC in office at the date of this report are:

Clive Michael Batrouney (Chairman);

Geoffrey William Hone;

Fergus Allan McDonald;

Maurice Lionel Newman AM;

Michael John Sharpe AM; and

James Graham Ambrose Tucker AO, MBE.

For details of the directors' qualifications, experience and attendance at directors' meetings refer to page 37 of the ASX Annual Report, which is to be read as part of this report.

Clive Michael Batrouney was appointed on 14 October 1997 and elected chairman in July 1998. Charles Frederick Moore retired on 30 June 1998. Michael John Sharpe was appointed on 1 July 1998.

Principal Activity

SEGC is a wholly-owned but non-consolidated entity of Australian Stock Exchange Limited. It holds the assets of the Fund in trust for the purposes set out in the provisions of Part 7.10 of the Corporations Law and administers the Fund in accordance with those provisions.

Result

SEGC did not trade in its own right during the financial year. The movement in the Fund for the year was a surplus of \$13,207,335 (1997: \$18,405,598) before a distribution of \$26,215,061 (1997: \$10,939,075) to Securities Industry Development Account ("SIDA").

Review of Operations and Likely Developments

During the financial year, twelve claims were made on SEGC. Two of those claims and two claims made in the previous year were determined. One claim was allowed and an amount of \$11,205 was paid, which was offset by an amount of \$6,491 recovered from the liquidator of the stockbroker concerned. Two claims (one made in the previous year) were withdrawn after investigation by SEGC led to settlement between the parties concerned. An application to the NSW Supreme Court made by a claimant in respect of claims disallowed in the previous year was dismissed by consent. SEGC recovered \$90,000 pursuant to its subrogated rights in relation to a claim allowed in the previous year. Ten claims are outstanding and are currently being reviewed by SEGC management.

A distribution of \$26,215,061 (1997: \$10,939,075) was made to SIDA during the financial year and the Board gave in-principle approval to payments to SIDA of \$470,000 for the purpose of financing a financial markets teaching and research laboratory established by the Australian Graduate School of Management.

During the financial year, the Fund earned a return of 8.23% on managed funds (1997: 10.76%). Following a review of fund manager performance, a tender process was conducted in relation to the management of one half of the Fund which resulted in the replacement of a fund manager after the end of the financial year. The Board also commenced a review of the minimum amount of the Fund. The review is expected to be completed before the end of 1998.

A new set of Articles of Association reflecting modern practice and corporate governance standards was adopted at a general meeting held on 27 May 1998.

Securities Exchanges Guarantee Corporation Limited

Directors' Report (continued)

Derivatives and other Financial Instruments

Investment of the Fund exposes it to changes in interest rates and to credit and liquidity risks. The Board manages these exposures through its investment mandates with the Fund's two external fund managers. Compliance by the fund managers with the investment mandates is closely monitored. As a result of changes during the financial year to the applicable law on authorised trustee investments, the Fund no longer needs to be rated by an external rating agency, although the Board has decided to maintain the rating as a requirement. The external fund managers' mandates therefore reflect the credit rating and liquidity parameters set by the rating agency.

It is the Board's policy to permit the fund managers to use derivative financial instruments to hedge cash flows subject to interest-rate risk. Derivative financial instruments are not held for speculative purposes.

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review.

Events Subsequent to Balance Date

Michael John Sharpe was appointed a director on 1 July 1998. Clive Michael Batrouney was elected chairman in July 1998.

A fund manager was replaced on 20 July 1998. During the financial year, SEGC agreed, subject to certain conditions, to provide an indemnity up to a maximum of \$120,000 to the liquidator of a stockbroker for costs associated with litigation by the liquidator to recover funds for distribution to creditors which include SEGC. The conditions were satisfied in August 1998.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of SEGC, to affect significantly the operations of the company, the results of those operations, or the state of affairs of the company, in subsequent financial years.

Directors' Interests and Benefits

Since the end of the previous financial year, no director of SEGC has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by SEGC or a related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial interest. Directors' benefits are set out in Note 5.

Indemnification and Insurance of Officers

Since the end of the previous financial year, the entity has paid an insurance premium in respect of directors' and officers' liability insurance for current and former officers of SEGC.

The officers of SEGC covered by the insurance include the directors referred to on the previous page and the secretary, S. Hansen.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Articles of Association of SEGC provide that, to the extent permitted by law, the officers of SEGC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than SEGC or a related body corporate, unless the liability involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Law.

Securities Exchanges Guarantee Corporation Limited

Directors' Report (continued)

Corporate Governance

The Board of SEGC comprises six directors. Three of the directors are appointed by ASX and those three directors appoint three other directors who:

- are not a Member of ASX or a professional adviser to ASX or a related body corporate;
- are not a partner, director, officer or employee of a Member Organisation of ASX;
- are not a director, officer or employee of ASX or a related body corporate; and
- otherwise have no interest in a Member Organisation of ASX or a related body corporate which would enable the person to influence the management and policies of the Member Organisation's stockbroking business.

Remuneration is approved by ASX as the sole member of SEGC in general meeting.

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge that it is their duty to act at all times in the best interest of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Administration, financial management and legal services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX. The audit committee of ASX provides the results of its review of the financial statements of SEGC to the directors of SEGC.

Dated at Sydney this 24th day of August 1998.

Signed in accordance with a resolution of the directors:



Clive M. Batrouney

Chairman



F. Allan McDonald

Director

Securities Exchanges Guarantee Corporation Limited
Profit and Loss Account and Balance Sheet

		Note	1998 \$	1997 \$
1				
2				
3				
4	Profit and loss account for year ended 30 June 1998			
5	OPERATING PROFIT	1	—	—
6				
7	Balance Sheet as at 30 June 1998			
8	Current Asset			
9	Right of indemnity for liabilities incurred by SEGC, as trustee of the National Guarantee Fund	3	3,091,158	1,731,691
10				
11	Total Current Asset		3,091,158	1,731,691
12				
13	Current Liability			
14	Liability of the National Guarantee Fund		3,091,158	1,731,691
15				
16	Total Current Liability		3,091,158	1,731,691
17				
18	NET ASSETS		—	—
19				
20	ACCUMULATED FUNDS	1	—	—
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37	The Profit and Loss Account and Balance Sheet are to be read in conjunction with the notes to the financial statements set out on pages 81 to 84.			
38				
39				
40				

