



cutting through complexity

BBY Limited

(Receivers and Managers Appointed) (In Liquidation)
ACN 006 707 777

Client monies investigations Liquidators' Report

Stephen Vaughan and Ian Hall
Joint and Several Liquidators
KPMG 10 Shelley Street Sydney

22 December 2015

Glossary

ABN	ABN Amro, Futures clearing house
AC	Account Number
ACN	Australian Company Number
Act	Corporations Act 2001 (Cth)
ACH	ASX Clearing House
ADM	ADM Investor Services International
Administrators	Stephen Vaughan and Ian Hall of KPMG
AFSL	Australian Financial Services Licence
AIMS	AIMS Financial Group
Agility	Agility Applications Pty Ltd
ANZ	Australia and New Zealand Banking Group
APX	Asia Pacific Stock Exchange
AQA	Aquila Resources Limited
ARITA	Australian Restructuring, Insolvency and Turnaround Association
ARCC	Audit, Risk and Compliance Committee
ASIC	Australian Securities and Investments Commission
ASX	Australia Stock Exchange
ATO	Australian Taxation Office
BAU	Business as Usual
BBO	Business Banking Online
BBYAS	BBY Advisory Services Pty Ltd
BBYH	BBY Holdings
BBYHT	BBY Hometrader Pty Ltd
BBYN	BBY Nominees Pty Ltd
BBYPN	BBY Protection Nominees Pty Ltd
BBY Companies	BBY Limited and each of the 9 BBY entities as listed in Appendix 1
BBY Group	BBY Limited and each other BBY entities (related or otherwise) as listed in Appendix 1
BBYL	BBY Limited (In Liquidation) (Receivers and Managers Appointed)
BBYN	BBY Nominees Pty Ltd (in Liquidation)
BNZ	Bank of New Zealand
BSA	Broker Services Australia Pty Ltd (In Liquidation) (the employment company)
CAD	Canadian Dollars
Carbon	Carbon trading product line
CBPL	Capital Based Position Limit – a limit on the clearing participant to ensure that there is no exposure generated beyond the clearing participant’s financial capacity
CEO	Chief Executive Officer
CFD	Contract for Difference
CFO	Chief Financial Officer
CHESS	Clearing House Electronic Subregister System
CHF	Swiss Franc
Chi-X	Chi-X Australia Pty Ltd
CMA	Client Management Account
CMM	Cash Market Margin – a call on the clearing participant to ensure that in the event of a default of the clearing participant the clearing house can close out the clearing participants net novated obligations with minimal impact on the market
Counterparty	External third party who BBYL used in order to facilitate transactions across various product lines
CSA	Client Segregated Account, an account maintained for the purposes of section 981B of the Act

Directors	Glenn Rosewall, Ken Rosewall and David Perkins
DOCA	Deed of Company Arrangement
Equities	BBYL Product, the trading of shares on ASX
ETOs	BBYL product, Exchange Traded Option
EUR	Euro
Firestone Energy	Firestone Energy Limited
Ficema	Ficema Pty Ltd ATF Ficema Trust
FJD	Fijian Dollar
FX	Foreign Exchange
Futures	BBYL product, the buying or selling of a contract at an agreed price, with future delivery of the commodity or instrument
GARF	Glenn Rosewall Superannuation Fund
GBP	Great British Pound
GBST	GBST Holdings Limited
GBST DCA	Proprietary system for ETOs
GBST Shares	Proprietary system for Equities and ETOs
GFC	Global Financial Crisis (economic downturn in 2007-2008)
GMI	SunGard GMI, proprietary system for Futures
GST	Goods and Services Tax
HIN	Holder Identification Number
HKD	Hong Kong Dollars
IB	Interactive Brokers LLC, an online trading platform
Iress	Iress Market Technology Limited
IT	Information technology
Lazorne	Lazorne Group Pty Ltd, compliance consulting firm specialising in financial services
Liquidators	Stephen Vaughan and Ian Hall of KPMG
MFX	Pallion MFX, proprietary system for FX
NAB	National Australia Bank
NLV	Net Liquidation Value
NZD	New Zealand Dollar
OR	Option Research Pty Ltd
PC	Personal Computer
PDS	Product Disclosure Statement
PHP	Philippine Peso
PPB	PPB Advisory
Proceedings	Proceeding Number 237028 of the Supreme Court of NSW
RATA	Report as to Affairs
Receivers	Receivers & Managers, Stephen Parbery and Brett Lord of PPB Advisory (appointed by STG over the secured property of BBY)
SAP	Accounting software used by the BBY Companies
Saxo	BBYL product, an online trading platform
SCMA	Saxo Capital Markets (Australia) Pty Ltd
SEG	Segregated
STG	St George Bank, a secured creditor
STL	Smartrader Limited
Stonebridge	StoneBridge Securities Limited
THB	Thai Baht
TN	Tilbia Nominees Pty Ltd
USD	United States Dollar

Waterburg Coal	Waterburg Coal Company Limited
ZAR	South African Rand

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- Exhibit 5 – Equities and ETO EOD Detailed Trust Position Report, 18 May 2015
- Exhibit 6 – ETO Example Client Statement
- Exhibit 7 – Equity Example Statement
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Exhibit 72 – Email “___MFX withdrawal” Dated 21/01/2015

Exhibit 73 – Email “Re_ Payment from Futures AC 553619284 - Funds required urgently” Dated 26/02/2015

Exhibit 74 - Extract from BBY 2015 Bank Movements Schedule – 18 February 2015

Exhibit 75 – Email “RE_ BBY Limited - underwriting Cockatoo Coal” Dated 18/02/2015

Exhibit 76 - Extract From BBY 2015 Bank Movements Schedule – 10 March 2015

Exhibit 77 – Email “RE_ Use of Facilitation Template 10_03_2015” and Email “COK funds transfer”

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Exhibit 79 – Email “_Return of Borrow__Funding required 23/9/14” Dated 24/09/2014

Exhibit 80 – Extract from BBY 2014 Bank Movements Schedule – 23 September 2014

Exhibit 81 – Email “RE: Return of funds – please approve” Dated 06/03/2015

Exhibit 82 – Email “RE_ URGENT funds transfers - please approve” and “Funds movement”

Exhibit 83 – Email “Re_ URGENT funds transfers this morning - please approve” Dated 04/03/2015

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Exhibit 99 – Email “Return of funds to BBY Corp” Dated 20/06/2014

Exhibit 100 – Email “ASX Notice – 30 January 2015” Dated 02/02/2015

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Exhibit 103 – Saxo High Interest Account 2428 – Bank Statements

Exhibit 104 – Email “RE_Saxo Transfer” Dated 29/06/2012

Exhibit 105 - Extract From BBY 2011 Bank Movements Schedule – 2 December 2011

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Exhibit 107 – DR & Son Letters of Demand – 3 February 2015

Exhibit 108 – Project Saxo - Combined Spreadsheet - Inactive Register - Tab 1

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Exhibit 110 – Email “FW: Unexpected cash withdrawal” Dated 06/02/2015

Exhibit 111 – Amendment to Institutional Trading Agreement, 19 December 2013

Executive Summary

Background

On 17 May 2015 Stephen Vaughan and Ian Hall of KPMG were appointed as Administrators of BBYL and 9 other group companies. On 22 June 2015 BBYL was placed into liquidation and Stephen Vaughan and Ian Hall became the Liquidators. On 18 May 2015 Stephen Parbery and Brett Lord of PPB Advisory were appointed Receivers & Managers over BBYL and 3 other group companies.

The BBY Companies, part of a wider corporate group trading as BBY, provided a broad range of financial services to clients including asset management, broker dealer services, institutional sales, trading and financial advice, research and online trading.

Funds when initially received from clients were deposited into client segregated accounts (**CSAs**). Funds in these CSAs are held on trust by BBYL for its clients. Our investigations indicate there will likely be a significant overall shortfall between available client funds and client claims.

Purpose of this report

On 13 August 2015, the Liquidators commenced proceedings in the Supreme Court of New South Wales seeking a number of directions and declarations in relation to the treatment and distribution of client funds (the **Proceedings**). The directions and declarations sought from the Court in the Proceedings are in respect of each client's entitlement to the funds held in the CSAs and any related recoveries.

We have prepared this Report to detail the findings of our investigations as to the operation of the CSAs maintained by BBYL and its dealings with client monies including its dealings with counterparties.

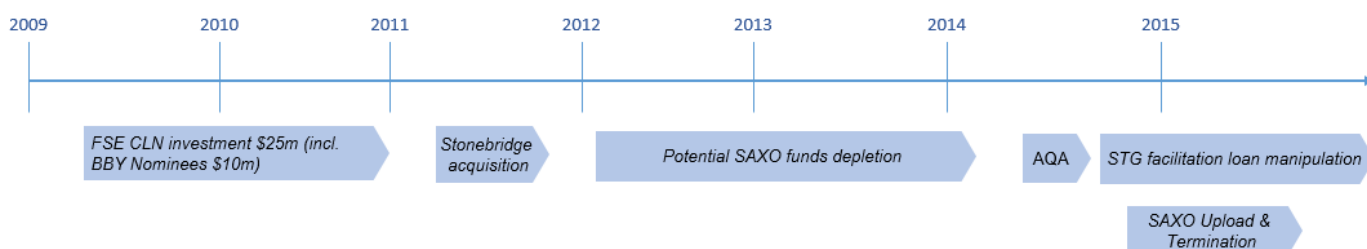
Findings

We identified many instances in which funds were transferred between various CSAs and between CSAs and BBYL 'house' accounts, many of which appear to have occurred in the ordinary course of business or which were ultimately 'made right' by way of return of funds. We also identified 'transactions of interest' which we consider to be outside of the ordinary course of business and may have led to the depletion of CSAs and shortfalls against client obligations.

Our investigations drew on a variety of information including bank statements, books and records and electronic server and mailbox data. In some cases the records maintained by BBYL relating to the reconciliation of CSAs were unreconciled and incomplete. We also held discussions with a wide range of people involved with the business and conducted a series of interviews with former BBYL senior staff members and officers. This process provided additional information which was material to our findings.

In this report we detail our findings together with commentary on the broader affairs of BBYL that we consider are relevant to BBYL's dealings with client monies and the issues that arise in the Proceedings.

The timeline below provides an overview of the key events relevant to our findings:



Below is a brief explanation of each event in the timeline:

- FSE CLN investment: The acquisition of \$25 million worth of Firestone Energy shares by BBYL and BBYN. This is discussed in more detail in section 2.4.1;
- Stonebridge acquisition: The acquisition of Stonebridge by BBYL in August 2011 which included the private client advisor network, staff and product platforms of Stonebridge Group (the former Tricom Securities business). This is discussed in more detail in section 2.4.2;

- Potential Saxo fund depletion: The acquisition of Stonebridge brought across approximately \$40 million in client funds relating to the Saxo trading platform. Our investigations indicate that during this period the Saxo client account was depleted resulting in an unexplained \$20 million shortfall against client obligations. This is discussed in more detail in section 6.9;
- AQA: Entered into a substantial acquisition of shares in Aquila Resources Limited (with a value of approximately \$192 million) on behalf of one of its clients, Mineral Resources Limited in June 2014. Due to the size and scale of this transaction, it was difficult for BBYL to complete and resulted in various fund movements. This is discussed in more detail in section 2.4.3;
- STG facilitation loan manipulation: We were informed by a former BBY employee that during the period of June 2014 to May 2015 St George Bank was being provided with contract note documentation overstating open positions to support funding requests. We were informed that repayments to restore the funds were made from time to time, however the estimated balance at the date the Administrators were appointed was approximately \$3.4 million. This is discussed in more detail in section 6.10.7;
- Saxo upload and termination: On 1 December 2014, SCMA asserted that BBYL had not complied with requirements of the 1:1 funding agreement, whereby all Saxo client monies were required to be held by the platform, and terminated the White Label Relationship with effect from 1 April 2015 (see Appendix 26). On 9 December 2014, the parties agreed to negotiate the commencement of an “introducing broker” relationship from 1 April 2015. This is discussed in more detail in section 6.9.2.

This report has been filed in the Proceedings and served on each of the representative defendants, who represent the interests of various classes of creditors. The report has also been published on KPMG’s dedicated BBYL web page at <http://www.kpmg.com/AU/bby> which also contains other information for clients and creditors.

Next steps

The Court timetable provides that each of the representative defendants in the Proceedings who wish to do so file and serve any affidavits by 19 February 2016 and that we file any further affidavit material by 26 February 2016.

The Proceedings are listed for further directions on 7 March 2016 and have been provisionally listed for hearing on 22 March 2016.

1. Introduction

1.1 Background

The BBY Group provided a broad range of financial services to a global client base including asset management, broker dealer services, institutional sales and trading, private client advice, research and online trading.

BBYL's financial products may be classified broadly into the following product lines:

- Equities and ETOs
- Futures
- FX
- Saxo
- IB
- Carbon

For each product line, BBYL maintained a number of CSAs in various currencies that clients were able to deposit funds into and these funds were to be held on trust. The balances of these CSAs as at 17 May 2015 and 4 December 2015 are outlined in Appendices 35 and 38 respectively.

On 17 May 2015, Stephen Vaughan and Ian Hall of KPMG were appointed, pursuant to section 436A of the Corporations Act, as Administrators of the 10 BBY Companies listed below. Each of these companies have subsequently been either placed into liquidation or a Deed of Company Arrangement, or the Administration has ended.

Abbreviation	BBY Company	Administration	Liquidation	Deed of Company Arrangement	Administration Ended
BBYH	BBY Holdings Pty Ltd	17-May-15	22-Jun-15		
BBYL	BBY Limited	17-May-15	22-Jun-15		
BBYAS	BBY Advisory Services Pty Ltd	17-May-15	22-Jun-15		
BSA	Broker Services Australia Pty Ltd	17-May-15	22-Jun-15		
BBYN	BBY Nominees Pty Ltd	17-May-15	08-Oct-15		
BBYPN	BBY Protection Nominees Pty Ltd	17-May-15			15-Oct-15
OR	Options Research Pty Ltd	17-May-15			15-Oct-15
TN	Tilbia Nominees Pty Ltd	17-May-15			15-Oct-15
STL	Smartrader Limited	17-May-15		22-Jun-15	
BBYHT	BBY Hometrader Pty Ltd	17-May-15		22-Jun-15	

A group structure chart showing the 10 BBY Companies referred to above, is set out at Appendix 1 to this report. Further information in relation to the BBY Companies (including statutory information, trading history, the financial position of the group and the Liquidators' preliminary findings) are set out in the Administrators' section 439A report dated 12 June 2015. This report is published on KPMG's dedicated BBYL web page at <http://www.kpmg.com/AU/bby>.

1.2 Objective of the CSA investigation

Client funds deposited with BBYL were required to be held by BBYL in CSAs. Funds in the CSAs are held on trust by BBYL for its clients. Preliminary investigations conducted during the Administration of BBYL indicated there would likely be a significant overall shortfall between available client funds in the CSAs and client claims. Since BBYL was placed into liquidation we have conducted further investigation into how the CSAs were managed and operated.

The main objectives of our investigation into the CSAs maintained by BBYL were to identify:

- Any shortfalls between the balances of the CSAs (together with amounts held by certain counterparties of BBYL) and the amount of the client claims; and
- Whether funds held in the CSAs had been intermingled between CSAs within product lines, across product lines and/or BBYL with 'house' accounts.

Our approach to the CSA investigation is set out below.

1.3 Approach and sources of information

1.3.1 Preliminary investigations by the Administrators

Preliminary investigations were carried out during the voluntary administration, which were based on the following sources of information:

- Discussions with management, staff and other parties;
- Meetings with Mr Glenn Rosewall and Mr David Perkins, directors of BBYL;
- Review of RATAs and questionnaires from the Directors;
- Discussions with the Receivers in relation to the Receivership and the realisation of assets;
- Review of publicly available information, including ASIC records and other public databases; and
- Preliminary review of books and records located at the head office, including accounting information downloaded from the SAP accounting system, and client ledger reports generated from the various proprietary systems used by BBYL to manage its products.

1.3.2 Further investigations into the CSAs by the Liquidators

The findings of the Administrators' preliminary investigations highlighted the requirement for further investigation into the CSAs, which commenced on our appointment as Liquidators. However, in light of inconsistencies, unreconciled transactions and other limitations in the ledger records identified during the administration and outlined in sections 3 and 4 of this report, we have collated and analysed additional sources of information in order to carry out our investigations.

Our further investigations into the CSAs as Liquidators can be categorised into the following workstreams:

- **Collation and profiling of BBY group bank transactions:** Access was obtained to bank statement data from all 118 bank accounts identified during our review, including both CSAs and House accounts, which was then either downloaded in electronic format where possible or manually converted into electronic format, and uploaded to a secure database. Each of the bank accounts identified were categorised into one of the pools outlined below, based on available BBY documentation and account names on bank statements and reconciliations. Available BBY documentation refers to data that was either obtained directly from the online banking portal or obtained from the bank in hard copy form for a specific data range as outlined in Appendix 45. Unavailable data refers to any transactions that predates the information available. Preliminary profiling of the data was conducted to gain an understanding of the level and nature of activity within each bank account. The date ranges of the electronic data available varied by bank account. However, the data obtained generally covered the period of approximately 12 to 18 months prior to the date of our appointment as administrators and contains over 56,000 transactions. These pools are as follows:
 - Equity/ETO
 - Futures
 - FX
 - Saxo
 - Interactive Brokers
 - Carbon Trading
 - Other Trust Accounts
 - House Accounts
- **Establishment of a BBYL disclosure hotline & inbox:** This disclosure hotline and email inbox was used to invite former members of BBYL staff with information relating to any misuse of client funds and/or related misconduct, to report this to the Liquidators, anonymously if they wished. Follow up meetings were held with a number of the disclosers to gain further information which may have assisted with our CSA investigation.
- **Interviews and discussions with former BBYL employees:** A series of interviews were conducted with former employees of BBYL we considered key to the CSA investigation based on the employee's roles and responsibilities within BBYL. These discussions and interviews focussed on gaining an understanding of roles and responsibilities in relation to dealing with client monies, the operation of the CSAs, and possible reasons for shortfalls. We have indicated separately in this report the instances in which we have relied upon what was said in these interviews and discussions. Apart from those specific instances, this report is based on our analysis of the business records kept by the BBY Group.
- **Analysis of bank transaction data:** The electronic bank transaction data was analysed, in order to identify funds movements which did not appear to have been in the ordinary course of business, and other transactions of interest using the following two methods:
 - **Method A - Transaction matching matrix:** The transaction data was analysed within a relational database management system, matching funds movements between bank accounts based on four different levels of

“match” quality; High, Medium-High, Medium-Low, and Low. This is defined and discussed in more detail in section 5.2.4. The outcome of this matching analysis was presented both numerically (in a transaction matrix) and visually (through an electronic interactive display tool) in order to ascertain the extent to which funds had been transferred either vertically between CSAs (i.e. between CSAs designated within a product line) or horizontally between CSAs (i.e. between CSAs designated across product lines) as well as between CSAs and BBY ‘House’ bank accounts. In total, this analysis identified over 8,600 funds movements over the period investigated, representing a total value of \$8 billion. The transactions captured in the funds flow matrix were investigated in more detail on a sample basis as detailed in section 6.3.

- **Method B – Generic reference and key word searching:** Transactions with particular generic descriptions were extracted from the data for further review and investigation. Discussions with former BBY employees revealed that when non-BAU transfers and non-client related transactions were processed, generic descriptions were used (such as ‘BBY’), rather than client account numbers, in bank narrations. Coupled with our understanding of the funds flow and BAU transactional activity, this suggested that searching for these generic descriptions would assist us identify transactions of interest. Keyword searches were also run across the transaction data in order to identify transactions to and from known individuals or related parties, and transactions relating to specific trades or patterns of activity. Refer to section 5.2.4 for more information on generic references and key word searches.

A third method of identifying transactions of interest would be to carry out a full data matching and reconciliation process between the bank transactions and data extracted from each of the client ledger systems. We have not been able to obtain all of the necessary system data in order to carry out this process. We note that the underlying trading data/client information is either held with the vendors that supplied the respective trading systems or on BBYL’s server. There are also significant time and cost factors associated with the process, which are discussed further in section 5 of this report.

- **Review of electronic server & mailbox data:** During our investigations, we conducted targeted searches of the BBYL server data in order to identify relevant information about the CSAs, client ledgers, and transactions of interest. Keyword searches were also carried out over email data pertaining to the BBYL management team and other key individuals, primarily to gain an understanding of how CSAs were operated and in particular the effect on CSAs of specific transactions of interest.
- **Detailed review of specific trading events:** During our analysis of the BBY bank transactions, keyword searching and email review, we identified a significant volume and value of funds transfers across a number of product lines relating to two specific trading events: the Aquila transaction (further discussed in section 6.8) and the Saxo trading termination (further discussed in section 6.9). We subsequently carried out a more detailed review into these trading events to establish the funds movements that had occurred, through manual tracing of funds through to the bank statement data, supported by targeted email searches.

1.4 Purpose of this report

We have prepared this Report to detail the findings of our investigations as to the operation of the CSAs maintained by BBYL and its dealings with client monies.

On 13 August 2015, the Liquidators filed Proceedings in the Supreme Court of New South Wales seeking a number of directions and declarations in relation to the distribution of client funds.

On 19 October 2015, the Court made orders for the appointment of representative defendants and for the conduct of the Proceedings.

As an Australian Financial Services Licensee, obligations are imposed upon BBYL under Part 7.8 of the Act and associated regulations (the **Regulations**) as to how any monies deposited into CSAs can be dealt with following the insolvency of an Australian Financial Services Licensee such as BBYL.

As will become apparent in this report, BBYL acted as the main operating entity through which the BBY Group conducted its financial services and stockbroking business. The majority of the firm's clients and creditors dealt with BBYL, which holds the most assets and has the most significant liabilities within the BBY Group. In the course of its business, BBYL:

- (a) held money in CSAs on behalf of clients;
- (b) advised clients on investment strategies and provided advice regarding what financial products clients should invest in to maximise their wealth; and
- (c) placed trades on behalf of clients in purchasing and selling financial products, including shares and exchange-traded options. Where BBYL was not a participant of the relevant exchange (for example, in respect of futures contracts), BBYL passed relevant orders as agent to a futures broker for execution. In respect of over-the-counter financial products, which were not traded on an exchange, BBYL generally entered into transactions directly with clients. BBYL entered into transactions relating to both Australian and foreign financial products.

BBYL was a registered participant of the ASX, Chi-X and the APX. BBYL also had arrangements with a number of counterparties such as SMCA and IB for trading of financial products on behalf of clients. BBYL also traded products such as futures contracts through futures brokers engaged for this purpose.

There is some uncertainty as to how the monies held in the CSAs and related recoveries should be applied in the present circumstances. Therefore, relevant directions and declarations have been sought from the Court in the Proceedings. We have prepared this Report to detail the findings of our investigations as to the operation of the CSAs maintained by BBYL and its dealings with client monies, including its dealings with counterparties.

1.5 Structure of this report

The remaining sections of this report are structured as follows:

- **Section 2** provides relevant background information in respect of the BBYL officers and management team, the key trading milestones, and the operational issues that we are aware of to date, which have either a direct or indirect impact on the operation of CSAs and use of client monies.
- **Section 3** provides an overview of the main BBY products, including our understanding of each product and how it was traded, the relevant BBY systems and client ledgers, relevant books and records identified to date, and relevant counterparties.
- **Section 4** discusses client monies and outlines the latest position in respect of each client pool, including the status of confirmed counterparty funds and funds movements after our appointment as Administrators.
- **Section 5** outlines our approach to the investigation into CSAs to date and the related assumptions and limitations.
- **Section 6** sets out our findings to date, including our profiling of the BBY bank accounts, our analysis of the key transactions, our findings in respect of vertical and horizontal funds movements, and other areas / events that may have contributed to the CSA position as at the date of our appointment. Our findings are to be read in conjunction with the limitations to our work, set out in section 5.
- **Section 7** summarises our findings to date.
- **Section 8** outlines our disclaimers and limitations of the books and records, client monies analysis and investigations to date.
- **Section 9** includes the appendices to our report, which comprise further detail in respect of the areas discussed in this report, a copy of the bank transaction data relied upon for the purposes of our analysis, and documentation supporting the findings set out on our report.
- **Section 10** includes exhibits to our report which we have considered confidential as they include information such as client names and bank account details. Only parties to the court proceedings will have access to these exhibits.

2. BBY management team and trading history

2.1 Officers

At the date of the administration, the three directors of BBYL, the main operating company, were:

- Glenn Rosewall
- Ken Rosewall
- David Perkins

Mr Glenn Rosewall, Mr Ken Rosewall and Mr David Perkins were also directors of other entities within the BBY Companies as outlined in the table below:

Company	Director	Date appointed
BBY Holdings Pty Limited	Ken Rosewall	17 March 2008
BBY Holdings Pty Limited	Glenn Rosewall	17 November 2004
BBY Holdings Pty Limited	David Perkins	30 March 2006
BBY Limited	Ken Rosewall	17 March 2008
BBY Limited	Glenn Rosewall	22 December 2004
BBY Limited	David Perkins	30 March 2006
Broker Services Australia Pty Ltd	Glenn Rosewall	17 November 2004
Broker Services Australia Pty Ltd	David Perkins	8 August 2006
BBY Advisory Services Pty Ltd	Ken Rosewall	21 December 2005
BBY Advisory Services Pty Ltd	Glenn Rosewall	8 November 2002
BBY Nominees Pty Ltd	Glenn Rosewall	22 December 2004
BBY Protection Nominees Pty Ltd	Glenn Rosewall	22 December 2004
Options Research Pty Ltd	Glenn Rosewall	22 December 2004
Tilbia Nominees Pty Ltd	Glenn Rosewall	22 December 2004
BBY Hometrader Pty Ltd	Glenn Rosewall	23 August 2011
SmarTrader Limited	Ken Rosewall	21 April 2015
SmarTrader Limited	Glenn Rosewall	23 August 2011
SmarTrader Limited	David Perkins	24 March 2015

Source: ASIC Company Search

2.2 Management Structure team and other key roles

Glenn Rosewall joined BBYL in 2004 as Managing Director, CEO and a majority shareholder. In February 2012, he was appointed Executive Chairman of BBYL. He was also Head of Institutional Sales, Head of Research and Head of Corporate. Mr Rosewall is a Chartered Accountant, a Master Stockbroker (Stockbrokers Association of Australia) and a member of the ASIC Markets Disciplinary Panel.

Ken Rosewall, Glenn's father and a former world top ranking amateur and professional tennis player, was a non-executive director and majority shareholder.

David Perkins was non-executive director. He is also the principal of Perkins Solicitors and had an office in the BBYL premises in Sydney. Mr Perkins acted as chair of the ARCC. Mr. Perkins subsequently became Company Secretary of BBYL.

An extract of the BBYL staff organisation chart showing the operations management team is included at Appendix 2.

2.3 Financial performance and position

Audited accounts were prepared for companies within the BBY Group, including other companies that are not subject to administration. Accounts were consolidated at the level of BBYL, the main trading entity. Management fees were charged to BBYL by BBYH and BSA. Accounts were also consolidated at the Group level of BBYH, incorporating other entities.

We have included a summary of the financial results of BBYH and BBYL, per the audited financial statements, as well as our financial analysis at Appendix 3.

2.4 Key events

Set out in the following table is a summary timeline of certain key events that we consider relevant and provide necessary context to our observations and findings in relation to management of client monies within the BBYL business. We provide more detail about each of these events in the table.

Key event timeline

2009	<ul style="list-style-type: none"> Sept 2009 - Firestone Energy underwriting commitment \$25 million
2010	<ul style="list-style-type: none"> 2009 to 2011 – advances to Firestone against underwriting, apparently utilising house funds of approx. \$10 million and related party funds of \$15 million (sources and accounting not verified but apparently paid in 23 instalments to Oct 2011)
2011	<ul style="list-style-type: none"> Jun 2011 - Stonebridge Group acquisition (former Tricom Securities business) including transfer of approx. \$40m in client monies relating to Saxo trading platform Dec 2011 – BBY commences ASX self clearing via GBST platform
2012	<ul style="list-style-type: none"> Aug 2011 to April 2013 - unexplained movements of Saxo client monies appear to contribute to an apparent \$20 million shortfall against client obligations
2013	<ul style="list-style-type: none"> Jun 2013 – BBY Holdings Pty Ltd FY13 net loss \$2.1 million (including consolidation of BBY Limited net loss \$1.5m), accumulated losses \$9.2 million Dec 2013 - Saxo institutional trading agreement amended requiring 'upload' of Saxo client monies from BBY to Saxo in tranches in April, September and December 2014. Funded from a variety of non Saxo client monies sources including futures and FX
2014	<ul style="list-style-type: none"> Jun 2014 – BBYL entered Aquila transaction. \$6.8 million from Futures CSAs and \$1.8 million from Saxo CSAs utilised to fund ASX margin calls on AQA transaction (futures funds later applied to Saxo, as noted above) Jun 2014 – Overstatement of \$3 million in contract notes to St George to support funding against equities / ETO facilitation account Jun 2014 - BBY Holdings Pty Ltd FY14 net profit \$1.4 million (including consolidation of BBY Limited net loss \$2.6m after impairment of \$3.4 million in relation to Firestone) accumulated losses \$7.7 million Jul 2014 - ASX investigations post AQA through to May 2015 Dec 2014 – Saxo terminate trading agreement, effective Feb 2015 Dec 2014 & Jan 2015 Rosewall entities apparently acquire \$11.5 million (face value) Firestone convertible notes from BBY
2015	<ul style="list-style-type: none"> Feb to May 2015 – Repatriated Saxo client funds transferred to other accounts including \$3.9 million to house, \$0.5 million to futures and \$1.1 million to FX May 2015 – Closure of ETO business, voluntary administrations and receiverships

Source: prepared by KPMG based on investigations performed to date

2.4.1 Firestone Energy Limited¹

BBYL became involved with Firestone Energy in 2009, initially as an advisor and underwriter and subsequently as an investor. BBYL's underwriting of a convertible note issue by Firestone Energy appears to have been a pivotal transaction that ultimately had a significant adverse impact on the financial position of BBYL.

Firestone Energy is an Australian coal exploration company listed on the ASX and Johannesburg Stock Exchange. Firestone Energy and Sekoko Coal (Pty) Ltd are parties to a joint venture relating to the Waterberg coal project in South Africa.

In September 2009, BBYL agreed to underwrite a \$25 million capital raising by Firestone Energy involving the issue of unsecured convertible notes with a conversion price of \$0.04 per share. The capital was used to fund a feasibility study for the Waterberg coal project and financial commitments due to the joint venture partner, Sekoko Coal (Pty) Ltd. We have been informed that BBYL entered into sub-underwriting arrangements with a number of third parties. It appears that the withdrawal of some of those parties led to the issue being undersubscribed. The resulting commitment was funded, over the period from October 2009 to October 2011, by BBYL and a number of entities including some associated with Glenn and Ken Rosewall.

By the end of 2011, Firestone Energy had used much of the \$25 million with the Waterberg coal project still remaining in the exploration stage of development.

Firestone Energy shares have been suspended from trading since 19 March 2015 after Waterberg Coal requested a voluntary suspension. This request was made to finalise a proposed third party funding arrangement with the Standard Bank of South Africa to repay its outstanding principal and accrued interest of approximately \$43 million which was due on 9 April 2015. An extension to the voluntary suspension was requested by Firestone Energy on 8 May 2015, in order to allow the company to secure funding by 10 June 2015. Further extensions have been sought by Firestone Energy to negotiate with various parties in respect of proposed funding arrangements, with the latest extension to 29 February 2016.

BBYL currently holds 588 million shares in Firestone Energy through BBYL Nominees Pty Ltd (**BBYN**), a nominee company, and with a 16.57% shareholding is the second largest shareholder behind Waterberg Coal. Based on the last price before suspension of Firestone Energy, the shareholding is worth approximately \$2.8 million.

It appears BBYN also holds \$10.6 million of convertible notes, apparently on behalf of a number of related parties. This amount is currently being verified through our investigations into BBYN. We are also examining circumstances surrounding the transfer of \$11.5 million of convertible notes to related parties.

Further information is set out in section 6.10.6 of this report.

2.4.2 Stonebridge Group²

In August 2011, BBYL acquired the private client advisor network, staff and product platforms of Stonebridge Group, the former Tricom Securities business. Per discussions with former BBY employees the acquisition is considered relevant because it changed the business profile of BBYL and because Saxo client monies were received by BBYL as part of the acquisition.

Stonebridge had 70 private client advisors specialising in equities and options trading as well as futures, FX, CFDs and derivatives. The acquisition increased BBY's headcount from 87 to 185 employees. BBYL had previously only operated in the Sydney and Melbourne markets within Australia. This acquisition facilitated BBYL's entry into the Perth, Adelaide and Gold Coast markets.

The acquisition brought across approximately \$40 million in client funds relating to the Saxo trading platform, thus increasing the level of client monies being managed by BBYL. The purchase terms included an 'earn out' component based on revenues, which included interest income from the Saxo client monies.

Transactions involving Saxo client monies have been examined in detail and are discussed in section 6.9 of this report.

2.4.3 Aquila Resources³

In June 2014 BBYL entered into a substantial acquisition of shares in AQA (with a value of approximately \$192 million) on behalf of one of its clients, Mineral Resources Limited.

There was a substantial decline in the AQA share price between execution and settlement of this trade. BBYL was unable to meet significant calls made by the ASX in respect of CMM margin (of approximately \$25 million) and CPBL (of approximately \$15 million) in relation to the AQA trade and other BBYL positions.

BBYL requested that the ASX delay making certain margin calls to avoid BBYL committing an event of default as an ASX participant and suffering a possible insolvency event.

As a result of this incident, the ASX imposed conditions on BBYL's market participation. Those conditions did not allow BBYL to enter into any new market transaction in a cash market product which was to be cleared by BBYL which would cause, or be likely

¹ Source: BBYL Board Reports, Firestone Underwriting Agreement dated 18 September 2009 at Appendix 5 and GBST Shares records

² BBYL Board reports and publically available information

³ BBYL Board reports and publically available information

to cause, cash market margins exceeding \$3 million (in aggregate) at any time. These conditions were to remain in place until BBYL provided the ASX with a report from a third party, satisfactory to ASX Clear, expressing an opinion on the adequacies of BBYL's risk management systems, processes and personnel to prevent any recurrence of what had transpired. BBYL was fined \$180,000 by the ASX in January 2015 in relation to this transaction.

We examined a complex set of transactions that appear to relate to BBYL's funding of the margin calls and transaction settlement. We provided some preliminary findings in our section 439A report dated 12 June 2015. This report expands on those findings, particularly in relation to the use of client monies, with further information set out at sections 4 and 6.