**Securities Exchanges Guarantee Corporation Limited
National Guarantee Fund**

	Note	1998 \$	1997 \$
Movement in the Fund for the Year Ended 30 June 1998			
NET ASSETS AT THE BEGINNING OF THE FINANCIAL YEAR		150,438,285	142,971,762
Interest income – managed funds		6,617,434	8,472,709
– Part 7.8 deposits	2(b)	4,157,700	5,009,777
Realised gains on sale of trading securities		8,752,131	5,874,922
Unrealised surplus on valuation of trading securities		–	1,720,490
Moneys recovered from defaulting Member Organisations		96,491	985
Dividends received from liquidators of defaulting Member Organisations		–	628,990
Total Income		19,623,756	21,707,873
Realised losses on sale of trading securities		1,485,447	510,333
Unrealised deficit on valuation of trading securities		2,253,415	–
Operating expenses		897,574	895,356
Management fees – fund managers		370,720	406,586
Claims	2(c)	1,353,478	1,437,452
Auditors' remuneration – audit fees		18,500	18,500
– non-audit services		–	11,300
Fund managers' expenses		37,287	22,748
Total Expenditure		6,416,421	3,302,275
Surplus		13,207,335	18,405,598
Distribution to Securities Industry Development			
Account held by Australian Stock Exchange Limited		26,215,061	10,939,075
(Deficit)/Surplus after distribution		(13,007,726)	7,466,523
NET ASSETS AT THE END OF THE FINANCIAL YEAR		137,430,559	150,438,285
Balance Sheet as at 30 June 1998			
Current Assets			
Cash at bank		1,605	1,744
Interest receivable		249,075	682,851
Trading securities – less than three months to maturity	2(e),(f), 4	67,998,628	61,584,074
Trading securities – greater than three months to maturity	2(e),(f), 4	72,272,409	89,901,307
Total Current Assets		140,521,717	152,169,976
Current Liabilities			
Accounts payable		91,194	115,312
Provisions for – claims	2(c)	2,818,000	1,475,727
– legal and professional fees		125,000	70,000
Amount owing to ASX Operations Pty Limited	8	56,964	70,652
Total Current Liabilities		3,091,158	1,731,691
NET ASSETS		137,430,559	150,438,285
FUND ACCOUNT		137,430,559	150,438,285

The Movement in the Fund and Balance Sheet are to be read in conjunction with the notes to the financial statements set out on pages 81 to 84.

**Securities Exchanges Guarantee Corporation Limited
National Guarantee Fund (continued)**

		Note	1998 \$ Inflows (Outflows)	1997 \$ Inflows (Outflows)
Statement of Cash Flows for the Year Ended 30 June 1998				
Cash Flows From Operating Activities				
Net proceeds/(payments) from the sale/(purchase) of trading securities			20,387,236	(63,598,605)
Payments to Securities Industry Development Account			(26,215,061)	(10,939,075)
Interest income – managed funds			8,872,363	7,355,348
– Part 7.8 deposits	2(b)		4,591,478	5,191,095
Cash paid to fund managers and creditors			(1,306,887)	(1,366,258)
Moneys recovered in relation to defaulting Member Organisations			96,491	985
Claims paid			(11,205)	(145,525)
Dividends received from liquidators of defaulting Member Organisations			–	628,991
Net cash provided by (used in) operating activities	9		6,414,415	(62,712,791)
NET INCREASE/(DECREASE) IN CASH HELD			6,414,415	(62,712,791)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR			61,585,818	124,298,609
CASH AT THE END OF THE FINANCIAL YEAR			68,000,233	61,585,818

Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank, short-term deposits and investments in bank bills with a term to maturity less than three months. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

Cash at bank		1,605	1,744
Short-term securities	2(e),(f),4	67,998,628	61,584,074
TOTAL CASH, SHORT-TERM SECURITIES		68,000,233	61,585,818

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 81 to 84

Securities Exchanges Guarantee Corporation Limited

Notes to and forming Part of the Financial Statements

1. Securities Exchanges Guarantee Corporation Limited

Securities Exchanges Guarantee Corporation Limited (“SEGC”) is incorporated as a company limited by guarantee in the Australian Capital Territory with the sole purpose of administering the National Guarantee Fund (“the Fund”). SEGC does not trade in its own right.

Australian Stock Exchange Limited, as the only member of SEGC, undertakes to contribute to the assets of SEGC in the event of its being wound up while being a member or within one year after ceasing to be a member, for payment of the debts and liabilities of SEGC contracted before ceasing to be a member, and of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves, such amount as may be required not exceeding \$1,000.

2. Statement of Significant Accounting Policies

The significant policies that have been adopted by SEGC and the Fund in the preparation of these financial statements are:

(a) Basis of Preparation

The financial statements of SEGC and the Fund have been drawn up in accordance with the standards and disclosure requirements of the Australian accounting bodies, Accounting Standards, other professional reporting requirements, the requirements of the Corporations Law and the disclosures required by International Accounting Standards being standards set by the International Accounting Standards Committee, which is an independent private sector body with the objective of achieving uniformity in the accounting principles which are used by businesses and other organisations for financial reporting around the world.

These financial statements have been prepared on the basis of historical costs and do not take into account changing money values except in the case of investments, which have been recorded at their current market values, as advised by the investment managers. The accounting policies have been consistently applied.

(b) Interest Income

Interest income includes the Fund’s entitlement, pursuant to Part 7.10 of the Corporations Law, to receive as income the interest from the deposits of Members of Australian Stock Exchange Limited lodged and invested in accordance with Section 891 of the Corporations Law.

(c) Claims

Claims are recorded on an accruals basis.

Where SEGC allows a claim, SEGC is subrogated to the claimant’s rights and remedies (Section 980 of the Corporations Law). No allowance has been made for potential recoveries by SEGC upon the exercise of its rights of subrogation.

(d) Income Tax

No provision is made for income tax because SEGC has received a ruling from the Taxation Commissioner that the income from the Fund is exempt from income tax.

(e) Trading Securities

Trading securities at balance date are stated at market value. Increases or decreases in the market value are recognised in the Movement in the Fund.

Trading securities comprise short-term deposits, bank bills, financial derivatives contracts and government and fixed-interest securities. Details of interest and credit rate risk are contained in Note 10.

Investments have been made in government bonds and other trustee–status investments in accordance with the Corporations Law.

(f) Derivatives and other Financial Instruments

Derivative financial instruments are valued at market rates. Gains and losses are recognised in the Movement in the Fund.

Derivative financial instruments are used to hedge cash flows subject to interest rate risk. Such instruments are not held for speculative purposes.

(g) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Securities Exchanges Guarantee Corporation Limited
Notes to and Forming Part of the Financial Statements (continued)

3. Right of Indemnity

As set out in Section 929(2) of the Corporations Law, the assets of the Fund are the property of SEGC but are held in trust for the purposes set out in Part 7.10 of the Corporations Law. SEGC has a right of indemnity from the assets of the Fund in respect of liabilities properly incurred by SEGC on behalf of the Fund.