2.4.4 ASIC infringement notice penalty

In September 2014 BBYL paid a penalty of \$90,000 to comply with an infringement notice issued to it by the ASIC Markets Disciplinary Panel. The penalty was for misconduct and for failing to ensure that its Automated Order Processing system had in place organisational and technical resources and safeguards required to avoid undermining public confidence in the integrity of the market. The misconduct alleged by ASIC had occurred over a period of approximately 8 months.

BBY took remedial steps to prevent recurrence of a similar breach by implementing detective and preventative compliance initiatives. This included BBY engaging a third party IT consultant.

2.4.5 Lazorne report⁴

In October 2014, in order to have its ASX participation conditions lifted, BBYL commissioned Lazorne to conduct a review of the design, implementation and functioning of BBY's governance and risk framework. In its report dated 28 November 2014, Lazorne was of the opinion that the existing framework at BBYL was not adequate or effective and made a number of recommendations to address these issues. The most significant recommendations were as follows:

- Conduct an internal review to determine what BBYL considers to be an appropriate corporate governance (and risk) structure considering the size, nature and complexity of its business and then formally implement the preferred structure;
- Consider revision to the current constitution of the Board and the ARCC;
- Review responsibilities of the Board and ensure the Board has specific responsibility for risk management strategy issues and also compliance;
- Increase frequency and regularity of Board and ARCC meetings;
- Review adequacy of human resources within the Compliance and Risk Department;
- Ensure Head of Risk is a full time role;
- Risk management framework should be enhanced to focus on all business risks;
- Implement automated processes to more effectively monitor risk and also include all risks within the business;
- Consider revision of the management structure, implementing regular management meetings and regular reporting structures;
- Conduct a complete and thorough review of all existing Policy and Procedure documents with a view to updating, streamlining and consolidating;
- Implement a structured, regular and proactive compliance monitoring campaign covering all compliance obligations within the business; and
- BBYL conduct a detailed risk assessment to identify all sources of risk to which BBYL may be exposed.

Lazorne also made reference to inherent conflicts of interest in existence, which included the Chairman of the Board, Glenn Rosewall, acting as Head of Institutional Sales, Head of Research and Head of Corporate. It was noted BBYL was majority owned by Glenn and Ken Rosewall via corporate structures (approximately 80%) and David Perkins, in his capacity as Non-Executive Director, was providing ongoing legal advice to the business and operated this legal business from the head office of BBYL in Sydney.

Refer to Appendix 6 for the full Lazorne report.

2.4.7 Remediation plan⁵

In response to the Lazorne report, BBYL was directed by the ASX to prepare and implement a remediation plan. BBYL requested the assistance of Lazorne in February 2015 to assist in the preparation and subsequent implementation of this remediation plan by providing an oversight management role during the project. In a draft remediation plan dated 20 March 2015, Lazorne made some key observations in relation to the implementation of the plan by BBY, which were:

- The report listed 48 "projects" as part of the remediation plan that all had a start date of 23 February 2015;
- All 48 projects were prioritised as "normal", rather than categorised into high, normal and low priority;

⁴ Lazorne Report dated 28 November 2014 at Appendix 6

⁵ BBYL Remediation Project, Governance and Risk Framework dated 22 April 2015

- The target completion date for all projects was 30 June 2015, which given the size of the task and level of detail required, was unrealistic. If the tasks were completed within 3 months this would not produce a robust and effective governance and risk framework;
- It was unclear who had ownership of and responsibility for the entire project to update the governance and risk framework;
- Many of the projects did not include the individual tasks and activities required to complete the project;
- BBYL had not considered the inter-dependencies between each of the 48 projects, and how one task could not commence until another had been completed;
- It was unclear how projects would be managed and how the project team would report on progress, in what form and how to escalate issues;
- There were six projects listed as “Completed” however no completion date had been recorded;
- BBYL should incorporate education and training of its staff on the revised governance and risk framework and the revised Policies and Procedures; and
- BBYL should implement a structured, regular and proactive compliance monitoring program.

The final version of the remediation plan was submitted to the ASX in March 2015, however, we have only seen the draft plan and have not been able to obtain the final report to date.

2.4.8 ASX compliance review – client monies⁶

The ASX also initiated an investigation on 7 December 2014 to review BBYL’s compliance with the reconciliation of client money requirements under ASX Clear Operating Rule 4.23. As part of these investigations, BBYL was required to provide a statement regarding its solvency as well as trust reconciliations between 25 November and 5 December 2014. The ASX’s review of the trust reconciliations identified a number of potential breaches of the ASX Clear Operating Rules, the ASIC/ASX Market Integrity Rules and the Act relating to the handling of client monies. Subsequently the ASX issued a direction to BBYL to immediately cease using client monies held in trust to fund intra-day payments to its payment provider for the purposes of repaying debts incurred by BBYL for its daily cash market margin obligations.

The ASX identified 6 required actions and 2 agreed actions, referred to as “Events”, during the review process to ensure BBYL’s compliance with the ASX Clear Operating Rules. These were outlined in a report dated 10 February 2015 and were as follows:

Event 1:

BBYL to immediately cease its practice with respect to the apparent breach of ASX Clear Operating Rule 14.8.1 (b) and ensure all payments are made through separate funding drawn from BBY’s General Account. ASX Rule 14.8.1 (b) states that:

“A Participant must not...use Cash or Collateral that belongs to a Client, for the purposes of meeting the Participant’s margin obligations to ASX Clear in connection with Cash CCP Transactions whether those Cash CCP Transactions were entered into or on behalf of the Client or otherwise”.

Event 2:

Client money was (allegedly) not held in trust between approximately 9:30am and 12:30pm on each business day during the period 7 June 2013 to 30 December 2014. BBYL received a direction from the ASX to cease funding CMM from client monies.

Event 3:

BBYL to:

- Cease its current practice of pre-funding its Trust Account 1 for uncleared client money, as such funding did not fall within the client money definition in section 981A(1) of the Act, and could not be considered client money for the purposes of a trust account;
- Appoint an independent expert approved by the ASX;
- Provide a copy of the review to the ASX by an agreed date; and
- Provide a project timeline detailing the steps BBYL would take to implement the recommendations made by the independent expert.

Event 4:

BBYL to cease its current practice of withdrawing client money from Trust 1 at 10:00am on each business day and amend its funding practices to ensure it can comply with ASX Operating rule 4.23.2

⁶ ASX Interim Review Report dated 10 February 2015 at Exhibit 1

Event 5:

BBYL to consult with its payment provider, to develop an appropriate solution to ensure that direct debit dishonours are not directed to Trust Account 1 (or any other Trust Account). If necessary and where appropriate, BBYL must consider options for utilising an alternate payment provider to achieve compliance with ASX Clear Operating Rule 4.23.2.

Event 6:

BBYL to cease netting CHES and ETO payments and amend its processes and related procedures to ensure that Client Money receipts are deposited as gross payments in trust, and held for the person who is entitled to the moneys.

Event 7:

BBYL to consult with its payment provider, St George Bank, to develop an appropriate solution to ensure that account keeping fees and charges are not directed to Trust Account 4 (or any other Trust Account).

Event 8:

BBYL's directors to give due consideration to appointing an alternate auditor by no later than Tuesday 31 March 2015. The ASX report also stated that BDO East Coast Partnership had been the auditor of BBYL since 2004 and that there had been no exceptions noted in the audit reports for the last 3 years to indicate that BBYL was not in compliance with the relevant sections of the Act.

2.4.9 ASX review on solvency and client funds⁷

Following the concerns identified in section 2.4.8 above, the ASX extended its review period into BBYL's trust practices in January 2015. The review identified more concerns relating to BBYL's client money handling practices, with a report issued requiring BBYL to carry out further remediation plans, including considering the appointment of a new auditor and commissioning an independent review of its trust practices.

A review on 27 February 2015 by the ASX identified a number of additional issues, including:

- BBY's management of counterparty risk, in particular aged debtors and options accounts;
- The number of client aged debtors and the consideration value of those aged debtors;
- The funding practices of BBYL;
- Unusual treatment of transactions in a BBYL nominee account;
- The identification of a number of options accounts appearing to trade to reduce margin obligations; and
- BBY's general liquidity management practices.

The result of these findings was the ASX requesting BBYL to provide a capital liquidity management plan ratified by the Board.

2.4.10 ASX & compliance with capital reporting requirements

On 17 March 2015, as a result of concerns with BBY's January 2015 ASX monthly return, the ASX's counterparty risk assessment team commenced an onsite review into BBY's compliance with the capital reporting requirements. The preliminary findings of this review, which were outlined in a letter to BBYL Directors dated 15 April 2015, raised the following concerns:

- Lack of experience and resource constraints in the finance team responsible for preparing the accounts and ASX return;
- Limited competency on Rule S1 capital calculations;
- Insufficient oversight of the functions performed by the finance team;
- Misrepresentation regarding the persons performing the capital return certification and lodgement activities;
- Inconsistent naming conventions or categorisation of general ledger accounts and book records;
- Lack of validation processes to source data;
- Deficient record keeping practices;
- At least 6 potential breaches of the ASX Clear Operating Rules, of which some had an impact on the capital liquidity ratio calculation;
- Inconsistent aged debtors oversight between operations and risk; and
- Errors identified in the data forming the basis of BBY's capital liquidity management plan provided to the ASX.

As a result of this, additional conditions were imposed on BBYL for ASX participation, which were for the company to appoint by 30 April 2015, an accountancy firm approved by ASX Clear, to ensure that:

⁷ ASX Letter to BBY Limited dated 15 April 2015 at Exhibit 2

- The accounts and returns provided to ASX Clear by the company accurately reflect the company's accounts and financial position;
- Reconciliations of any client's segregated accounts and client's trust accounts maintained by the company are properly performed by the company in accordance with ASX Operating Rules 4.23.5 and 4.23.6; and
- The company maintains financial records which comply with the provisions of the Act, as required by ASX Operating Rule 4.4.2.

2.4.11 ASX review - options clearing business

During early 2015, the ASX had also become concerned in relation to management of BBY's Options clearing business. On 7 May 2015 the ASX declared an event of default in relation to a failure to pay interim margin calls during trading. The ASX required that this business be wound down and imposed the following conditions:

- Payment of a \$2 million interim margin on 7 May 2015;
- Obtaining assurances of ongoing support from the BBYL's lender, STG at a meeting on 8 May 2015; and
- The Company conducting an orderly exit from the market achieving a 50% reduction of risk within 2 weeks, 75% within 4 weeks and the balance within 6 weeks.

On 8 May 2015 BBYL announced that it would exit the Options clearing business and that, effective immediately, BBYL would not enter into any new Derivative Market Transactions which are cleared by BBYL unless they are for the purpose of closing out open positions.

During the following week, prior to the administration, daily meetings were held between the ASX, BBY, its lender STG and STG's advisors, PPB Advisory, to monitor progress. At each meeting BBYL was required to sign a statement confirming its solvency.

2.4.12 Saxo relationship

SCMA is a privately held Danish company, with operations in Australia that is one of the largest online brokers of FX and CFDs in the world. On 21 June 2012 BBYL entered into two agreements with SCMA: an Institutional Trading Agreement⁸ and a White Label Trading System Agreement⁹.

In December 2013, SCMA required amendments to the Institutional Trading Agreement which varied the amount that BBYL was required to deposit with SCMA and also provided for BBYL to progressively increase the proportion of BBYL Saxo client funds held by SCMA on deposit in three stages, with the intention that SCMA would eventually hold all BBYL client funds relating to Saxo trading directly by December 2014¹⁰.

In a letter dated 1 December 2014, SCMA asserted that BBYL had not complied with the requirement to ensure its cash balance with SCMA was no less than the aggregate cash balance on all underlying accounts in the white label structure. As a result, SCMA asserted a breach of clause 1.1.10(a) of the Institutional Trading Agreement and terminated the Institutional Trading Agreement and White Label agreement¹¹.

⁸ Institutional Trading Agreement at Appendix 22

⁹ White Label Trading System Agreement at Appendix 23

¹⁰ Amendments to Institutional Trading Agreement at Exhibit 111

¹¹ SCMA Letter of Termination at Appendix 26

3. BBY Products and counterparties

3.1 Overview of products

BBYL offered its clients seven main product lines. The following table lists these products, the approximate number of clients with claims as at the date of our appointment to each product, the software used by BBYL to manage and monitor client trading for that product, and the BBYL customer terms applicable to that product.

Product Line	Approx. number of clients with claims	Software system	Terms and conditions
All	n/a	n/a	<ul style="list-style-type: none"> Client Application Form (issued July 2014), at Appendix 68 Client Application Form (issued December 2014), at Appendix 7 Financial Services Guide, February 2014, at Appendix 8 Direct Debit and Credit Form August 2012, at Appendix 69
Equities	1,086	GBST Shares	<ul style="list-style-type: none"> BBY ASX, APX and International Trading Terms March 2014 at Appendix 9 BBY CHESS Sponsorship Agreement at Appendix 10
Exchange Traded Options (ETOs)	101	GBST DCA	<ul style="list-style-type: none"> BBY ASX, APX and International Trading Terms March 2014 at Appendix 9 Exchange Traded Options PDS March 2013 at Appendix 11
Futures	994	SunGard GMI	<ul style="list-style-type: none"> Futures Terms July 2014 at Appendix 12 Futures PDS June 2011 at Appendix 70
Foreign Exchange (FX)	706	Pallion MFX	<ul style="list-style-type: none"> Desk FX Terms June 2013 at Appendix 14 Desk FX and Commodities PDS at Appendix 71
Saxo Capital Markets (Saxo)	2,197	Saxo Online Trading Platform	<ul style="list-style-type: none"> BBY Online Account Terms June 2013 at Appendix 16 BBY Online Trader PDS June 2013 at Appendix 17
Interactive Brokers (IB)	939	IB Online Trading Platform	<ul style="list-style-type: none"> BBY Online Account Terms June 2013 at Appendix 16 BBY Online Professional Futures and Derivatives PDS June 2012 at Appendix 13 BBY Online FX and Commodities PDS June 2012 at Appendix 15
Other (Carbon Trading)	Unknown	Unknown	<ul style="list-style-type: none"> BBY Carbon Trading Terms and Conditions February 2012 at Appendix 18

BBYL had contractual arrangements with Saxo and IB to facilitate trading by BBYL clients in a variety of financial products, including securities issued by foreign companies, through their respective online trading platforms. Although a variety of financial products were offered by both Saxo and IB (refer to sections 3.5 and 3.6), BBYL maintained CSAs for use by both Saxo and IB to facilitate the trading of these products within the platform.

Clients who wanted to trade in any of the above products, or on one of the trading platforms, were required to complete a Client Application Form and became subject to the terms and conditions relating to the product the client wished to trade. Separate client trading accounts and software systems were used for separate products.

Due to the complexity of these products, BBYL utilised different software systems and trading and accounting processes. Equities and ETO accounting and reconciliation processes were undertaken in the BBY Melbourne offices, by the Operations team. The remainder of the products were accounted for and reconciled by the Finance team, located in Sydney.

The reports generated for each product by the various software systems were treated by the dealers, finance team and operations team differently, resulting in varied trust reconciliation processes across the products. BBYL had agreements with a number of third parties (**Counterparties**), including Saxo and IB, which held open positions and client monies externally, either for trading purposes or clearing purposes.

Each of the individual products' trading processes, trust reconciliation processes, deficiencies identified in relation to these processes to date, and counterparty arrangements are described below. This was based on our investigations, discussions with former BBYL staff and review of relevant documents.

3.2 Equities / ETOs

3.2.1 Product Overview

Equities refers to the trading of shares and other non-derivative products on the ASX and Chi-X. BBYL acted as the stockbroker for clients, as a participant of the ASX, acting upon its clients' instructions.

An ETO is a derivative product issued over existing underlying instruments such as shares to form an option contract between two parties which gives the buyer the right, but not obligation, to buy or sell the underlying instrument at a predetermined price on or before a predetermined date, regardless of the market price of the security. To acquire such a right, the buyer pays a premium to the seller of the contract. This premium is not determined by the ASX, but rather agreed upon by both the buyer and seller at the time of the trade, taking into consideration factors such as market expectations and the exercise price of the option.

There are two types of ETOs:

- Call Options - which give the buyer the right (not obligation) to buy the underlying shares; and
- Put Options - which give the seller the right (not obligation) to sell the underlying shares.

ETO clients provided cash, bank guarantees and stock collateral to the ASX, through the facilitation of BBY, as margin for their option positions. Cash or bank guarantee collateral lodged with the ASX was utilised at face value. Stock collateral lodged with the ASX was utilised up to 70% of its current market price.

For example, if Client A lodged \$100,000 in cash collateral, \$100,000 in bank guarantees and \$100,000 in stock (at market value) to the ASX to be held as collateral, both the cash and bank guarantee collateral could effectively be utilised up to \$100,000 each, whereas the stock collateral would effectively be utilised up to a maximum of \$70,000.

Stock collateral was held in the client's HIN, which allowed clients to be identified as the holder of shares on CHES as operated by the ASX Settlement. This form of collateral was held in the client's name and when utilised as collateral, a lock would be placed on the shares by the ASX. This lock effectively prevented these shares from being traded until the lock was removed.

Cash collateral was initially posted by BBYL with the ASX on a daily basis. Subsequently, these funds would be recovered from the clients. This is discussed in further detail in section 3.2.2 below.