4. Trading Securities of the Fund

	1998	1997
	\$	\$
Securities with less than 3 months maturity		
Cash investments	53,888,971	3,815,434
Bank bills, non-certificated deposits	8,904,883	57,768,640
Bonds	5,204,774	–
	67,998,628	61,584,074
Securities with greater than 3 months maturity		
Bonds	72,022,655	89,725,561
	72,022,655	89,725,561
Other		
Margin on futures contracts	249,754	175,746
	140,271,037	151,485,381

5. Remuneration of Directors

The number of directors who were paid income, or in respect of whom income is payable or otherwise made available, from SEGC or a related party, within the following bands is:

	1998	1997
	\$	\$
\$0 – \$9,999	1	–
\$10,000 – \$19,999	1	1
\$20,000 – \$29,999	4	4
\$30,000 – \$39,999	1	1
Total income paid or payable, or otherwise made available to the directors from SEGC or a related party:	\$ 125,000	\$ 128,333

6. Contingent Liabilities of the Fund

At 30 June 1998, contingent liabilities exist in respect of claims notified but not yet formally made on SEGC and claims made but considered unlikely to be paid. The maximum amount of such contingent liabilities arising from all known claims is expected to be \$13,200 (1997: \$113,870).

SEGC has been notified of potential claims in connection with alleged losses suffered by clients of RetireInvest Pty Limited in relation to dealings with a Member Organisation of ASX. RI Corporation Limited has lodged outline claims on SEGC under power of attorney on behalf of some of the clients of RetireInvest Pty Limited in order to preserve any rights which those clients may have, given the time limits for lodging claims set out in the Corporations Law. This matter has not reached the stage where it is possible to quantify any contingent liability which SEGC may have.

The Board of SEGC has approved in principle payments from the Fund for the development of ASX's new trading platform ("SEATS 97") (\$24,475,000), the automation of ASX Derivatives Trading Facility ("DTF") (\$24,970,000), the Internet Project (\$965,000), infrastructure financing for Securities Industry Research Centre of Asia-Pacific ("SIRCA") (\$900,000), industry research (\$300,000) and financing of a financial markets teaching and research laboratory established by the Australian Graduate School of Management ("AGSM") (\$470,000). Each approval is subject to the purpose's being approved by the federal treasurer in accordance with the Corporations Law, and payments are dependent upon the Fund's financial position at the time each transfer of funds to SIDA is requested.

Securities Exchanges Guarantee Corporation Limited

Notes to and Forming Part of the Financial Statements (continued)

6. Contingent Liabilities of the Fund (continued)

At the end of the financial year, amounts not yet paid to SIDA in relation to each in-principle approval made by the Board are:

	1998 \$	1997 \$
SEATS 97	6,204,131	13,535,925
DTF	2,943,087	24,970,000
Internet project	499,647	965,000
SIRCA	300,000	900,000
Industry research	278,000	300,000
AGSM	470,000	—
	10,694,865	40,670,925

7. Segment Reporting

SEGC operates wholly in the Australian securities industry.

8. Related Party Disclosures

Inter-Entity Transactions

During the year, SEGC incurred management fees of \$546,833 (1997: \$531,811) in respect of administration, accounting and legal services provided by ASX Operations Pty Limited to SEGC. The balance owing to ASX Operations Pty Limited by SEGC at 30 June 1998 was \$56,964 (1997: \$70,652). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

Directors

The names of each person holding the position of Director of SEGC during the financial year are Charles Frederick Moore, Clive Michael Batrouney (from 14 October 1997), Geoffrey William Hone, Fergus Allan McDonald, Malcolm Boyd McLachlan (to 14 October 1997), Maurice Lionel Newman and James Graham Ambrose Tucker.

9. Note to and Forming Part of the Statement of Cash Flows of the Fund

	1998 \$	1997 \$
Reconciliation Net Cash (used in)/provided by Operating Activities to the Movement in the Fund		
(Deficit)/surplus movement in the Fund	(13,007,726)	7,466,523
Decrease/(increase) in unrealised losses/(gain)	2,253,415	(1,720,490)
Decrease/(increase) in investments at cost	15,375,483	(69,920,302)
Decrease in interest receivable	433,776	181,319
Increase in claims payable	1,342,273	1,291,927
Increase/(decrease) in other liabilities	17,194	(11,768)
Net cash provided by/(used in) operating activities	6,414,415	(62,712,791)

10. Financial Instruments

(a) Credit Risk

The credit risk on financial assets of the Fund, which has been recognised on the balance sheet, is generally the carrying amount.

Credit risk relating to trading securities is managed by placing funds in approximately equal amounts with two professional fund managers who invest the portfolio in accordance with Investment Management Agreements approved by the Board. The Investment Management Agreements contain guidelines which limit the exposure of the portfolio to a specified level of liquidity in investments with a range of counterparties. The guidelines restrict the maximum value of the portfolio which can be invested with a counterparty by reference to published credit ratings. Commonwealth government issued or guaranteed investments attract no maximum limit.

Securities Exchanges Guarantee Corporation Limited
Notes to and Forming Part of the Financial Statements (continued)

10. Financial Instruments (continued)

(b) Interest Rate Risk

The entity has minimal exposure to interest rate risk. Interest rate risk arises in relation to trading securities comprising short-term deposits, bank bills and fixed-interest securities. The entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.

	Floating		Fixed Interest		Non-Interest		Total	
	Interest Rate		Rate*		Bearing			
	1998	1997	1998	1997	1998	1997	1998	1997
	\$	\$	\$	\$	\$	\$	\$	\$
Financial assets								
Cash at Bank	—	—	—	—	1,605	1,744	1,605	1,744
Cash Investments	53,888,971	3,815,434	—	—	—	—	53,888,971	3,815,434
Receivables	—	—	—	—	249,075	682,851	249,075	682,851
Trading securities	14,109,657	57,768,640	72,022,655	89,725,561	249,754	175,746	86,382,066	147,669,947
	67,998,628	61,584,074	72,022,655	89,725,561	500,434	860,341	140,521,717	152,169,976
Weighted Average Interest Rates								
Cash Investments	4.92%	5.38%	—	—				
Trading Securities	5.30%	5.46%	5.39%	6.29%				
Financial liabilities								
Accounts payable	—	—	—	—	91,194	115,312	91,194	115,312
Other	—	—	—	—	56,964	70,652	56,964	70,652
	—	—	—	—	148,158	185,964	148,158	185,964
Net financial assets/(liabilities)	67,998,628	61,584,074	72,022,655	89,725,561	352,276	674,377	140,373,559	151,984,012
Less: provisions							2,943,000	1,545,727
Net Assets per balance sheet							137,430,559	150,438,285

Fixed interest rate maturing in:

Less than 1 year	—	5,146,350
Greater than 1 year less than 5 years	38,469,630	46,380,888
Greater than 5 years	33,553,025	38,198,323
	72,022,655	89,725,561

*The majority of the fixed interest rate securities have maturities beyond one year. They are actively traded and are therefore classified as current assets.

(c) Financial Derivatives Contracts

The Fund has entered into financial futures to hedge cash flows subject to interest-rate risk.