All BBY ETO clients were required to have an Equities client account established (discussed further in section 3.2.2 below). BBYL settled trades on a T+3 day (trade day plus 3 days) basis for equities and a T+1 day (trade day plus 1 day) basis for ETOs.

For example, if Client A initiated an Equities trade on Wednesday 1 April 2015, settlement would occur on Monday 6 April 2015. If Client B initiated an ETO trade on Wednesday 1 April 2015, settlement would occur on Thursday 2 April 2015.

3.2.2 Processes and Systems

When a client purchased or sold shares as part of the Equities product offering, a client claim would be created in the following circumstances (among others):

- Where the client had paid BBYL upfront into the Equities/ETO client trust account prior to the settlement of a share purchase. This obligation would be extinguished once the trade is settled; or
- Where the client had sold their shares on the ASX and the funds had been received from the ASX into the Equities/ETO client trust account. These funds would be held on trust until the internal BBY processes were undertaken to complete the transfer of funds back to the client (less any brokerage or fees); or
- Where the client had received dividends in respect of its share holdings that were paid directly to BBYL.

The Equities trust ledger was held within the GBST Shares system, which included a live feed from the ASX enabling live updates in relation to the market value of open positions. This ledger was updated on a daily basis following settlements each day.

When a client traded an ETO position, a client claim would be created in the following circumstances (among others):

- Where the ASX had returned client collateral in cash, which was then held by BBYL in the Equities/ETO client trust account. This collateral was held on trust until the internal BBYL processes were undertaken to complete the transfer of funds back to the client (less any brokerage or fees); or
- Where the client had paid BBYL the funds required by the ASX for a margin call but the funds had not yet been transferred to the ASX; or

- Where the client sought to open an option position and had transferred funds to BBYL to cover both the option and any margin requirements to be paid to the ASX.

Taking into consideration these instances of trust obligations as set out above, the BBYL Equities/ETO client trust account held:

- Funds that are in the process of being transferred to/from the ASX;
- Funds that are in the process of being transferred to clients' personal bank accounts; and/or
- Funds being held in the trust account for trading purposes.

The processes and systems used by BBYL each day in relation to ETOs and Equities are discussed below.

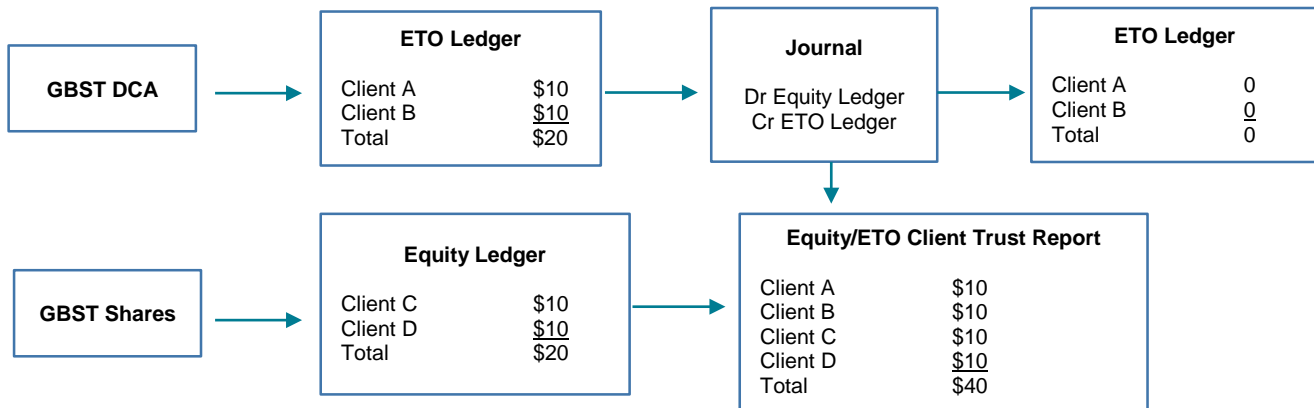
The ETO trust ledger is recorded by the GBST DCA system. A client trust report was run twice daily. The first report, known as the 'Start of Day Report', was automatically run at the end of the previous business day and was sent to the Operations Team the following morning. This report, exhibited at Confidential Exhibit 3, detailed on an individual client basis, ledger balances, representing the cash collateral held with the ASX on accounts of the BBYL clients; cash margin, which represents the cash margin requirements to meet the market, and the trust amount to be held by BBYL.

This was used to generate the 'Excess Shortage Report', which detailed each ETO client's trading positions for the day, collateral held by the ASX (stock and cash), any margin requirements for the day and a resultant cash excess or shortage balance to meet that margin. See Confidential Exhibit 4 for the Excess Shortage Report as at 15 May 2015. Where there was a cash shortage and client funds were required to be deposited, BBYL would make a payment to the ASX for the day to cover the clients' margin requirement and the client became a debtor to BBYL on the client trust ledger report. Alternatively, where there was cash excess balances, the ASX would return the cash collateral to BBYL and release any unutilised stock collateral, who held it on trust. ASX returns were accounted for in the client trust ledger report.

Settlement with the ASX for ETO was calculated on a net basis, that is, the margin call (or return) was calculated by the ASX based on the aggregate of all BBYL's ETO clients' with open options position.

At approximately 10:00am each morning an automatic journal was processed from the GBST DCA system to the GBST Shares system where the clients trust obligations were moved from the ETO ledger and recorded on the consolidated Equity and ETO Ledger. This closed the trust obligation on the ETO ledger, and all ETO trading accounts were closed out for the day and reduced to a nil balance upon the transfer to the consolidated Equity and ETO ledger

These processes are summarised in the diagram below:



The journal entry from GBST DCA to GBST Shares was processed as the GBST Shares system had the technical capacity to interact with the client's Cash Management Account (CMA). BBY had seven CMA arrangements with Commonwealth Bank, Macquarie Bank, Bankwest Australia, STG, ANZ, Bank of Queensland and Bendigo. Clients could establish CMAs held in their own name with any of these seven financial institutions and deposit or withdraw funds to facilitate their trading positions. BBYL had authority to draw upon and deposit funds into these client CMAs.

Within the GBST Shares system, there is an offsetting algorithm that completes a prioritised series of netting rules that offsets funds from Equity trading against the ETO derivative journal entry. The result is either a payable or receivable (debtors) client obligation within the trust ledger.

Payments to and from clients are processed by the BBYL Cashier team in relation to market transactions to/from the primary Equities/ETO Trust Account (AC 553452541) through one of three methods:

- Through the client's CMAs. The accumulated clients' CMA transactions are used to create a corresponding bank file to one of BBY's seven CMAs. These payment files were loaded to the STG Business Banking Online (BBO) portal where they were processed to/from the BBY Ltd Trust Account (AC 553452541); or

- Through direct debits or credits to and from the client's personal bank accounts if third party authority was signed; or
- If clients do not have an established CMA or third party authority signed, the client would be required to make manual payment from their personal accounts to the BBY Ltd Trust Account (AC 553452541). If funds were required to be returned to the client, BBYL would issue and send cheques to the clients using the NAB BBY Equities Trust Account (AC 124078694).

Should there remain client obligations following these processes, the debt management actions commenced.

Between 12:30pm and 2:00pm on each trading day, BBYL received facilitation funding from the STG General Account (AC 553452576) to support settlement and clearing requirements with the ASX.

3.2.3 Counterparties

BBYL only had one counterparty in relation to the Equities and ETOs product line being the ASX. In section 4.4 we report on funds held by the ASX as at the date of our appointment.

3.2.4 Trust Reconciliations

At approximately 3:30pm each trading day, an "End of Day Detailed Trust Position" report was generated from GBST Shares detailing both the Equities and ETO clients' closing trading positions (and corresponding obligation of BBYL to the client as discussed 3.2.2). This report was used to reconcile, on a daily basis, the clients' trust obligation with the funds held in the primary Equities/ETO client trust account (AC 553452541) at the close of business each trading day. Refer to Confidential Exhibit 5 for a copy of this client ledger as at 15 May 2015 and Confidential Exhibit 6 for a copy of an example ETO client statement and Exhibit 7 for an example Equities & ETO client statement of transaction and an example equity trade confirmation document.

This report is summarised in a "Trust Movements Report", detailing the cash balances available in the Equities/ETO trust account (AC 553452541) in comparison to the required balance, as dictated by the trust obligations in the "End of Day Detailed Trust Position" report. Refer to Appendix 19 for the Trust Movements Report as at 15 May 2015. This report shows that the Equity/ETO trust account required an additional \$300,161 of funding to meet its trust obligations at end of day. We note from our analysis of funds flow that BBYL when required would transfer funds from its STG FAC Account (AC 553453106) or General Account (AC 553452576) to ensure that the Equities/ETO trust account (AC 553452541) was holding sufficient monies on trust to meet its trust obligations at the close of business. Clients that were debtors to BBYL (where BBYL funded the client's trade) would be required to deposit funds into the Equities/ETO trust account in respect of the trade. Debtor receipts would be used to repay STG in respect of funding it had provided and/or BBYL where BBYL funded client trades.

In situations where the Equities/ETO trust account was holding more than the required trust obligation, BBYL internal policy was to "sweep" any excess funds to the BBY General Account (AC 553452576). This treatment of excess funds was to prevent "buffering", which was against the ASX Clear Operating Rules as set out in Guidance Note 12.

We were advised by former BBY employees, during our onsite investigations, that there were no historical issues with the reconciliation of this account. Further, the ASX also had oversight of the client trust account from early 2015, monitoring the trust position following their interim review in February 2015, and the trust reports generated from the GBST Shares system were vetted on a quarterly basis by the Operations Team to ensure accuracy.

Based on our understanding of the reconciliation process, we have devised the following formula to calculate the shortfall/surplus of client monies available to meet client trust obligations:

$$\text{Surplus/(Shortfall)} = \text{BBY Client Segregated Accounts} - \text{Client Claims} - \text{Unpresented Cheques}$$

Refer to section 4.2.1 for our analysis of the client monies shortfall/surplus as at 15 May 2015.

The above formula excludes the stock, cash and bank guarantee collateral held with the ASX. This is further discussed in section 4.3, in addition to the treatment of the ASX returned collateral.

3.3 Futures

3.3.1 Product Overview

Futures contracts are a type of derivative whereby a person agrees to buy or sell an underlying product or instrument at an agreed price, with the delivery of the underlying product or instrument to occur on some fixed date in the future. Futures contracts have set expiration dates, and cease to exist on expiry.

Futures contracts are highly leveraged, in that the full value of the contract is not initially received or paid. Rather, the cost of a futures contract will be a fraction of the price of the underlying product or instrument. Initial margin is applied to address the risk of adverse market movements, and profit or loss movements are processed to the margin account based on market fluctuations. This process is known as mark-to-market, whereby at the end of each trading day the futures contracts are revalued at their market value. In unfavourable circumstances, whereby a trade has incurred losses greater than its current value, brokers will make a margin

call to bring the account back to its initial position. When a margin call is made the individual who purchased the futures contract is required to deposit additional collateral.

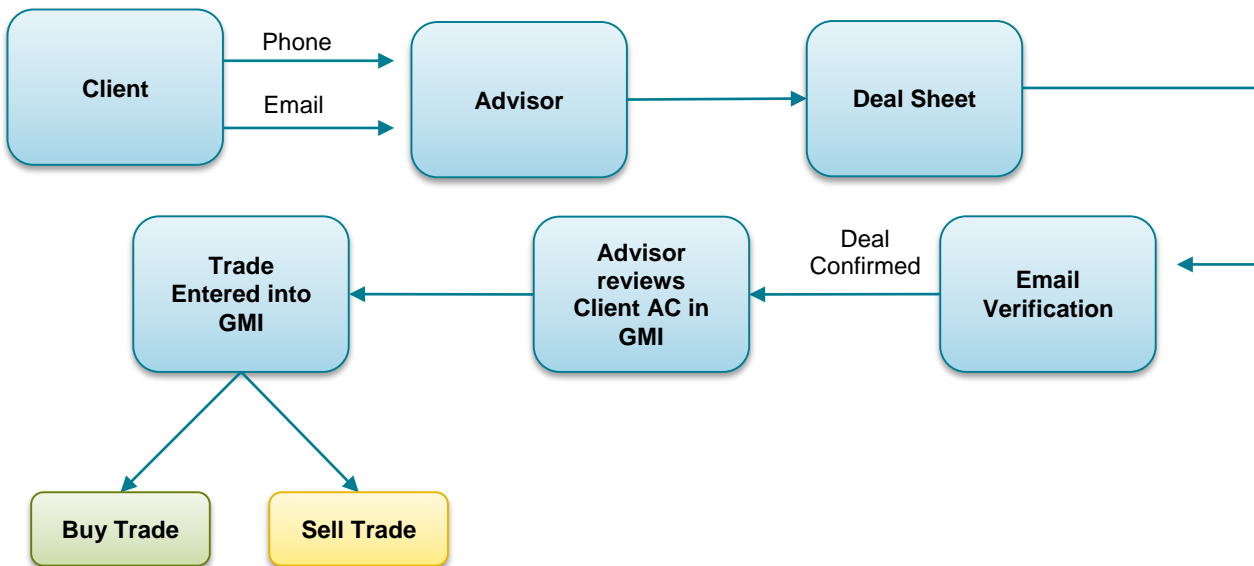
When a futures contract is entered into, brokers and their clients can either hold the positions until the maturity date or close the position any time prior to the maturity. In the latter scenario, positions can be closed by entering into an equal or opposite contract with the same maturity date. Profit or loss on close out is calculated based on the difference between the contract value at maturity and the initial contract price.

3.3.2 Processes and Systems

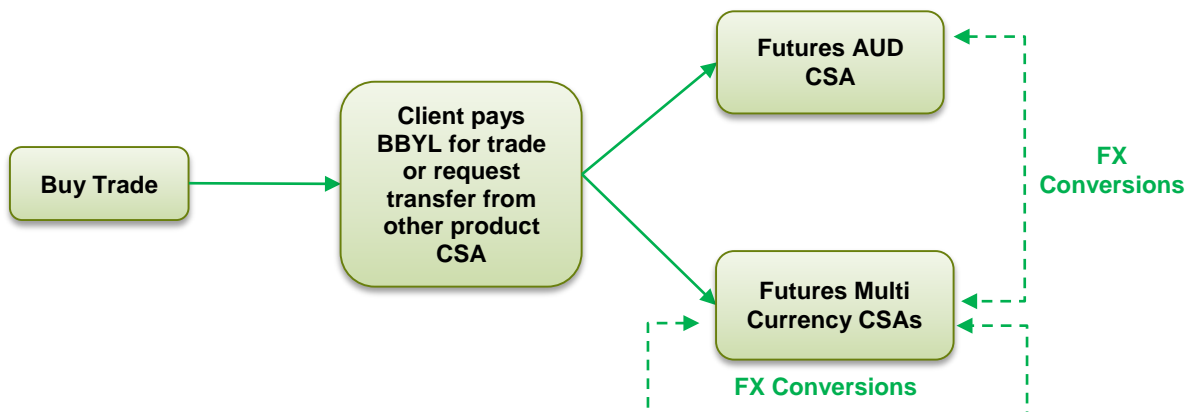
In our discussions with former BBY staff, we were informed that when a BBYL client wished to enter a futures contract, client instructions were received via phone or email. The client advisor would record the details into a 'Deal Sheet' and email the initial order request back to the client for verification. If there were any discrepancies with the order, the client would contact the advisor or the Futures Support team. No reply from the client was deemed as confirming the trade for execution. Once the deal was confirmed it was entered into the SunGard GMI system.

The SunGard GMI system was used by BBY to facilitate the monitoring and trading of futures contracts. Prior to executing the trade, the BBY advisor would review the margin requirements of the trade and compare this to the funds held in the client's account balance in SunGard GMI. This was to ensure that there was sufficient funds to facilitate the trade. If the client did not hold the required cash balances to facilitate the trade, they would be required to deposit funds into the Futures CSA. This is further discussed below.

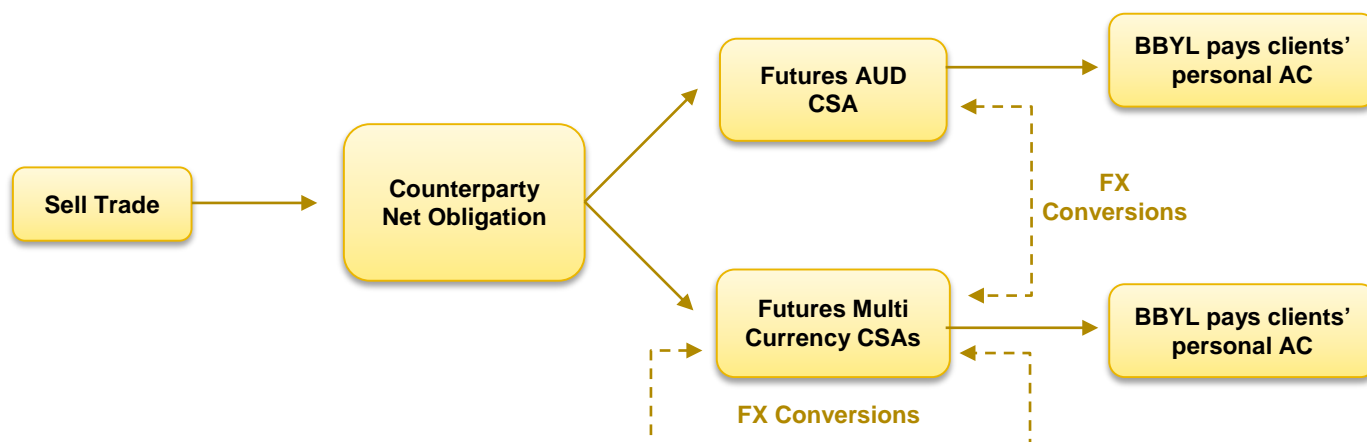
This process can be summarised as follows:



Clients who wished to buy Futures contracts, and did not already hold the required funds for the trade, deposited money from their personal bank account into either the Futures AUD CSA (AC 553619284) or one of the Futures' multi-currency CSAs. From time to time clients would also request funds be transferred from other product lines' CSAs to execute a Futures trade. Where required currency conversions would then be executed.



Alternatively, for clients who wished to sell their Futures contracts, following settlement of the sale funds may be received from the Futures counterparties (ABN and ADM – discussed in further detail in sections 3.3.3 and 4.4). These counterparty funds transfers were the net obligation of both buy and sell positions for the trading day. If the buy positions exceeded the sell positions for the day, no funds would be returned from the counterparties. However, if the sell positions exceeded the buy positions for the day, the counterparties would return funds to the Futures AUD CSA and/or the multi-currency CSAs, which would be used to return funds to clients.

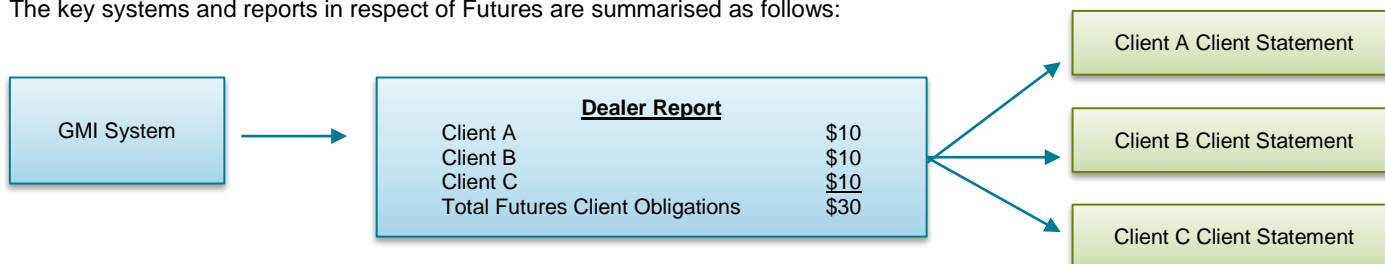


A daily 'Night' Dealer Report was generated from SunGard GMI, reporting on the value and margin calls of all futures contracts each business day (the "Futures Dealer Report"). This report detailed:

- The clients' carry forward account balances for each business day, representing of the available cash attributable to the clients' trading account;
- Any open trade equity movements, representing of any profit or loss movements on the futures contracts;
- The clients' net liquidation value of all future positions and cash holdings, representing the market value of all trading positions on the assumption that they are to be closed out as at the date of the report;
- The value of initial margin requirements on the clients' trades, and if required, any additional margin calls to be made.

The system generated report was used by BBYL to generate and distribute individual client statements. A copy of the Futures Dealer Report as at 15 May 2015 is included at Confidential Exhibit 8, and an example client statement is included at Confidential Exhibit 9.

The key systems and reports in respect of Futures are summarised as follows:



3.3.3 Counterparties

As at the date of our appointment as Administrators, two counterparties held BBYL client funds in respect of Futures – ABN Amro (**ABN**) and ADM Investor Services International (**ADM**). These counterparties acted as brokers and clearers for BBYL, with ABN acting as the clearer for institutional domestic futures contracts and ADM acting as the clearer for institutional international futures contracts. BBYL received daily statements from these counterparties, however based on discussions with former BBY employees, these were not utilised in any reconciliation process. In section 4.4 we report on funds held by these counterparties as at the date of our appointment.

3.3.4 Trust Reconciliation

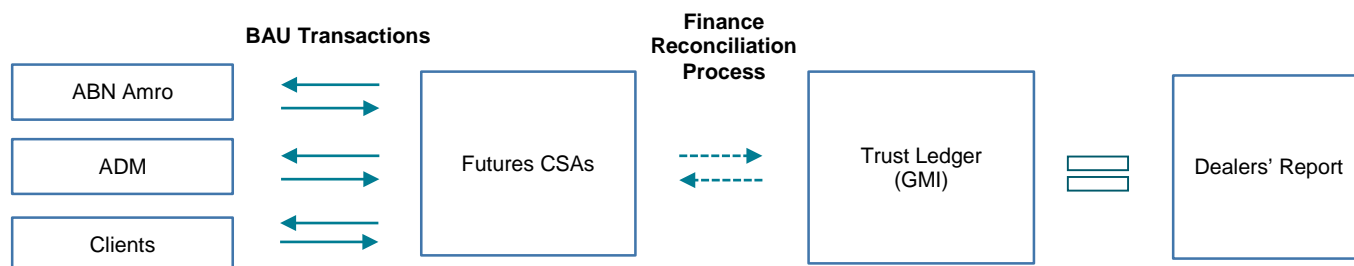
A daily trust reconciliation process was carried out by the Sydney Finance team using the following key sources of information relevant to the reconciliation process:

- The Trust Ledger report generated from the SunGard GMI system, showing the cash holding positions of the Futures CSAs; and
- Futures Client Trust bank accounts (CSAs).

When a client traded in Futures, funds were transferred from the client to the BBY Futures CSAs. On a daily basis, transactions to/from the CSAs were reconciled to a Futures Trust Ledger from the SunGard GMI system by the Finance team.

In the ordinary course of business, the only transactions that should have occurred in the Futures CSAs were: transactions between BBYL and its two counterparties, or the receipt or return of client funds to or from clients' personal bank accounts. These transactions should have reflected any open trade equity movements, margin call requirements, or the closing out of futures contracts' positions. Therefore, theoretically, the account balance of the Trust Ledger should mirror the Dealer Report as both reports essentially value the cash trust obligation in relation to Futures clients. Refer to Appendix 20 for the reconciliation performed by the Sydney Finance team over the AUD Futures CSA as at 15 May 2015.

On the assumption that this process was operating effectively, the process would have been as follows:



However, the Finance team's reconciliation process appears to have been structured purely to match bank transactions to journals posted into GMI as reflected on the Trust Ledger, and not to the total client liabilities detailed on the Futures Dealers Report. From discussions with former BBY staff, if there was a corresponding journal entry posted in GMI, the finance team would match this against the movement in the Futures CSA bank accounts, regardless of whether the transaction was business as usual (BAU) or not. This means that if any non-BAU funds transfers occurred in or out of the Futures CSAs, this would not appear as a reconciling item as long as there was a corresponding journal for the transfer in GMI. We were informed by former BBYL employees that we interviewed that members of the Finance team did not consider it to be their job to question the nature of any transactions and that they relied on the GMI entries being correct. We have verified the processes set out in this paragraph by tracing the reconciliation treatment of a non-BAU transaction that occurred in June 2014 in section 6.8.9.

For example, if a BAU transfer from the Futures CSA was made to Client A following a closed out position, this would be reflected on the Dealer's Report, reducing the client's trust entitlement. Similarly, this would also be reflected on the Trust Ledger. As this transfer from the CSA is client related, this reconciliation process between the Trust Ledger and the CSA would operate effectively. However, if a non-BAU transfer from the Futures CSA was made, this transaction would be reflected on the Trust Ledger, however, as the transfer did not relate to any client trading activity, the Dealer's Report would not be altered, creating a mismatch between the dealer report and the trust ledger.

It would therefore appear that, the Trust Ledger reconciliation is effectively a bank reconciliation and not a client trust obligation reconciliation. The only reconciling items that the Finance team would encounter were those in relation to cash transaction timing issues:

- Journals posted without a corresponding bank deposit or withdrawal made yet; and
- Deposits or withdrawals without the corresponding journal posting.

Whilst onsite at the BBYL offices during our initial investigations, we spoke to the Sydney Finance team, the Futures dealers and staff from the Futures Support Desk to gain an understanding as to each of these parties' knowledge around the reconciliation process. These discussions revealed that the Finance team were unaware of the existence of the Futures Dealer's Report, and similarly, the Futures dealers and the futures support desk were unaware of the trust ledger being used by the Finance team for reconciliation purposes. These parties were under the impression that they were all utilising the same report to view their client's trading positions and reconcile to the CSAs, which does not appear to be the case.

The lack of internal controls and processes likely resulted in a failure to recognise a number of payments that were not reflected in the Dealer Report (i.e. non-BAU transactions) discovered during our investigations. These transactions were not addressed nor reconciled resulting in a mismatch between the Trust Ledger and the Dealer Report.

See below for a diagrammatic representation of the issue with the reconciliation process, using balances as at our appointment date:



As a result of the above, we have been unable to rely on the futures reconciliations or the Trust Ledger reports for our investigation/analysis. The Futures Dealer Reports is the most accurate representation of client entitlements and has been used for our analysis. This is further discussed in section 4.2.2.

Based on our understanding of the reconciliation process, we have devised the following formula to calculate the shortfall/surplus of client monies available to meet client trust obligations:

$$\text{Surplus/ (Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Refer to section 4.3 for our analysis of the client monies shortfall/surplus as at 15 May 2015.

3.4 Foreign Exchange (FX)

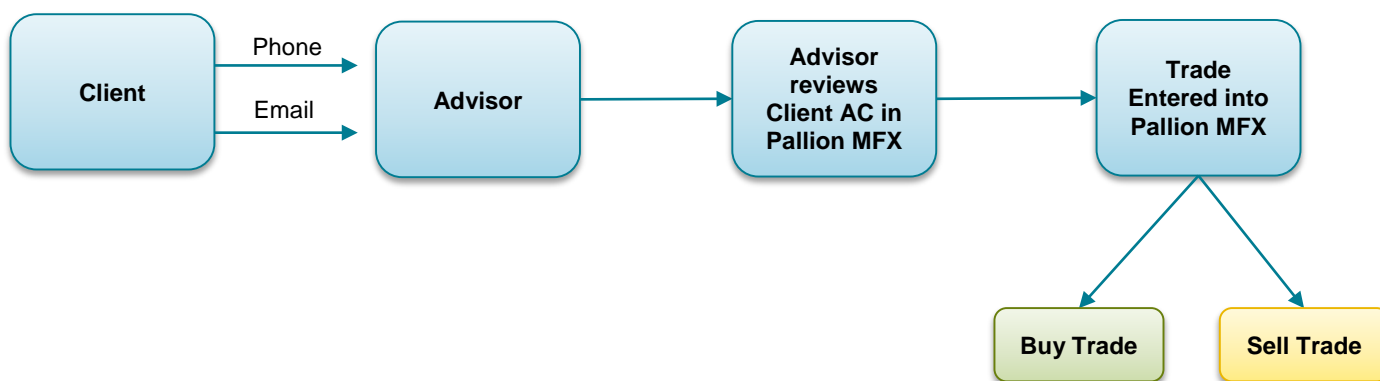
3.4.1 Product Overview

BBYL offered two types of Foreign Exchange (FX) products:

- Margin FX (facilitated through Saxo, IB, CMC and Halifax), which allowed BBYL clients to take a leveraged position on FX movements; and
- Physical FX (facilitated through STG and NAB), which involved the physical delivery of a currency to a specified bank account.

3.4.2 Processes and Systems

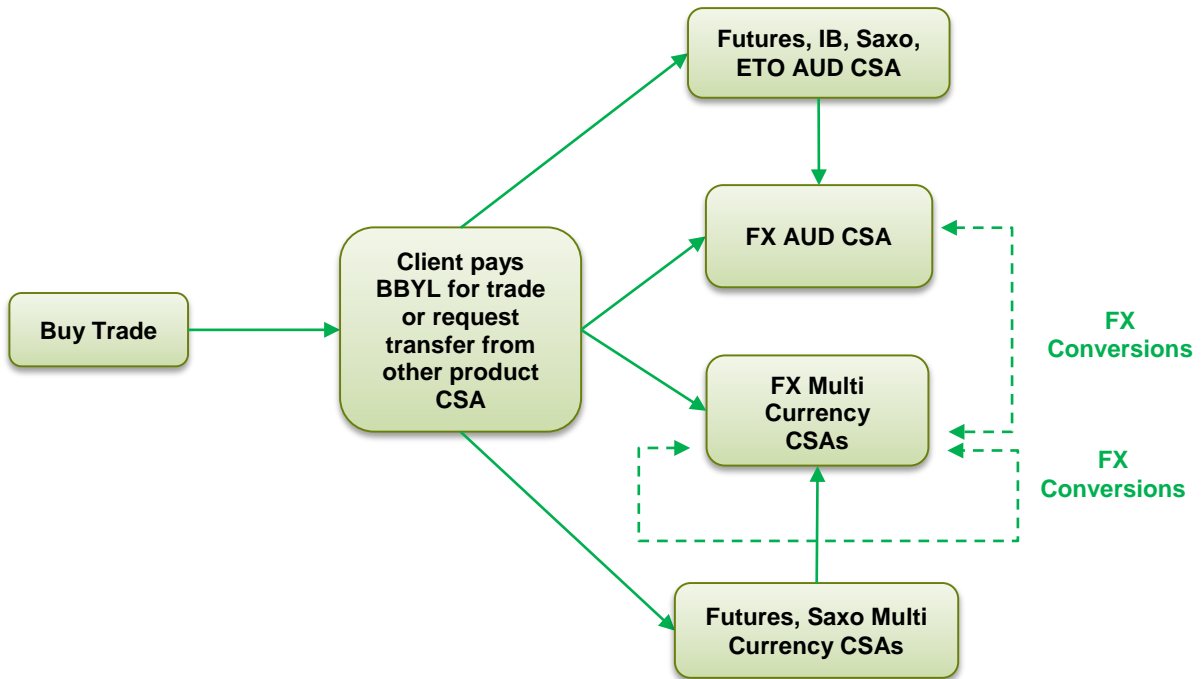
According to BBYL's internal procedures document, prior to executing an FX trade (both Margin and Physical FX), the client advisor would check the margin requirement against the client's account balance in Pallion to ensure that there were sufficient funds in the client account to execute the trade.



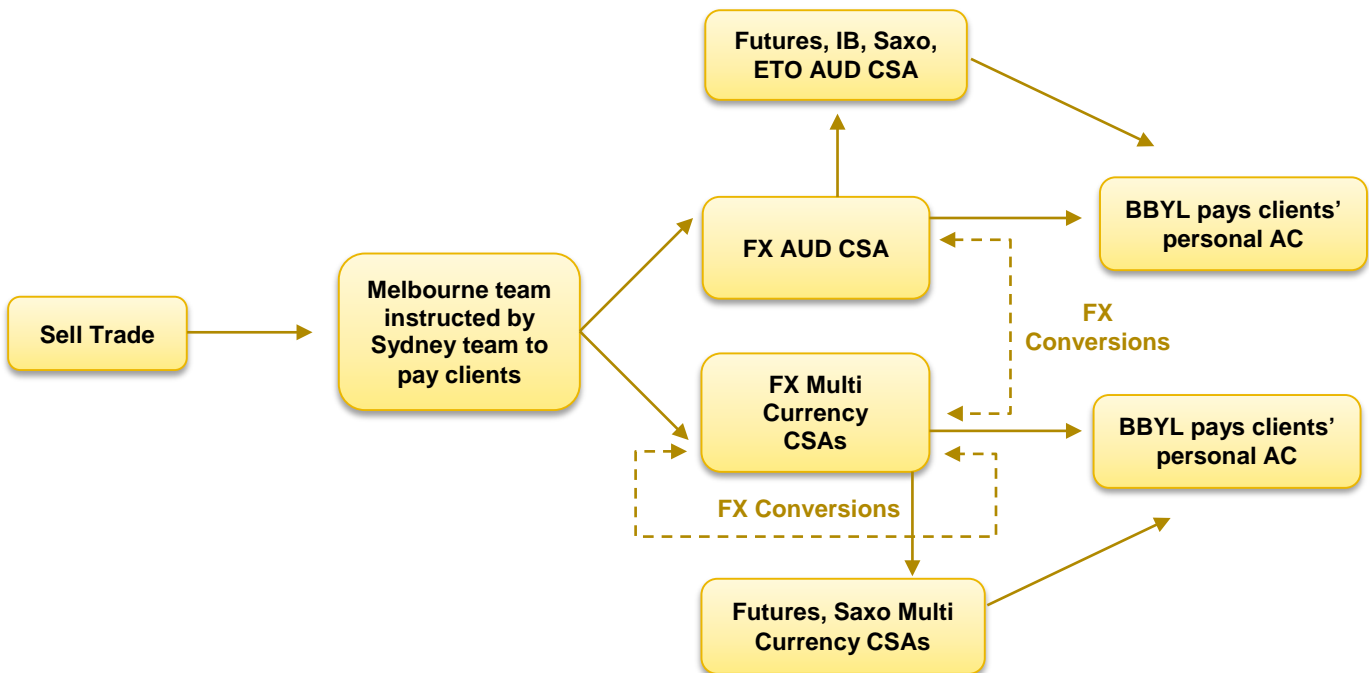
Based on our forensic tracing of funds flows, clients who wished to buy foreign currencies deposited funds in one of the below methods:

- Australian Dollars deposited from the clients' personal bank account to the FX CSA, which would be converted to another currency through the FX multi-currency CSAs (as required); or
- Australian Dollars deposited from the clients' personal account to another products' AUD CSA to be transferred to the FX CSA, which would be converted to another currency through the FX multi-currency CSAs (as required); or
- Australian Dollars are currently held in the clients' trading account within another product category (and hence in another products' CSA), to be transferred to the FX CSA, which would be converted to another currency through the FX multi-currency CSAs (as required); or
- Foreign currency deposited from the clients' personal bank account to the corresponding currency's FX CSA, which would be converted to another currency through the FX multi-currency CSAs (as required); or
- Foreign currency deposited from the clients' personal account to the corresponding currency account of another products' CSA, which would be converted to another currency through the FX multi-currency CSAs (as required); or
- Foreign currency currently held in the clients' trading account within another product line (and hence in another products' CSA), to be transferred to the FX CSA, which would be converted to another currency through the FX multi-currency CSA (as required).