(d) Net Fair Values of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined by the economic entity on the following bases:

i) On-Balance-Sheet Financial Instruments

The economic entity's financial assets and liabilities carried in the balance sheet are carried at amounts that approximate net fair value. Trading securities are valued at market value.

ii) Off-Balance-Sheet Financial Instruments

The valuation of off-balance-sheet financial instruments detailed below reflects the estimated amounts that the economic entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

The net fair value of off-balance-sheet financial instruments held as at the reporting date are \$202,655 (1997: \$85,827).

Securities Exchanges Guarantee Corporation Limited

Statement by Directors

1. In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited:
 2. (a) the financial statements set out on pages 78 to 84 are drawn up so as to give a true and fair view of the result of the entity and the
3. result and cash flows of the National Guarantee Fund for the financial year ended 30 June 1998, and the state of affairs of the
4. entity and the National Guarantee Fund, as at 30 June 1998; and
 5. (b) as at the date of this statement, there are reasonable grounds to believe that the entity and the National Guarantee Fund will be
6. able to pay their debts as and when they fall due.
7. 2. The financial statements of the entity and the National Guarantee Fund have been made out in accordance with applicable Accounting
8. Standards, disclosures required by International Accounting Standards and other professional reporting requirements.

Dated at Sydney this 24th day of August 1998.

Signed in accordance with a resolution of the directors:



Clive M. Batrouney
Chairman



F. Allan McDonald
Director

Securities Exchanges Guarantee Corporation Limited

Independent Auditors' Report to the Member of Securities Exchanges Guarantee Corporation Limited

Scope

We have audited the financial statements of Securities Exchanges Guarantee Corporation Limited for the financial year ended 30 June 1998, consisting of the profit and loss account, balance sheet, accompanying notes, and statement by directors including the separate financial statements of the National Guarantee Fund, as set out on pages 78 to 85. The entity's directors are responsible for the financial statements.

We have conducted an independent audit of these financial statements in order to express an opinion on them to the member of the entity.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, disclosures required by International Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view that is consistent with our understanding of the entity's financial position, the results of its operations and its cash flows.

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

Audit Opinion

In our opinion, the financial statements of Securities Exchanges Guarantee Corporation Limited, including the separate financial statements of the National Guarantee Fund, are properly drawn up:

(a) so as to give a true and fair view of:

- i) the state of affairs of the entity at 30 June 1998, and the result of the entity for the financial year ended on that date;
- ii) the state of affairs of the National Guarantee Fund at 30 June 1998 and the result and cash flows of that Fund for the year ended on that date; and
- iii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law; and

(c) in accordance with applicable Accounting Standards, disclosures required by International Accounting Standards and other mandatory professional reporting requirements.

KPMG
Chartered Accountants

Mark S Epper
Partner

Sydney 24 August 1998

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

ASTC Financials

ASX Settlement and Transfer Corporation Pty Limited

Directors' Report

1 The directors present their report together with the financial statements of ASX Settlement and Transfer Corporation Pty Limited ("ASTC")
2 for the year ended 30 June 1998 and the independent auditors' report thereon.

3 Directors

4 The directors of ASTC in office at the date of this report are:

5 Ronald Lewis Coppel AM (Chairman);

6 Angus George Richards (Managing Director);

7 Antonia Catherine Barnes;

8 Leigh Loddington Hall AM;

9 John Charles Lawson;

10 Robert William Nottle CBE;

11 John Campbell Rennie;

12 Dieter Otto Rinke;

13 Michael John Sharpe AM; and

14 Michael Henry Shepherd.

15 Robert William Nottle was appointed as a director on 26 June 1998.

16 For details of the directors' qualifications and experience refer to pages 38-39 of the ASX Annual Report, which is to be read as part
17 of this report.

18 Directors' meetings and their attendance at these meetings are also detailed on page 39 of the ASX Annual Report.

19 Principal Activity

20 ASTC is a wholly owned subsidiary of Australian Stock Exchange Limited. It provides delivery versus payment (DvP) settlement services,
21 electronic securities transfer, and related services, for a user community comprising primarily ASX Member Organisations, institutional
22 investors, custodians, and ASX listed entities. In providing these services ASTC takes responsibility for a messaging infrastructure,
23 procedures, and the legal and regulatory framework governing the securities settlement and transfer environment for ASX equities
24 transactions. ASTC is subject to regulatory oversight by the Australian Securities and Investments Commission and the Australian
25 Competition and Consumer Commission ("ACCC").

26 Result

27 The operating surplus, after income tax expense, of the entity for the year was \$12,043,000 (1997: \$11,000,000). ASTC's articles state that
28 no part of the profit or income of the entity shall be paid or transferred directly or indirectly by way of profit or gain to its shareholder. An
29 ACCC determination during the year stated that profits earned prior to demutualisation are to be treated in accordance with its articles of
30 association, which provide that profits cannot be distributed to its shareholder. ASTC is applying under the Corporations Law to change its
31 articles to permit distribution of profits. ASTC has represented

32 to the ACCC that it has a "Development Reserve" for the future development of the CHESS system and it is not intended that ASX have
33 access to this reserve. The amount standing to the credit of the Development Reserve at 30 June 1998 was \$35,000,000.

34 Review of Operations and Likely Developments

35 The directors are pleased that CHESS has continued to provide core infrastructure and services which have helped to maintain the
36 Australian equities settlement system at a high level in world rankings. In the 1997 ranking survey published by Global Securities Consulting
37 Services ("GSCS"), Australia ranked second in the world, and first in Asia.

38 Since the full implementation of CHESS DvP settlement was achieved in August 1996, the 1997-98 year was the first full year of operation
39 for this facility. Clearing House participants have adapted well to the disciplines of the net DvP settlement. Average settlement fail rates have
40 been consistently below 4 per cent, and during periods of lower market activity the daily fail rates have frequently been below 3 per cent.

41 The number of holders on the CHESS subregister increased by some 54 per cent during the year, to reach 438,000 at 30 June 1998.

42 Of these about 436,000 are holders sponsored by Clearing House participants. The CHESS holders had over 2.4 million holdings, with
43 an aggregate market value of some \$304 billion at 30 June 1998.

ASX Settlement and Transfer Corporation Pty Limited Directors' Report (continued)

As foreshadowed in the previous directors' report, a major issue for ASTC during 1997–98 has been the re-authorisation of the Clearing House Business Rules, and related ASX Business and Listing Rules, by the ACCC. ASTC had sought re-authorisation of the Rules on the basis of ASTC being a company within a demutualised ASX group, and with the ASTC constitution changed to enable it to pay dividends to the parent company. This proved to be a protracted process, with a draft determination finally being issued by the ACCC on 18 June 1998 following a number of rounds of industry consultation.

Following a pre-determination conference and further consultation, the final ACCC determination was issued on 5 August 1998. Unless by 26 August 1998 a person dissatisfied with the determination applies to the Australian Competition Tribunal for a review, the final determination will come into force on 27 August 1998. The relevant ASX and Securities Clearing House ("SCH") Business Rules and ASX Listing Rules would then be re-authorised for a further period of five years on the following conditions:

- (i) that ASTC and ASX alter their Business Rules to make it clear that brokers are entitled to use an alternative clearing and settlement entity in respect of ASX transactions;
- (ii) that neither ASX nor ASTC use any power under their rules to prevent an entity from competing with ASTC;
- (iii) that ASTC provide a communication facility which enables brokers to communicate their intention to use an alternative clearing and settlement entity;
- (iv) that ASTC amend SCH Business Rule 7.1 to provide that a transaction in a CHESS-approved security (irrespective of its origins) is eligible for DvP settlement if it is of a class of transaction determined by ASTC in accordance with objective criteria. (ASTC has an obligation to formulate the criteria to the ACCC's satisfaction within three months of the date that the determination comes into force);
- (v) that ASTC establish an appeals process to which parties seeking to bring transactions within the scope of CHESS DvP settlement under SCH Business Rule 7.1 will have recourse, in the event that ASTC determines that a proposed class of transactions not be admitted to DvP settlement;
- (vi) that the current exclusion of debt securities from being settled in CHESS be removed; and
- (vii) that the definition of Payments Provider be amended so as to enable any entity that operates an Exchange Settlement Account with the Reserve Bank of Australia be eligible to be a Payments Provider.

During the ACCC consultation process, some parties urged the Commission to impose price regulation on ASTC tariffs. There were countering submissions citing overall cost savings and service improvement benefits that were attributable to CHESS. The ACCC has addressed this issue by noting in the determination report that "if ASTC's future pricing policy were such that the efficiency gains associated with CHESS were not resulting in a benefit to the public sufficient to outweigh the anti-competitive effect of the CHESS arrangements, the Commission would regard such a policy as changed circumstances justifying review and revocation of authorisation of the CHESS arrangements".

During the year the system coped well with the record settlement volumes flowing from high levels of trading activity in the equities market. Measured over the on-line operational period of 8:00am to 7:00pm (Sydney time) on business days, the system recorded 100 per cent service availability. The original design and capacity criteria for the CHESS system were predicated on settlement transaction processing volumes attributable to ASX trading activity at a sustained rate of 18,000 trades per day, with peaks of 40,000 trades per day. These capacity targets were surpassed by a significant margin in 1997–98. During the year the peak ASX trading day generated some 63,000 trades. Accordingly significant effort was devoted to tuning the CHESS software to enhance performance, and some additional equipment capacity was installed. Further major development effort and equipment expenditure are anticipated in order to lift capacity to handle target sustained volumes of 100,000 trades per day.

A number of incremental systems enhancements were introduced during the year. These included the provision of messaging facilities to support electronic trade confirmation ("ETC") functions. Unfortunately industry take-up of the new ETC facilities has been slow. Introduction of the Real Time Gross Settlement ("RTGS") system by the Reserve Bank in June 1998 was positive insofar as finality of interbank payments arising from the net CHESS settlement is now achieved at the time of settlement, rather than being the subject of an overnight guarantee from a major bank. However it also imposes added operational discipline on payment providers, since all entities with a payment obligation must simultaneously have sufficient funds in their exchange settlement accounts in order for the CHESS batch of payments to proceed through RTGS.

ASX Settlement and Transfer Corporation Pty Limited Directors' Report (continued)

The Registrar of Companies in Papua New Guinea issued a class order which enabled all PNG incorporated companies listed on ASX to operate both a CHESS subregister and an Issuer Sponsored Subregister. A minor change to the New Zealand Order in Council also needed to be made to enable New Zealand incorporated companies to operate an Issuer Sponsored Subregister as well as a CHESS subregister.

Introduction of T+3 settlement was deferred, reflecting industry concerns about the capability of retail investors to conform to a T+3 discipline in an environment that still enabled optional certification of holdings. The proposed date for commencement of T+3 is now February 1999. Changes to ASX's Listing Rules are in train to mandate the closure of certificated registers for all listed Australian entities. The rule is intended to commence operation at the end of 1998. The process of convincing companies to only operate uncertificated registers has been successful, with an estimated 85 per cent of all units of securities issued by Australian companies now being uncertificated.

Extensive testing of CHESS was undertaken to establish with a high degree of confidence that the system is Year 2000 compliant. Ultimately, of course, delivery of CHESS services also depends on other parties (e.g. banks, telecommunications carriers) whose systems must also be Year 2000 compliant in order to ensure continuity of the overall service. In order to give CHESS users the opportunity of assessing their readiness for Year 2000, a Year 2000 test facility was established and commenced operation from 9 February 1998. This enables users to test operation of their electronic interfaces to CHESS over a simulated ten-day period spanning the century change, and for 29 February 2000. To date some 20 users or their service providers have availed themselves of this facility.

During the year the ASTC Disciplinary Tribunal dealt with six disciplinary matters. Pecuniary penalties ranging from \$1,000 to \$7,500 were imposed in three of the cases. In all six cases, the Disciplinary Tribunal directed that the name of the participant and details of the breach be published to other CHESS participants.

Directors' Interests and Benefits

Since the end of the previous financial year, no director of the entity has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by the entity or a related corporation with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial financial interest, except that Ms Barnes and Mr Lawson have direct interests in organisations which transact business in quoted securities. During the year Mr Sharpe was a partner in the firm of Coopers & Lybrand, Chartered Accountants, which rendered services to the entity in the ordinary course of business. A related entity purchased services at market price from a company in which Mr Coppel has a substantial financial interest.

Indemnification and Insurance of Officers and Auditors

Since the end of the previous financial year, the entity has paid insurance premiums in respect of directors' and officers' liability insurance for current and former officers of ASTC.

The officers of ASTC covered by the insurance include the current and former directors and the secretary M.T. Dalby. The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

The constitution of ASTC provides that, to the extent permitted by law, the officers of ASTC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than ASTC or a related body corporate, unless the liability involves a lack of good faith or is contrary to ASTC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Law.

The officers are also indemnified out of the property of ASTC against any liability incurred in that capacity after 15 April 1994 (other than to ASTC or a related entity) provided that liability does not arise out of conduct involving a lack of good faith.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

ASX Settlement and Transfer Corporation Pty Limited Directors' Report (continued)

Corporate Governance

The Board of ASTC is responsible for overseeing the management and operation of CHESS. The composition of the Board reflects the fact that CHESS users come from different sectors of the securities industry. The Board comprises generally broker participants, non-broker participants, issuers, and independent directors (who are not necessarily representative of any particular sector of the securities industry). Two of the ASTC directors are also directors of ASX.

The constitution of ASTC provides that, other than for the 1995 Annual General Meeting ("AGM"), one third of the directors for the time being (or the number nearest to one-third) shall retire from office at each AGM. The manner in which the retirement of the one-third of the directors is determined is that the directors who have been longest in office shall retire.

The ASX Board after consultation with the chairman of ASTC appoints the directors of ASTC.