These processes can be summarised as below:



Alternatively, clients who sold foreign currencies and wished to be paid in Australian Dollars would have their trades facilitated through the multi-currency FX CSAs which would undertake foreign currency conversions and transfer the Australian Dollar equivalent to the FX Australian Dollars CSA. This CSA would then be used to transfer the funds to the clients' personal bank account. Clients who sold foreign currencies and wished to be paid in another foreign currency would also have their trades facilitated through the multi-currency CSAs, with their funds being transferred from the relevant currency's FX CSA. Clients also had the option of depositing their funds from the sale of foreign currencies into another products' trading account (both Australian Dollars and foreign currencies).



For Margin FX, SCMA would issue an overnight report which detailed each trade placed for the day. Client advisors were also able to access the Saxo online platform in real time to monitor trade details.

For Physical FX, STG and NAB sent daily reports to BBYL showing the trading that occurred that day. As with Margin FX, advisors were also able to access the St. George and NAB online platform to monitor trades. On a daily basis, individual client statements were distributed to each client detailing all the individual contract notes created for that day.

BBYL settled all margin requirements with Saxo on a daily basis. BBYL was issued a net settlement report each day showing the net margin requirements due from/to BBYL for each currency. After a payment was received or made, the STG CSAs were reconciled to Pallion MFX each day by the Finance team.

3.4.3 Counterparties

As at the date of the Administrator’s appointment, there was one counterparty that held client funds in relation to the FX product – Halifax, who facilitated the trade of foreign currencies in foreign jurisdictions. In section 4.4 we report on counterparty funds.

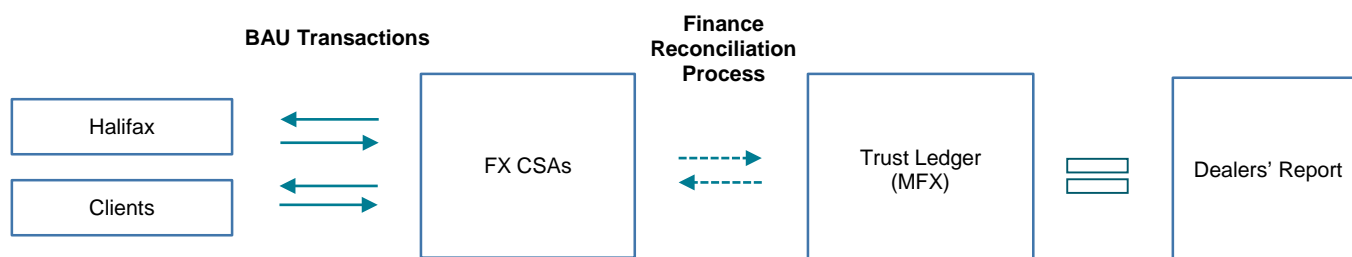
3.4.4 Trust Reconciliations

There was a daily trust reconciliation process carried out by the Sydney Finance team. The following key sources of information were relevant to the reconciliation process:

- The Trust Ledger from the Pallion MFX system; and
- FX Client Trust bank accounts (CSAs).

When a client traded in FX, funds were transferred from the client to the BBYL FX CSAs. On a daily basis the CSAs were reconciled to an FX Trust Ledger, generated from the Pallion MFX system. The FX Trust Ledger reported all the transactions posted to Pallion MFX in relation to clients’ FX trade positions. In the normal course of business, the only transactions that should have been made impacting the FX CSA’s were transactions between BBYL and the one counterparty, or payments to/from FX clients. These transactions should have been representative of any open trade movements, margin call requirements, or the closing out of FX contracts’ positions. Therefore, the Account Balance of the Trust Ledger should mirror the Dealer Report as both reports are essentially valuing all client trading positions. Refer to Appendix 21 for the reconciliation performed by the Sydney Finance team over the AUD FX CSAs as at 15 May 2015.

On the assumption that this process was operating effectively, the process would have been as follows:

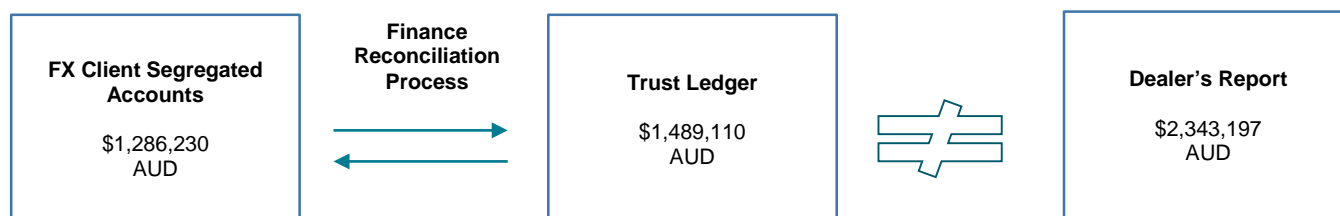


However, the Finance team’s reconciliation process appears to have been structured purely to match bank transactions to journals posted into MFX as reflected in the Trust Ledger and not to the total client liabilities detailed on the FX Dealer Report. If there was a corresponding journal entry posted in Pallion MFX, the finance team would match this against the movement in the FX CSA bank accounts, regardless of whether the transaction was BAU or not. This means that if any non-BAU funds transfers occurred in or out of the FX CSAs, this would not appear as a reconciling item as long as there was a corresponding journal for the transfer in Pallion MFX. We are advised that the Finance team did not regard it as their job to question the nature of any transactions and that the Finance team relied on the MFX entries being correct.

It would therefore appear that the Trust Ledger reconciliation is effectively a bank reconciliation and not a client trust obligation reconciliation.

The shortfall of client monies on trust can partially be attributed to this deficient trust reconciliation process. The lack of internal controls and process resulted in a failure to recognise a number of payments that were not reflected in the dealer report (i.e. non-BAU transactions) discovered as part of our investigations. These transactions were not addressed nor reconciled resulting in a mismatch between the Trust Ledger and the dealer report.

See below for a diagrammatic representation of the reconciliation process, using balances as at our appointment date:



As a result of the above, we have been unable to rely on the FX reconciliations or the Trust Ledger reports for our investigation/analysis. Rather, the FX Dealer Report is the most accurate representation of client entitlements. This Dealer Report was used to generate and distribute individual client statements at the end of each trading day. On this basis, BBYL would be informed on a timely basis by clients if any trading positions were incorrectly stated. Further, we were advised by former BBY employees that the “Overall Balance” on the Dealer Report is representative of the correct client entitlements.

A copy of the FX Dealer Report as at 15 May 2015 is included at Confidential Exhibit 10 and an example FX client statement is also included at Confidential Exhibit 11.

Based on our understanding of the reconciliation process, we have devised the following formula to calculate the shortfall/surplus of client monies available to meet client trust obligations:

$$\text{Surplus/ (Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Refer to section 4.3 for our analysis of the client monies shortfall/surplus as at 15 May 2015.

3.5 Saxo

3.5.1 Product Overview

Saxo Capital Market Australia (**SCMA**) is an international online trading platform facilitating trades in relation to FX, CFDs, stocks, futures and other derivatives. Transfers to and from the platform were facilitated through the Saxo CSAs. The relationship between BBYL and SCMA can be summarised as follows, this is discussed in further detail in sections 3.5.2 to 3.5.4:

Date	Event	Letters and Agreements
21 June 2012	BBYL signed an Institutional Trading Agreement and White Label Trading System Agreement with SCMA	Institutional Trading Agreement at Appendix 22 and White Label Trading System Agreement at Appendix 23
December 2013	SCMA requested that it hold all Saxo client monies, requiring BBYL to transfer client monies to Saxo	Amendment to Institutional Trading Agreement at Confidential Exhibit 111
1 December 2014	Deadline for BBYL to transfer all Saxo client monies to SCMA, which was not met	SCMA Letter to Arun Maharaj at Appendix 25
1 December 2014	Trading Agreements between BBYL and SCMA terminated	SCMA Letter of Termination at Appendix 26
1 April 2015	Saxo termination effective	SCMA Letter of Agreement at Appendix 27

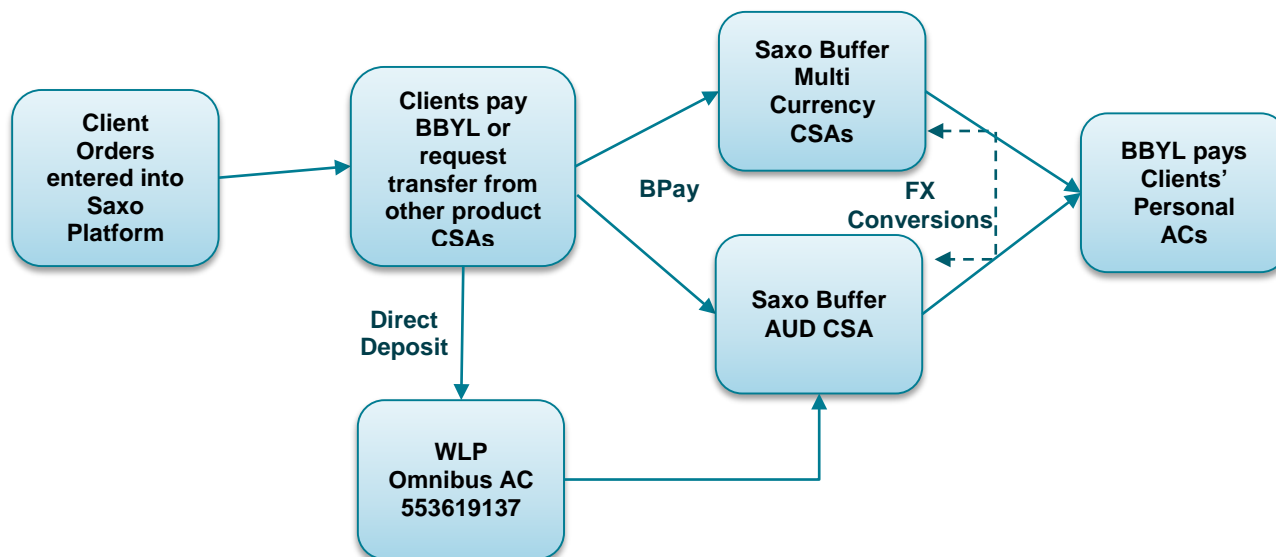
3.5.2 Processes and Systems

BBYL entered into a White Label Arrangement with SCMA in June 2012, whereby Saxo's online platform facilitated transactions and trades on behalf of individual BBYL clients. In dealing with SCMA, BBYL set up individual subaccounts in the name of each client. SCMA had visibility over the subaccounts but did not have any relationships or interactions with the clients. Saxo treated BBYL's account as an omnibus and offset individual subaccounts to reach a net position in BBYL's name. Saxo did not accept instructions from any other party but BBYL.

eBridge Online Trading was the online trading platform provided by Saxo which enabled BBYL clients to have online access to their own trading accounts. Access to these accounts was set up by the BBY Operations Team who collated the necessary details, documentation and identification checks to set up on BBY's SAP accounting system which was linked to the Saxo platform.

Clients would deposit funds via BPay or direct deposit into BBY's Saxo Trust Account. The funds were placed into the client's trading account on the eBridge online platform by BBYL's Clearing and Settlements team, with an email sent to the client. eBridge allowed clients to log on and place trades themselves and view a full account history including trade volume, price and any commissions charged. The platform prevented clients from entering new trades when the margin requirement exceeded 85% and where the clients' margin requirement exceeded 150% the account was automatically stopped. However, as noted above, due to the nature of the White Label Arrangement, Saxo at all times regarded BBYL as its only client.

This process can be summarised as below:



The WLP Omnibus account (AC 553619137), which received direct deposits from Saxo clients, was also utilised by IB clients who deposited funds into that account before being transferred to the IB CSA. As at 15 May 2015, this account contained \$1,218 of funds. This is further discussed in section 6.2.7.

From our review of the bank statements, the Saxo Buffer AUD account (A/C 553619356) appears to be the main Saxo bank account. The activity within this accounts appears to relate to direct and bulk client deposits/payments, and transactions to/from SCMA.

SCMA were responsible for all clearing activities on client accounts. However, BBYL advisors were able to monitor the client activity log and trading stations. From our review of internal process document, the online Saxo platform interfaced with SAP daily, with a Financial Accountant checking this interface process to ensure no system errors have occurred. Following this, a daily journal was automatically loaded to reflect the trading and cash positions from eBridge to SAP.

In late 2013, Saxo requested that it hold client monies for white label partners such as BBYL in order to manage risk. As a result, BBY was required to transfer all Saxo related client monies to Saxo by the end of 2014. Due to the failure of BBYL to satisfy this requirement, in December 2014, the trading agreement between BBYL and Saxo was terminated. In February 2015, BBYL gave notice to its client base that all arrangements with Saxo would be terminated on 1 April 2015.

Whilst the termination was effective as at 1 April 2015, BBY accounts were placed on a “reduce only” status as of 17 February 2015, which allowed for positions to be closed, but no new positions could be opened and no new accounts could be created. Clients had the option to transfer their Saxo funds to another BBY account to trade other products or to withdraw their funds to their external bank accounts with 10 business days' processing time. Margin FX products were not transferrable as they would no longer be offered as a product by BBYL and positions were required to be closed out.

3.5.3 Counterparties

From 1 April 2014, Saxo Capital Markets began holding client monies in trust as BBYL's counterparty. The net balance of all client deposits less withdrawals plus any movements on house accounts were settled with Saxo on a weekly basis. Refer to section 4.4 for further discussion in relation to counterparty funds.

3.5.4 Trust Reconciliations

In the normal course of business, the Finance team performed daily reconciliations of client monies held in the BBYL Saxo CSAs and the client ledgers held on SAP. The Saxo CSAs should only hold intermediary funds that are in the process of being transferred to/from the Saxo online platform, or are in the process of being transferred to/from clients' third party personal bank accounts.

Separate to the above trust reconciliation process performed by the Finance team, BBYL also received at the close of business each trading day from SCMA a '1:1 Funding Report', which detailed the funds held on the Saxo platform in both client trading accounts and BBYL house accounts, for monitoring purposes. A copy of the 1:1 Funding Report as at 15 May 2015 is included at Appendix 28.

As the Saxo relationship was terminated in 2015, there was a daily flow of client monies from SCMA back to BBYL for the distribution back to clients. These funds should have flowed through BBYL's Saxo CSAs and been remitted to clients within 10 business days. At the time of our appointment, the Finance trust reconciliation process was undertaken on a daily basis in an attempt to reconcile, and track, the distributions back to client accounts. However, it appears that there were over \$30 million in unreconciled Saxo transactions relating to the return of client funds. There were significant payments made by BBYL to return client monies that were not processed into the corresponding client ledger, resulting in reconciliation differences. The Finance team were under instructions to process payments and to process the journal entries afterwards. Refer to Appendix 29 for the Saxo AUD reconciliation as at 15 May 2015, showing these unreconciled differences.

From discussions with former BBYL staff, we are advised that the Finance team was understaffed and unable to deal with the significant volume of transactions in respect of the Saxo close out. The funds flows that we have identified in respect of the SAXO termination are discussed further in section 6.9.

As such, it is not appropriate to rely on this unreconciled ledger as the basis of our calculation of Saxo client claims. Rather, we have a file titled 'Outstanding Clients Accounts' manually maintained by the Strategy Team to calculate the client claims. In the absence of a system generated report, and our inability to rely on the reports used by the Finance team for reconciliation purposes, we note that this "Outstanding Client Accounts" file is the most appropriate report to detail the Saxo client entitlements. This file is further discussed in section 4.2.4.

Based on these discussions and our understanding of the Saxo relationship, KPMG have devised the following formula to calculate the shortfall/surplus of client monies available to meet client trust obligations:

$$\text{Surplus/ (Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Refer to section 4.2.4 for our analysis of the client monies shortfall/surplus as at 15 May 2015.

3.6 Interactive Brokers

3.6.1 Product Overview

IB acted as an online trading platform for clients of BBYL, similar to Saxo. This platform allowed clients to trade stocks, options, FX and futures. Transfers of funds to/from the platform were facilitated through the IB CSAs, and the WLP Omnibus AC which was shared with Saxo (as discussed in section 3.5.4 above).

3.6.2 Processes and Systems

BBYL held two master application accounts with IB – 'BBY Online Professional Omnibus' and 'Spectrum Live Omnibus', and these accounts held a number of sub-accounts in individual clients' names for administrative and segregation purposes. However, BBYL's agreement with IB was in the form of a non-disclosure structure. IB had visibility over these individual client sub-accounts, but no relationship or contact directly with BBY clients. IB treated BBYL's accounts as an omnibus. This omnibus structure meant that all clients' subaccount balances and trading activities could be disaggregated by BBYL, however, IB viewed all transactions collectively and were combined in the name of BBYL as the clients' broker.