Rounding Off Of Amounts

ASTC is an entity of the kind referred to in Regulation 3.6.05(6) of the Corporations Regulations, and amounts in this report and the accompanying financial statements have been rounded off to the nearest one thousand dollars in accordance with Section 311 and the Regulations unless otherwise indicated.

Dated at Sydney this 21st day of August 1998.

Signed in accordance with a resolution of the Directors:



Ronald L Coppel AM
Chairman



Angus G Richards
Managing Director

ASX Settlement and Transfer Corporation Pty Limited
Statement of Revenue and Expenditure for the year ended 30 June 1998

	Note	1998 \$000	1997 \$000	1
OPERATING REVENUE	2	39,492	31,985	2
OPERATING SURPLUS BEFORE TAX AND ABNORMAL ITEMS	3	21,312	13,682	3
Abnormal items	4	—	978	4
OPERATING SURPLUS BEFORE TAX		21,312	14,660	5
Income tax (expense)	5(a)	(9,269)	(3,660)	6
OPERATING SURPLUS AFTER INCOME TAX		12,043	11,000	7
ACCUMULATED SURPLUS AT THE BEGINNING OF THE FINANCIAL YEAR		13,038	2,038	8
Aggregate amounts transferred (to) reserves		(5,112)	—	9
ACCUMULATED SURPLUS AT THE END OF THE FINANCIAL YEAR		19,969	13,038	10
				11
				12
				13
				14
				15
				16
				17
				18
				19
				20
				21
				22
				23
				24
				25
				26
				27
				28
				29
				30
				31
				32
				33
				34
				35
				36
				37
				38
				39
				40

The Statement of Revenue and Expenditure is to be read in conjunction with the notes to the financial statements set out on pages 94 to 99.

ASX Settlement and Transfer Corporation Pty Limited
Balance Sheet as at 30 June 1998

		Note	1998 \$000	1997 \$000
1	Current Assets			
2	Cash at bank		7	7
3	Receivables	7	49,760	30,586
4	Total Current Assets		49,767	30,593
5	Non-Current Assets			
6	Property, plant and equipment	6	14,194	18,225
7	Investments	8	—	—
8	Total Non-Current Assets		14,194	18,225
9	TOTAL ASSETS		63,961	48,818
10	Current Liability			
11	Provisions	9	4,223	—
12	Total Current Liability		4,223	—
13	Non-Current Liability			
14	Provisions	9	4,796	5,892
15	Total Non-Current Liability		4,796	5,892
16	TOTAL LIABILITIES		8,992	5,892
17	NET ASSETS		54,969	42,926
18	Shareholder's Equity			
19	Share capital	10	—	—
20	Reserves	11	35,000	29,888
21	Accumulated surplus		19,969	13,038
22	TOTAL SHAREHOLDER'S EQUITY		54,969	42,926
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37	The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 94 to 99.			
38				
39				
40				

ASX Settlement and Transfer Corporation Pty Limited
Statement of Cash Flows for the year ended 30 June 1998

	1998 \$000	1997 \$000	
	Inflows (Outflows)	Inflows (Outflows)	
Cash Flows from Operating Activities			1
Receipts from customers	37,674	31,084	2
Payments to suppliers and employees	(13,942)	(13,372)	3
Payments to a related entity	(25,343)	(22,645)	4
Cash received from Securities Industry Development Account	–	4,764	5
Interest income	1,818	901	6
NET CASH PROVIDED BY OPERATING ACTIVITIES	207	732	7
Cash Flows from Investing Activities			8
Purchase of property, plant and equipment	(207)	(726)	9
NET CASH (USED IN) INVESTING ACTIVITIES	(207)	(726)	10
NET INCREASE IN CASH HELD	–	6	11
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	7	1	12
CASH AT THE END OF THE FINANCIAL YEAR	7	7	13
Reconciliation of Net Cash provided by/(used in) Operating Activities to Operating Surplus after Income Tax			14
Operating surplus after income tax	12,043	11,000	15
Amortisation of computer development project	3,189	3,737	16
Depreciation of property, plant and equipment	1,046	1,194	17
Loss on sale of property, plant and equipment	3	–	18
SIDA receipts capitalised	–	3,786	19
Increase/(decrease) in tax balances	3,100	(382)	20
(Increase) in receivables	(19,174)	(18,603)	21
NET CASH PROVIDED BY OPERATING ACTIVITIES	207	732	22

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 94 to 99.

ASX Settlement and Transfer Corporation Pty Limited

Notes to and forming part of the Financial Statements

1. Statement of Significant Accounting Policies

(a) Basis of Preparation

The financial statements of the entity have been drawn up in accordance with the standards and disclosure requirements of the Australian accounting bodies, applicable Accounting Standards, other professional reporting requirements, the requirements of the Corporations Law and the disclosures required by International Accounting Standards and are presented in Australian dollars. They have been prepared on the basis of historical costs and do not take into account changing money values nor, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied.

The International Accounting Standards Committee is an independent private sector body, with the objective of achieving uniformity in the accounting principles that are used by businesses and other organisations for financial reporting around the world.

(b) Revenue Recognition

Revenue comprises amounts received (net of returns, discounts and allowances) from the provision of products or services to entities outside the entity. Revenue is recognised when the goods are provided or, in relation to the provision of services, when services have been performed.

(c) Taxation

The entity adopts the liability method of tax-effect accounting. Income tax expense for the financial year is calculated on the operating result after adjusting for permanent differences and before making adjustments for differences in the time at which items of income and expense are taken into account for income tax purposes.

(d) Property, Plant and Equipment

Assessment of Recoverable Amount

The carrying amounts of all property, plant and equipment are reviewed at least semi-annually to determine whether they are in excess of their recoverable amount. The recoverable amount means, in relation to an asset, the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. If the carrying amount of an item of property, plant and equipment exceeds the recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amount, the relevant cash flows have not been discounted to their present value.

Property, Plant and Equipment Acquired by the Entity

Items of property, plant and equipment are capitalised at historical cost and depreciated as outlined below.

Depreciation of Property, Plant and Equipment

Items of property, plant and equipment are depreciated over their estimated useful lives. The straight-line method is used.

Major depreciation periods are:

CHESS	7 years
Computer equipment	3 years
Plant and equipment	3–7 years.

CHESS

CHESS relates to "Phase 1" of the CHESS project which was first amortised on 20 September 1994 and "Phase 2" of the CHESS project which was first amortised on 1 June 1996 and is valued at cost. Costs incurred during the implementation stage of the project were expensed. The costs incurred during the development phase were capitalised to the extent that their recoverability was assured beyond any reasonable doubt. Transfers received from SIDA were treated as a reimbursement of expenditure and were either credited to revenue or to the capitalised carrying amount, depending on whether the expenditure had been expensed or capitalised. Any expenditure incurred during the development phase that had not been offset by a transfer from SIDA was valued at cost. The carrying value is reviewed semi-annually. The project is amortised over seven years on a straight-line basis.