BBYL had a White Label Agreement with IB, which allowed both clients and BBY advisors to log onto their accounts and place trades, view trading history and generate reports (including client statements).

When a client wished to trade on the IB platform, the client funds were transferred to BBYL's WLP Omnibus Account (A/C 553619137). These funds were then reflected on the client's ledger account within the IB platform.

Where a client wished to receive a return of funds, the client subaccount is credited and IB would make a payment back into the IB/Saxo Omnibus Trust Accounts (A/C 553619137). Following receipt of funds the advisor would send a request to the Cashiering team (located in Melbourne) who would prepare and authorise a payment to the client's nominated account.

3.6.3 Counterparties

IB held client monies in trust as BBYL's counterparty.

3.6.4 Trust Reconciliations

The IB general ledger, which the Finance team was reconciling to the IB CSAs, did not report individual client trading positions. Rather, it reported the cash movements that had been processed with a corresponding journal posting. This was matched, or "reconciled", to any transactions in the IB CSA. It would therefore appear that, the Trust Ledger reconciliation is effectively a bank reconciliation and not a client trust obligation reconciliation.

We note from our investigations that BBYL's records in respect of the IB product line is limited and it did not maintain a client trust ledger that it used to reconcile to the relevant CSAs.

3.7 Carbon Trading

BBYL offered a carbon trading service for the sale and purchase of carbon credits between willing and able participants. We note that carbon credits are tradable units that are earned through emission reduction and sequestration activities.

There have been only a small number of trades executed in respect of carbon trading and that this was a very minor business for BBYL. We note from our investigations that the Carbon CSA has had no activity within the six months prior to our appointment as Administrators.

4. Client monies

4.1 Client monies introduction

Our client monies analysis in section 4 considers the effect of the below accounts (both ledger accounts and bank accounts) on determining any shortfalls or surpluses, and ultimately the estimated distribution outcome in various scenarios:

- CSAs
- Client Ledger Accounts
- House Ledger Accounts
- House Bank Accounts
- Other Trust Bank Accounts

4.1.1 CSAs

To facilitate clients' trading across the various product lines, any client funds held with BBYL were required to be held in CSAs. We categorised all the BBYL CSAs into one of the following product lines, and on this basis, we have factored the CSA balances as at 15 May 2015 into our client monies analysis to determine the shortfall or surplus across each of the product lines.

Sections 981A and 981B of the Corporations Act 2001 state that any monies received by an AFSL holder such as BBYL must be placed into an account of the kind prescribed by s.981B of the Act and the Corporations Regulations, and designated as an account for the purposes of s.981B. We describe such accounts in this report as a CSA. Associated provisions provide that money held in a CSA is to be held by the AFSL holder on trust for clients and the money may only be paid out of a CSA in certain specified circumstances, for example to execute trades on behalf of a client or to pay monies back to clients.

The Act does not require that there be a separate CSA for each individual client. Rather, AFSL holders such as BBYL commonly operate CSAs, into which money of a number of clients is deposited into one bank account.

4.1.2 Client ledger accounts

As discussed in section 3 above, there are a number of client ledger reports that we have used as the basis of our calculation of client claims. We have assessed these client ledger reports to be the most accurate source reporting on client claims per section 3, and we have applied a number of assumptions to these reports (e.g. excluding or including debtor balances) to conclude on a client claims figure for each product line. These client ledger reports vary across the product lines and are summarised as below (discussed in further detail in section 4.2):

Product	Client Ledger Report	Source
Equities/ETO	Equities and ETO Trust Ledger	GBST
Futures	Dealer Report	GMI
FX	Dealer Report	MFX
Saxo	'Outstanding Clients Account' File	Strategy Team
IB	Client Summary Reports	IB

These client ledger reports detail the below information in relation to each client's trading ledger account:

- The account balances associated with each client trading account, representative of the cash in CSAs or counterparties attributable to that particular client for trading purposes; and
- The NLV (or equivalent) represents the market value of the clients' trading account on the assumption that all positions would be liquidated as at the date of the report.

4.1.3 House ledger accounts

House ledger accounts refer to those accounts on the client ledger reports held in the names of BBYL, BBY Companies, BBY related parties (outlined in Appendix 43) or suspense accounts (e.g. errors accounts or bad debt provision accounts). The reports we have utilised as the basis of our client claims calculations in section 4.2 contain a number of these House ledger accounts that we have classified based on the nature of its utilisation through discussions with former BBY employees in the Finance team and Advisor team. However, these discussions have revealed that there is much ambiguity and uncertainty as to whether these house ledger accounts contained client trading positions and accounts. As a result we have included and/or excluded house accounts in our calculation of client claims depending on our knowledge of the product and ledger reports. See Appendix 30 for a listing of the

accounts we consider to be house accounts in our calculation of client claims. Further, the rationale for our inclusion or exclusion of these accounts from our client claims calculation have been discussed further in section 4.2.

4.1.4 House bank accounts

BBYL also held a number of 'House' bank accounts with NAB and STG, which remain segregated from the CSAs. The NAB House bank accounts were primarily used by the BBYL Sydney Finance team for intercompany transactions, operational payments and to bring in revenues from product sales. The STG House bank accounts were primarily used by the Equities/ETO Clearing team in Melbourne and the Strategy team in Sydney. Our investigations have indicated that these accounts were used to pay and receive margin requirements to/from the ASX, hold surplus Equities/ETO funds and provide funding to the primary Equities/ETO CSA (AC 553452541).

These house bank accounts must be distinguished from the House ledger accounts as discussed in 4.1.3 above. We have not factored in these House bank accounts to our client monies analysis below as STG holds a security interest which attaches to all the present and after-acquired property of BBYL. On 18 May 2015, STG enforced its security interest by appointing Receivers to BBYL. Accordingly, all present and after-acquired property of BBYL has from 18 May 2015 onwards been in the possession of the Receivers. Given this, we have not purported to deal with property which is in the possession of the Receivers and will not do so during their appointment.

4.1.5 Other trust bank accounts

As part of our client monies analysis and distribution estimations, we have considered an additional nine bank accounts held with STG and NAB, with a balance of approximately \$134,536 as at our appointment date. Our investigations have revealed that these bank accounts do not appear to have been used as a CSA for a specific product line but were used to facilitate specific client placements and as intermediary accounts. The nature of these accounts are further discussed in section 6.2.3. For the purposes of our client monies analysis, we have considered the funds in these other trust accounts as potentially available cash for distribution to clients with claims against the CSAs.

4.2 Client claims for the purpose of this report

On our appointment, we reviewed the trust reconciliation process that was undertaken in the ordinary course by BBYL and noted that there were deficiencies that raised concerns with the accounting for client claims.

These deficiencies varied across the product lines include (but are not limited to):

- The correct client entitlement reports not being reconciled on a daily basis;
- Reconciliation items were not followed-up on a regular basis resulting in a build-up of unreconciled items dating back as far as 2011; and
- High staff turnover within the Finance department of BBYL resulting in a lack of experience in understanding and dealing with the reconciliation process.

As noted above, the reconciliation of the Equities and ETO product lines, undertaken by the Operations Team in Melbourne, were more comprehensive. However, in respect of the other product lines, we have concluded that the accounting records (namely, the trust account ledger records) used to conduct the trust account reconciliation by the Finance team were inaccurate. Outlined below in sections 4.2.1 to 4.2.6 is the process we have undertaken to calculate the surplus/shortfall position at the appointment date in respect of each product line.

We have summarised the assumptions applied in the calculation of client claims across the product lines in relation to debtor balances and house accounts as below.

We have excluded all debtor balances across all the product lines in our calculation of client claims. That is, all client balances that are in debit on the respective trust ledger reports have been excluded as the collectability of these debt balances are uncertain and would artificially reduce the total client claim.

The below table summarises whether we have included or excluded House accounts from the calculation of client claims. For further rationale and the values of these assumptions, please refer to the respective product sections in 4.2.

BBY Limited – Assumptions in calculating Client Claims						
	Equities/ETO	Futures	FX	Saxo	IB	Carbon
House Accounts	Included	Excluded	Excluded	n/a	Depending on Scenario	n/a

Please note that each product line contains funds and trust obligations across multiple currencies, which we have converted to Australian Dollars for our client monies analysis as at the below dates:

- Client Claims: automatically converted by the respective proprietary system as at the date of this report;

- CSA balances: spot rate as at 17 May 2015; and
- Counterparty funds: spot rate as at the date of counterparty confirmation as outlined in section 4.3.

Within each product section below, we have detailed Appendices and Confidential Exhibits providing for balance breakdowns in domestic currencies and conversion rates used.

Further, we have also performed an analysis over the client claims across the product lines and note that there are a number of client claims with values below \$25 and below \$100:

Product		No. of Clients with Claims < \$25	No. of Clients with Claims < \$100
Equities and ETOs		145	385
Futures		175	438
Foreign Exchange (FX)		348	461
SAXO Capital Markets (SAXO)	Online trading platform	442	897
Interactive Brokers	Online trading platform	206	282
Other (Carbon Trading)		Unknown	Unknown

4.2.1 Equity / ETO

As discussed in section 3.2, we note that at the time of our appointment, the Equity/ETO trust reconciliation process appeared to be operating effectively, with no historical issues. We have applied the following formula to calculate the Equities/ETO surplus/shortfall position:

$$\text{Surplus/(Shortfall)} = \text{BBY Client Segregated Accounts} - \text{Client Claims} - \text{Unpresented Cheques listing}$$

Based on this formula, we have performed the following reconciliation, which indicates that there was an approximate \$0.961 million surplus client monies to meet the client obligations as at 18 May 2015 relating to equity clients:

BBY Limited – Equity/ETO Surplus/(Shortfall) Calculation			
	Equity	ETO	Source
Client Cash Claims as at 18 May 2015	(6,193,588)	(345,103)	Equity/ETO Trust Ledger
Unpresented Cheques as at 18 May 2015	(991,011)	-	NAB Bank Statement
Total client claims	(7,184,599)	(345,103)	
BBY Segregated Accounts as at 17 May 2015	8,408,343	345,103	STG Bank Statements
less: Receivers' Claim on Debtors collected	(263,092)	-	
Surplus/(Shortfall)	960,652	-	

We have applied the following assumptions in respect of the client claims calculation above:

- The value of any open Equity and ETO positions and collateral held with the ASX as at 15 May 2015 have been excluded (this is discussed further in section 4.4);
- \$7.061 million of debtors have been excluded (including house accounts); and
- 8 house accounts totalling \$0.952 million have been included.

These debtors and house accounts are discussed in further detail below.

We have utilised the Equity/ETO trust ledger report as at 18 May 2015 and not as at 15 May 2015, as the Receivers settled with the ASX on 18 May 2015 (in respect of Equity and ETO) that had an impact on the client trust obligation on that day.

Client Claims

Although we have excluded debtors from our client claims calculation above, we note that there are clients with both debit and credit trading positions, which are netted to an overall position. Those with an overall credit position in their Equity/ETO trading account have been incorporated in our client claims calculation above. However, those with an overall debit position in their Equity/ETO trading account are considered to be a debtor of BBYL and have been excluded from the total client claims. The exclusion of these debtor balances is consistent with BBYL's treatment of the Equities and ETO End of Day Detailed Trust Report.

BBYL utilised the "Provision Req" column of this Trust Report, which excluded debtor balances, to calculate the Equities and ETO trust obligation as at the close of business each trading day to meet the ASX requirements of funds required to be held on trust. On this basis, we concluded that it was appropriate to exclude the debtor balances from our client claims calculation. Refer to Confidential Exhibit 5 for the Equity and ETO End of Day Detailed Trust Report as at close of business 18 May 2015.

For example:

- If Client A had a \$10 debit position and a \$20 credit position, their net position in this scenario is \$10 credit and would be incorporated in the client claims calculation (i.e. BBYL would have a trust obligation to Client A);
- If Client B had a \$20 debit position and \$10 credit position, their net position in this scenario is \$10 debit, establishing Client B as a debtor of BBYL. As such, this \$10 debt would not be incorporated into the aggregate client claims calculation for all clients as it would inappropriately reduce the total client claims by \$10 in circumstances where the debt may not be recovered.

There were also 8 ledger accounts which we have classified as House positions totalling \$0.952 million included in our client claims calculation. Refer to Appendix 30 for a listing of these house accounts. This treatment of the House accounts is consistent with BBYL's inclusion of these positions in the "Provision Req" column of the Trust Ledger. As such, these House positions were included in BBYL's daily calculation of trust obligations and funds required to be held at the close of business by BBYL. On this basis, we concluded that these House positions would be related to client positions and therefore should also be included in our client claims calculation.

We have arbitrarily disaggregated the Equities and ETO End of Day Detailed Trust Ledger as at 18 May 2015 to report on Equities and ETO client claims separately. This was done by classifying any clients with trading narrations of 'Derivative Journal' to the ETO product line and allocating this product line a breakeven cash balance i.e. no surplus and no shortfall.

Unpresented Cheques

The NAB BBY Equities Trust Account (AC 124078694) was used to make cheque payments to clients. At our appointment date, there was approximately \$1.1 million of unpresented cheques. In the ordinary course of business, BBYL would transfer funds from the St. George BBY Limited Trust Account (AC 553452541) to the NAB BBY Equities account (AC 124078694) to initiate cheque payments. The clients in respect of these cheque payments would be removed from the End of Day Detailed Trust Report (i.e. their client claim would be removed from the trust ledger) once their cheque was issued and instead be incorporated in the Unpresented Cheques Listing. Clients would remain on this listing until the cheque is banked by the client. This Unpresented Cheques Listing was reconciled on a daily basis to the funds being held in the respective NAB Equities Trust Account.

On this basis, we have applied the rationale that the Unpresented Cheques Listing is another ledger that contains clients with claims to the monies held in the NAB Equities Trust Account. As such, we have incorporated the \$0.991 million of unpresented cheques into our calculation of client claims as at 18 May 2015 (to reflect the Receivers' settlement with the ASX that occurred on 18 May 2015). Refer to Confidential Exhibit 14 for a copy of the Unpresented Cheques Listing.

4.2.2 Futures

The Liquidators have applied the following formula to determine the Futures shortfall/surplus of Futures client monies to meet the client obligations:

$$\text{Surplus/(Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Based on this formula, we have performed the following reconciliation, which indicates that there was a shortfall of approximately \$9.358 million of client monies to meet the client obligations:

BBY Limited – Futures Surplus/(Shortfall) Calculation		
	Amount (AUD)	Source
Client Claims	(13,367,731)	Futures Dealer Report (produced by GMI)
BBY Segregated Accounts	489,430	STG Bank Statement
Funds held with Counterparties	3,520,000	ADM and ABN Statements
Surplus/(Shortfall)	(9,358,301)	

We have applied the following assumptions in respect of the client claims calculation above:

- 11 debtor balances totalling \$32,827 have been excluded; and
- 8 house accounts totalling \$18,518 have been excluded.

These debtors and house accounts are discussed in further detail below.

Client Claims

As discussed in section 3.3.4, in the absence of an accurate Trust Ledger, the Futures Dealer Report appears to be the most accurate representation of client claims. This report, automatically generated by the SunGard GMI system, is a summary of all client

trading positions that are presented in the individual client statements on a daily basis. Therefore, we have assessed that BBYL would be notified in a timely manner of any incorrect trading positions. Our review of the Dealer Report indicates that the NLV is representative of the clients' opening account balance for the day of the report in addition to any profit or loss movements in their trading positions. The NLV is therefore effectively valuing the trade at its market value for the close of business on a particular trading day. As such, we have concluded that the NLV is the appropriate measure of client claims. Refer to Confidential Exhibit 8 for the Dealer Report as at 15 May 2015, which we have used to calculate the \$13.368 million of client claims in the table above.

The Futures Dealer Report summarises Futures clients trading positions across all currencies, converts these currencies to Australian Dollars using the appropriate foreign currency exchange (as updated in the SunGard GMI system). This conversion to Australian Dollars on the Dealer Report was to facilitate BBYL's internal business analysis of the trades. Clients were paid in the domestic currency of their trade unless they specifically requested for these funds to be converted to Australian Dollars.

Our review of the Dealer Report indicated that there were 8 accounts that we have classified as House positions and excluded from our client claims calculation. These accounts included one in the name of BBYL (with an approximate \$70,000 debtor position) and included seven others that we have clearly identified as suspense accounts. For example, the "House Provision Err" account reported a \$35,000 trust obligation position and the "Unclaimed Funds" account reported an approximate \$21,000 trust obligation position. We have concluded that it is appropriate to exclude these 8 house accounts. Refer to Appendix 30 for the listing of House accounts that we have excluded.

The Dealer Report detailed 11 client trading accounts with an overall debit position; and as such, are considered to be debtors of BBYL. Despite being incorporated on the Dealer Report, we have excluded these debtors from our calculation of client claims as we have applied the assumption that these debts may not be recoverable. If they were to be incorporated into our client claims calculation, this will artificially reduce the total claims figure.

Counterparty Funds

The Liquidators received confirmation from ADM on 6 August 2015, of the cash balances they held as at 4 August 2015. ADM traded in multiple currencies, but all ADM statements are denominated in USD, which we have converted to Australian Dollars below (refer to Appendix 31 for these ADM statements)

Funds held by ADM, 6 August 2015		
Account Number	Amount	Currency
LBMZP100	1,103,789.51	USD
LBMZP101	63,315.64	USD
LBMZP102	91,408.46	USD
LBMZP103	6,795.64	USD
Add back: Unrealised Losses	171,297.00	USD
Subtotal	1,436,606.25	USD
FX Rate, 4 August 2015	0.7355	
Total converted to AUD	1,953,237.59	AUD

All Residual funds will be paid to the Liquidator once all open positions are closed.