ASX Settlement and Transfer Corporation Pty Limited
Notes to and forming part of the Financial Statements (continued)

1. Statement of Significant Accounting Policies (continued)

(e) Securities Industry Development Account (“SIDA”)

Transfers from SIDA for the development project can be made only with the approval of the federal treasurer.

The entity adopted a policy from 1 July 1996 of crediting SIDA receipts to either revenue or the capitalised carrying amount of development expenditure. Receipts in respect of research and development expenditure previously capitalised are taken as a reduction of the carrying value of the assets. Receipts in respect of capitalised costs that are not research and development and receipts in respect of costs previously expensed are taken to revenue.

Prior to 1 July 1996 the entity credited such receipts to a general reserve on a cash basis.

(f) Investments

Investments in controlled entities are valued at directors' valuation. The valuation equates to the net tangible asset backing of these controlled entities.

The controlled entities as detailed in Note 15 did not trade during the year and each has net assets of \$2.

(g) Development Reserve

The ACCC has re-authorised the CHESS arrangements on the basis that the ASTC constitution will be amended to remove an article restricting the capacity of ASTC to pay dividends. ASTC intends to amend its constitution to permit distribution of profits. ASTC has represented to the ACCC that it has a “Development Reserve” for the future development of the CHESS system. It is not intended that ASX have access to this reserve. ASTC has transferred the balance of its General Reserve and part of Accumulated Surplus to the Development Reserve at 30 June 1998. Future CHESS development will be capitalised and/or expensed, with a corresponding transfer from the Development Reserve to Accumulated Surplus, as appropriate. The balance of the Development Reserve at 30 June 1998 is \$35,000,000 (refer to Note 11).

	Note	1998 \$000	1997 \$000
--	------	---------------	---------------

2. Operating Revenue

CHESS settlement fees		37,674	31,084
Interest received or due and receivable from a related entity		1,818	901
Total operating revenue		39,492	31,985

3. Operating Surplus

Included in the operating surplus are the following expense items

Amortisation of:		
Computer development project included in equipment costs		(3,189)
Depreciation of:		(3,737)
Computer equipment		(1,023)
Property, plant and equipment		(23)
Loss on sale of fixed assets		(3)

4. Abnormal Items

Items Credited		
SIDA receipt brought to account	1(e)	— 978
Income tax effect		— —
		— 978
Aggregate abnormal items before income tax effect		— 978
Aggregate income tax effect		— —
Aggregate abnormal items after income tax effect		— 978

ASX Settlement and Transfer Corporation Pty Limited
Notes to and forming part of the Financial Statements (continued)

		Note	1998 \$000	1997 \$000
1	2			
3	5. Taxation			
4	(a) Income Tax (Expense)			
5	Prima facie income tax (expense) calculated at 36% (1997: 36%)			
6	on the operating surplus before tax		(7,672)	(5,278)
7	Movement in income tax expense due to:			
8	SIDA non-assessable income		–	1,716
9	Prior year tax charge		(1,597)	(98)
10	Total income tax (expense)		(9,269)	(3,660)
11	Total income tax (expense) is made up of:			
12	Current income tax provision	5(b)	(8,794)	–
13	Deferred income tax provision		1,123	(3,660)
14	Under-provision for group tax losses transferred in prior year		(1,597)	–
15			(9,269)	(3,660)
16	(b) Provision for Current Income Tax			
17	Current year's income tax expense on operating surplus	5(a)	8,794	–
18	Group tax losses utilised in the current year		(4,571)	–
19		9	4,223	–
20	(c) Provision for Deferred Income Tax			
21	Provision for deferred income tax comprises the estimated expense			
22	at an income tax rate of 36% (1997: 36%) of the following items:			
23	Difference in depreciation of property, plant and equipment			
24	for accounting and tax purposes		408	382
25	Capitalised software		4,361	5,510
26		9	4,769	5,892
27	6. Property, Plant and Equipment			
28	• CHESS – at cost			
29	Opening value		22,977	25,332
30	SIDA Receipt		–	(2,355)
31	Closing value		22,977	22,977
32	Accumulated amortisation			
33	Opening value		7,672	3,935
34	Amortisation expense		3,189	3,737
35	Closing value		10,861	7,672
36	Computer at net book value		12,116	15,305
37	• Computer equipment – at cost			
38	Opening value		7,022	7,747
39	Additions		187	706
40	Disposals		(423)	–
	SIDA Receipt		–	(1,431)
	Closing value		6,786	7,022
	Accumulated depreciation			
	Opening value		4,200	3,026
	Depreciation expense		1,023	1,174
	Depreciation written back on disposals		(423)	–
	Closing value		4,800	4,200
	Computer equipment at net book value		1,986	2,822

ASX Settlement and Transfer Corporation Pty Limited
Notes to and forming part of the Financial Statements (continued)

6. Property, Plant and Equipment (continued)

	1998 \$'000	1997 \$'000
• Plant and equipment – at cost		
Opening Value	326	320
Additions	20	20
Transfers	(28)	(14)
Closing value	318	326
Accumulated depreciation		
Opening value	228	215
Depreciation expense	23	20
Depreciation written back on transfer	(25)	(7)
Closing value	226	228
Plant and equipment at net book value	92	98
Total property, plant and equipment – net book value	14,194	18,225

7. Related Party Disclosures

Inter-Entity Transactions

ASX Operations Pty Limited (“ASXO”), a related entity, acts as the operating entity for the transactions of ASTC. Revenue received, expenses paid and capital items purchased on behalf of ASTC are booked to the inter-entity loan account. Tax losses purchased and sold between ASTC and ASXO are also settled via the inter-entity loan account. Commercial rates of interest are charged on the inter-entity loan account.

All transactions are on normal terms and conditions.

Owing by ASX Operations Pty Limited

Movement for the financial year:

Balance at the beginning of the financial year	30,586	11,976	22
Revenue received by ASXO	37,674	31,084	23
Expenses paid by ASXO	(13,942)	(13,371)	24
Property, plant and equipment paid by ASXO	(207)	(726)	25
	54,111	28,963	25
Cash paid	–	4,764	26
Purchase of prior year and current year tax losses	(6,169)	(4,042)	27
Interest received from ASXO	1,818	901	28
Balance at the end of the financial year	49,760	30,586	28

Directors

The names of each person holding the position of director of the entity during the financial year are Ronald Lewis Coppel, Angus George Richards, Antonia Catherine Barnes, Leigh Loddington Hall, John Charles Lawson, Robert William Nottle, John Campbell Rennie, Dieter Otto Rinke, Michael John Sharpe and Michael Henry Shepherd. Mr Nottle was appointed as a director during the year.

Ms Barnes and Mr Lawson are directors of organisations that transact business in quoted securities. Products purchased by and fees levied on these organisations are on the standard terms and conditions available to all organisations. During the year Mr Sharpe was a partner in the firm of Coopers & Lybrand, Chartered Accountants, which rendered services to the entity in the ordinary course of business. A related entity purchased services at market price from a company in which Mr Coppel has a substantial financial interest.

Messrs Coppel and Shepherd are directors of the Asia-Pacific Capital Markets Foundation (“ACMF”). During the year, the research arm of ACMF, Securities Industry Research Centre of Asia-Pacific (“SIRCA”) received funding from SIDA for research into securities market matters. SIRCA also has access to ASX data to assist in its research.

ASX Settlement and Transfer Corporation Pty Limited
Notes to and forming part of the Financial Statements (continued)

		Note	1998 \$000	1997 \$000
1	2			
3	8. Investments			
4	Investment in related entities	15	*	*
5	* These \$2 investments have been rounded to \$nil in the balance sheet			
6	9. Provisions			
7	Current			
8	Provision for current income tax	5(b)	4,223	—
9	Non-current			
10	Deferred income tax	5(c)	4,769	5,892
11	10. Share capital			
12	Authorised Capital			
13	10,000 ordinary shares of \$1 each		10	10
14	Issued and Paid Up Capital			
15	2 ordinary shares of \$1 each fully paid		*	*
16	* These amounts have been rounded to \$nil in the balance sheet			
17	11. Reserves			
18	General Reserve:			
19	Balance at the beginning of the financial year		29,888	29,888
20	Transfer to Development Reserve		(29,888)	—
21	Balance at the end of the financial year		—	29,888
22	Development Reserve:			
23	Balance at the beginning of the financial year		—	—
24	Transfer from General Reserve		29,888	—
25	Transfer from Accumulated Surplus		5,112	—
26	Balance at the end of the financial year		35,000	—
27	Total Reserves		35,000	29,888
28	12. Directors' Remuneration			
29	Remuneration of Directors			
30	The number of directors who were paid income, or in respect of whom income is payable or otherwise made available, by ASTC or any related party, within the following bands is:			
31	\$0 – \$ 9,999		—	1
32	\$10,000 – \$19,999		7	6
33	\$40,000 – \$49,999		1	—
34	\$60,000 – \$69,999		—	1
35			\$000	\$000
36	The income paid or payable, or otherwise made available to the directors by ASTC or any related party:		145	167
37	13. Segment Reporting			
38	ASTC's principal activity is the operation of a clearance and settlement system in Australia for equity securities and trading performed on ASX.			

ASX Settlement and Transfer Corporation Pty Limited

Notes to and forming part of the Financial Statements (continued)

	1998 \$000	1997 \$000	1 2 3 4 5 6 7
14. Auditors' Remuneration			
Amounts received or due and receivable for audit services			3
Auditors of the parent entity	50	53	4
Amounts received or due and receivable for non-audit services			5
Auditors of the parent entity	<u>122</u>	122	6
	<u>172</u>	175	7

15. Particulars in Relation to Controlled Entities

Name	Class of Share	Parent Entity's Investment at Directors' Valuation		9 10 11
		1998 \$000	1997 \$000	
ASX Settlement and Transfer Corporation Pty Limited				12
Controlled Entities				13
TNS Clearing Pty Limited	Ord	*	*	14
CHESS Depositary Nominees Pty Limited	Ord	*	*	15

* \$2 Investment rounded to \$nil.

16. Contingent Liability

Transaction Netting Service

A controlled entity, TNS Clearing Pty Limited ("TNSC"), operates a facility ("Transaction Netting Service") for the purpose of enhancing the efficiency of the settlement of transactions in marketable securities. Under this facility, transactions between Member Organisations through SEATS trades are replaced by novation of a contract between the selling Member Organisation and TNSC and a contract between TNSC and the buying Member Organisation.

The selling Member Organisation's obligation to deliver the securities is an obligation owed to TNSC, which has a corresponding obligation to deliver the same quantity of securities to the buying Member Organisation, while the buying Member Organisation's right to delivery from the selling Member Organisation is assumed by TNSC.

Similarly, the buying Member Organisation's obligation to pay for the securities is an obligation owed to TNSC, which has a corresponding obligation to pay the selling Member Organisation for the securities, while the selling Member Organisation's right to payment is assumed by TNSC.

Pursuant to this facility, TNSC has a liability due to selling Member Organisations at 30 June 1998 totaling \$265,395,029 (1997: \$471,388,795), which is matched by a right to receive funds due from buying Member Organisations.

Where a Member Organisation fails to meet its net delivery obligation or net payment obligation, TNSC has the right to claim on the National Guarantee Fund to the extent of the failed obligation pursuant to Sections 954N and 954P of the Corporations Law. At 30 June 1998, \$nil (1997: \$nil) was owing by a Member Organisation arising from failed settlements.

17. Ultimate Parent Entity

The immediate parent entity of ASX Settlement and Transfer Corporation Pty Limited is ASX Operations Pty Limited. The ultimate parent entity of ASX Settlement and Transfer Corporation Pty Limited is Australian Stock Exchange Limited, an entity incorporated in the Australian Capital Territory.

ASX Settlement and Transfer Corporation Pty Limited Statement by Directors

1. In the opinion of the directors of ASX Settlement and Transfer Corporation Pty Limited:-
 2. (a) the financial statements set out on pages 91 to 99 are drawn up so as to give a true and fair view of the result and cash flows of the entity for the financial year ended 30 June 1998, and the state of affairs of the entity as at 30 June 1998; and
 3. (b) at the date of this statement, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due.
4. 2. The financial statements of the entity are made out in accordance with applicable Accounting Standards, disclosures required by International Accounting Standards and other professional reporting requirements.

5 Dated at Sydney this 21st day of August 1998.

6 Signed in accordance with a resolution of the directors:

7 Ronald L Coppel
Chairman

Angus G Richards
Managing Director

Independent Auditors' Report to the Member of ASX Settlement and Transfer Corporation Pty Limited

Scope

We have audited the financial statements of ASX Settlement and Transfer Corporation Pty Limited for the financial year ended 30 June 1998, consisting of the statement of revenue and expenditure, balance sheet, statement of cash flows, accompanying notes and statement by directors as set out on pages 91 to 100. The entity's directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the member of the entity.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, disclosures required by International Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view that is consistent with our understanding of the entity's financial position and the results of its operations and its cash flows.

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

Audit Opinion

In our opinion, the financial statements of ASX Settlement and Transfer Corporation Pty Limited are properly drawn up:

29. (a) so as to give a true and fair view of:
 30. i) the state of affairs of the entity as at 30 June 1998, and of the result and cash flows of the entity for the financial year ended on that date;
 31. ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
32. (b) in accordance with the provisions of the Corporations Law; and
33. (c) in accordance with applicable Accounting Standards, disclosures required by International Accounting Standards and other mandatory professional reporting requirements.

38 KPMG
Chartered Accountants

Mark S Epper
Partner

Sydney 21 August 1998