At the date of this report, the Liquidators have yet to receive confirmation directly from ABN Amro. However, during our initial onsite investigations, we received a statement from ABN Amro (ABN Statement) confirming the position as at close of business 15 May 2015. The statement (extract included at Appendix 32) indicates that ABN held \$1,799,661.14 of cash holdings that we have incorporated into our shortfall/surplus calculation. However, we note that this figure has likely changed and the amount ultimately recovered from ABN will likely be different. We continue to liaise with ABN for a formal confirmation.

During our investigation we attempted to identify the period during which the shortfall in the Futures CSA first began. Given the lack of available records we have been unable to analyse Futures reconciliations prior to 1 January 2014. We have located and reviewed the Dealer Report, ABN statement and bank statement as at 1 January 2014 to calculate that the shortfall at this time period appears to have been approximately \$5.853 million. This suggests that the shortfall in the Futures CSA is a historical issue that was not addressed by management and has increased over time.

4.2.3 FX

The Liquidators have applied the following formula to determine the shortfall/surplus of FX client monies to meet the client obligations:

$$\text{Surplus/(Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Based on this formula, we have performed the following reconciliation, which indicates that there was a shortfall of approximately \$0.637 million of client monies to meet the client obligations:

BBY Limited – FX Shortfall Calculation		
	Amount (AUD)	Source
Client Entitlements	(2,343,197)	FX Dealers' Reports (produced by MFX)
BBY Segregated Accounts	1,244,380	STG Bank Statement
Funds received from Counterparties	455,863	Halifax Remittance Advice
Funds held by Counterparties	5,459	
Surplus/(Shortfall)	(637,495)	

We have applied the following assumptions in respect of the client claims calculation above:

- 42 debtor balances totalling \$96,967 have been excluded; and
- 26 house accounts totalling \$2.077 million have been excluded.

These debtors and house accounts are discussed in further detail below.

Client Claims

As discussed in section 3.4.4, in the absence of accurate Trust Ledgers, the FX Dealer Report appears to be the most accurate representation of client claims. This report, automatically generated by the MFX system, is a summary of all client trading positions that are presented in the individual client statements that are externally distributed on a daily basis. Therefore, we have assessed that BBYL would be notified in a timely manner of any incorrect trading positions. Our review of the Dealer Report indicates that the 'Overall Balance' is representative of the clients' opening account balance for the day of the report, less any initial margin in addition to any profit or loss movements in their trading position. This Overall Balance reports on the closing balance of clients' positions for the trading day, regardless of whether they are a debtor or creditor.

The 'Withdraw Funds', however, is representative of all closing client trading accounts in an overall credit position as at the close of business i.e. are not in a debit position and are hence not a debtor to BBYL. As such, we have concluded that the Withdraw Funds is the appropriate measure of client claims. Refer to Confidential Exhibit 10 for the Dealer Report as at 15 May 2015, which we have used to calculate the \$2.440 million of client claims in the table above (including debtors).

Similar to Futures, the Dealer's Report summarises FX client positions across all currencies and converts these currencies to Australian Dollars using the appropriate foreign exchange rates (as updated in the Pallion system).

As noted above, we have excluded 26 House accounts that we have identified from our client entitlement calculation. During our investigations we were advised by former BBY employees that the House accounts do not represent true underlying client trades and as such do not relate to client funds nor entitlements. For example, the account "HouseDir House Dealer Spread Account" was used to record profits where spread trades would be executed by the House with customers. We also note the house accounts were used by brokers in relation to errors during the trade process. Refer to Appendix 30 for the listing of these house accounts that we have excluded from our client claims calculation.

The Dealer Report detailed 26 client trading accounts with an overall debit position; and as such, are considered to be debtors of BBYL. Despite being incorporated on the Dealer Report, we have excluded these debtors from our calculation of client claims as we have applied the assumption that these debts may not be recoverable. If they were to be incorporated into our client claims calculation, this will artificially reduce the total claims figure.

We have not yet been able to identify when the shortfall in the FX CSAs first began due to the limited available records, particularly in relation to the lack of counterparty statements.

Counterparty Funds

We note that Halifax, a FX trading platform provider, has remitted \$455,863.49 to the Receivers on 15 June 2015. We have been advised by the Receivers that the funds are currently being held in a separate segregated account. Refer to Appendix 33 for the remittance advice of this transfer from Halifax. As mentioned above, we have incorporated the funds received in our shortfall/surplus scenario calculation assuming that the Receivers do not assert an entitlement to these funds under STG's security interest. We have written to the Receivers and requested these funds be transferred to a segregated trust account held by the Liquidators.

4.2.4 Saxo

As discussed earlier in this report, at the appointment date the Saxo relationship had been terminated. As such, our client monies calculation reflects the amount of client monies held by BBY against the liquidated positions of Saxo clients. We have applied the following formula to calculate the Saxo surplus/shortfall position:

$$\text{Surplus/ (Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

Based on this formula, we have performed the below reconciliation, which indicates that there was a shortfall of approximately \$7.139 million of client monies to meet the client claims:

BBY Limited – Saxo Shortfall Calculation		
	Amount (AUD)	Source
Client Cash Claims	(7,498,113)	BBYL Saxo Outstanding Clients Listing
Stock and Options Claims	(4,352,312)	Counterparty confirmation
BBY Segregated Accounts	152,459	STG Bank Statement
Cash received from Counterparties	206,625	NAB Bank Statement
Stock and Options held by Counterparties	4,352,312	Counterparty confirmation
Surplus/(Shortfall)	(7,139,029)	

We have applied the following assumptions in respect of the client claims calculation above:

- \$4.352 million of client stock positions held with Saxo through Citi Group as custodian as at 11 November 2015 have been included;
- Debtor balances totalling \$1.496 million that have been excluded; and
- No Saxo house accounts were identified.

Client Claims

The Strategy Team at BBYL were responsible for the Saxo Termination process and the return of client monies. During our onsite investigations, we obtained an 'Outstanding Client Accounts' file that the Strategy Team used to manually track and make payments to outstanding Saxo client accounts. In the absence of a system generated report used to distribute client statements (such as the Futures and FX Dealers Reports), and our inability to rely on the reports used by the Finance team for reconciliation purposes, we note that this 'Outstanding Client Accounts' file is the most appropriate report to detail the Saxo client entitlements.

Based on this Outstanding Client Accounts file, at Confidential Exhibit 12, the Strategy team were tracking a number of categories of Saxo clients to whom BBYL would be required to return funds. These categories include:

- Accounts that have been specifically requested to be withdrawn to an external personal bank account by clients; or
- Accounts that have been forced into a liquidated position because of the terminated relationship and no instruction has been received from the client; or
- Accounts that have been classified as "inactive" (accounts that have had no trading activity in the last 24 months), withdrawn by BBYL and placed into the BBYL house account on the Saxo platform; or
- Client funds that have been withheld to cover interest charges on the Saxo platform; or
- Client funds received via BPay that have not been repaid; and
- Dishonoured client payments that have bounced back into the Saxo Buffer CSA.

The 185 debtors that we have excluded from our client claims calculation above were mainly in relation to trading accounts that were forced into a liquidated position. We note that although the Strategy Team had included these debtor accounts in their file for completeness and in the ordinary course of business would have been recoverable, we have excluded them from our calculation to ensure that the client claims were not artificially inflated.

Counterparty Funds

The Liquidators received from SCMA \$206,624.91 on 2 December 2015, which is being held in a segregated liquidators' trust account. Refer to Appendix 34 for the bank statement reflecting this transaction.

As discussed above, SCMA have informed us that it holds approximately \$4.352 million of open stock positions with Citi Group as custodians. Refer to Confidential Exhibit 13 for a listing open stock positions as at 11 November 2015.

4.2.5 Interactive Brokers

We have applied the following formula to calculate the IB surplus/shortfall position:

$$\text{Surplus/(Shortfall)} = \text{BBY Client Segregated Accounts} + \text{Counterparties} - \text{Client Claims}$$

As client monies in relation to IB were primarily held by the IB platform, BBYL did not maintain any accounting records of client funds being held and traded by the online platform. In the absence of such records, we have liaised directly with IB to obtain three reports which have formed the basis of our shortfall/surplus calculation:

- Client Summary Reports (I242781 and I322352);
- Master Activity Summary Statements (I242781 and I322352); and
- Consolidated Activity Statements (I242781 and I322352);

These three reports are discussed in further detail below.

Further, due to the poor state of BBYL internal records, we do not have visibility over the claims that clients may have for funds returned from IB prior to the date of appointment, at the request of clients, into BBYL's IB CSA, which were not subsequently transferred from the BBYL CSA to the client. At the time of writing this report, we have requested a listing of the transfers made by IB back to BBYL in the 12 months prior to administration, which we have yet to receive at the date of this report.

As an online trading platform, the majority of client funds are held directly with IB. We have received confirmation from IB in relation to funds on hand and open options and stock positions. We have prepared three shortfall/surplus calculations taking into consideration a number of assumptions, primarily the date to be used for the basis of our client claims calculation. We have applied this approach given the significant value of open options and stock positions to allow the readers of this report to understand the impact of these dates on the surplus or shortfall for IB clients.

Client Claims

The Client Summary Reports reported the NLV of BBYL IB clients' trading positions. The NLV represented the value of all client entitlements (cash, stock and options positions) under the assumption that all positions were to be closed out and liquidated at the date of the report. These NLVs are the basis of our calculation of IB client entitlements.

Our review of these reports indicated that there were two accounts held in the name of "BBY Limited", which we have classified as House accounts. The Liquidators held discussions with employees of IB regarding these accounts, noting that these House accounts may have been used by BBYL to facilitate any monies that were deposited to/from client accounts and were in the process of being transferred to/from the individual client subaccounts held on the IB platform. Our shortfall/surplus calculation below takes this into consideration, and due to this ambiguity we have performed two calculations to both include and exclude these House accounts. The inclusion and exclusion of these accounts do not have any effect on the shortfall/surplus position of IB, as shown below.

Refer to Confidential Exhibits 15 and 16 for the Interactive Brokers Client Summary Reports (for both I242781 and I322352) as at 15 May 2015; and Confidential Exhibits 17 and 18 for the Interactive Brokers Client Summary Reports (for both I242781 and I322352) as at 24 November.

There are also two additional Master Activity Summary Reports (for both I322352 and I242781) which we have factored into our client claims calculation. Based on discussions with employees from IB, we note that these reports represent positions and assets held in the name of BBYL. However, we have been unable to confirm the nature of these accounts with former BBY employees. As such, due to this ambiguity and uncertainty surrounding these Master accounts, we have treated them as House accounts, and we have performed our analysis over the IB shortfall and surplus, both including and excluding these Master accounts.

Refer to Confidential Exhibits 23 and 24 for the Interactive Broker Master Activity Summary Reports (for both I242781 and I322352) as at 15 May; and Confidential Exhibits 25 and 26 for the Interactive Broker Master Activity Summary Reports (for both I242781 and I322352) as at 24 November 2015.

Counterparty Funds

The Consolidated Activity Statements reported the market value of all trades and positions held by IB split between cash, open stock and option positions in relation to clients and the two Master Accounts. We have received these statements as at 15 May 2015 and 24 November 2015. These statements have been used to prepare the calculations detailed below:

Refer to Confidential Exhibits 19 and 20 for the Interactive Brokers Activity Summary Reports (for both I322352 and I242781) as at 15 May 2015; and Confidential Exhibits 21 and 22 for the Interactive Brokers Activity Summary Reports (for both I322352 and I242781) as at 24 November 2015.

Surplus/shortfall Calculations

We have calculated the surplus/shortfall by comparing:

- IB Client Claims as at 15 May 2015;
- The IB CSA as at 15 May 2015; and

- IB Funds and Positions held as at 15 May 2015.

BBY Limited - IB surplus/shortfall as at 15 May 2015	Excluding House ACs	Including House ACs	Source
Client Claims (I322352 and I242781)	(18,387,650)	(18,285,837)	IB Client Summary Reports
BBYL House Account (I322352 and I242781)	101,813	(101,813)	IB Client Summary Reports
BBYL Master Account (I322352 and I242781)		(827,421)	IB Master Activity Statement
Total Claims as at 15 May 2015	(18,285,837)	(19,215,071)	
BBY Segregated Accounts as at 15 May 2015	1,218	1,218	STG Bank Statements
Cash held with IB	5,110,544	6,012,096	IB Consolidated Activity Statement
Stock, Options, Interest and Dividend Accruals held with IB	13,140,535	13,168,217	IB Consolidated Activity Statement
Total Net Asset Value held with IB as at 15 May 2015	18,251,079	19,180,313	
Surplus/(Shortfall)	(33,540)	(33,540)	

In both these circumstances whereby house accounts have both been included and excluded in our calculation of client claims, it is evident that there is an identical shortfall of funds to meet client claims in both situations as at 15 May 2015.

However, the IB positions still currently remain open as at the time of writing this report. As a result, the market value of these positions will continue to fluctuate until they are closed out. Therefore, the application of the market value of these counterparty funds as at 15 May 2015 per the above may not be appropriate for the purposes of this Report.

On the assumption of client claims being established as at the Administrators' appointment date with a pro rata distribution of any post appointment recoveries upon the close out of positions, we have performed another surplus/shortfall calculation taking into consideration:

- IB Client Claims as at 15 May 2015;
- The IB CSA as at 15 May 2015; and
- IB Funds and Positions held as at 24 November 2015.

BBY Limited - IB surplus/shortfall	Excluding House ACs	Including House ACs	Source
Client Claims (I322352 and I242781)	(18,387,650)	(18,285,837)	IB Client Summary Reports
BBYL House Account (I322352 and I242781)	101,813	(101,813)	IB Client Summary Reports
BBYL Master Account (I322352 and I242781)	-	(827,421)	IB Master Activity Statement
Total Claims as at 15 May 2015	(18,285,837)	(19,215,071)	
BBY Segregated Accounts as at 15 May 2015	1,218	1,218	STG Bank Statements
Cash held with IB	6,483,443	7,534,473	IB Consolidated Activity Statement
Stock, Options, Interest and Dividend Accruals held with IB	9,867,604	9,894,316	IB Consolidated Activity Statement
Total Net Asset Value held with IB as at 24 November 2015	16,351,047	17,428,789	
Surplus/(Shortfall)	(1,933,572)	(1,785,064)	

We have also considered the scenario whereby client claims crystallise on close out of all open position under this scenario we have taken into consideration:

- IB Client Claims as at 24 November 2015;
- The IB CSA as at 24 November 2015; and
- IB Funds and Positions held as at 24 November 2015.

BBY Limited - IB surplus/shortfall as at 24 November 2015	Excluding House ACs	Including House ACs	Source
Client Claims (per I322352 & I242781)	(16,470,209)	(16,364,964)	IB Client Summary Reports
BBYL House Account (per I322352 & I242781)	105,245	(105,245)	IB Client Summary Reports
BBYL Master Account (I322352 and I242781)	-	(972,497)	IB Master Activity Statement
Total Claims as at 24 November 2015	(16,364,964)	(17,442,706)	
BBY Segregated Accounts as at 24 November 2015	1,152	1,152	STG Bank Statements
Cash held with IB	6,483,443	7,534,473	IB Consolidated Activity Statement
Stock, Options, Interest and Dividend Accruals held with IB	9,867,604	9,894,316	IB Consolidated Activity Statement
Total Net Asset Value held with IB as at 24 November 2015	16,351,047	17,428,789	
Surplus/(Shortfall)	(12,765)	(12,765)	

Our calculations above indicate that the distributions to clients will differ depending on the scenario applied. That is, if the client claims crystallise at the appointment date any profit or loss incurred on the clients' trades between the appointment date and final close out date would not be recognised against the clients' trading accounts, rather it would be spread across all the clients' distributions.

For example, the trading positions of Clients A, B and C as at our appointment date and a hypothetical close out date are outlined below

	15 May 2015 Appointment Date	31 December 2015 Close out Date
Client A	\$2 million	\$1 million
Client B	\$5 million	\$5 million
Client C	\$3 million	\$3 million
Total IB Client Claims	\$10 million	\$9 million

If the client claims as at the appointment date are used as the basis for distribution upon receiving the \$9 million in cash at close out on 31 December 2015, there is a shortfall of funds to meet the trust obligations. This \$9 million would be distributed to Clients A, B and C on a pro rata basis. The distribution would be as follows:

- Client A: \$1.8 million
- Client B: \$4.5 million
- Client C: \$2.7 million

However, if the client claims crystallise on close out of all open position, upon receiving the \$9 million in cash, there are sufficient funds to be able to meet the trust obligations (ignoring any cost of close out). Client claims would reflect the profit or loss on close out of the position(s) and any losses are borne by the respective clients. In this scenario, the distribution would be as follows:

- Client A: \$1 million
- Client B: \$5 million
- Client C: \$3 million

4.2.6 Carbon Trading

At the time of writing this report we located a client ledger that indicated the client entitlement balance was \$20,410 and the balance of funds in the CSA was NIL. As discussed in section 3.7 there is only a small number of trades executed in respect of carbon trading and that this was a very minor business for BBYL.

4.3 Summary of client monies position by product line

Below we summarise the client claims (both cash and open options, stock and futures positions) against the funds held in the respective client segregated accounts and funds and positions held by the various products' counterparties, to calculate the surplus or shortfall across each of the product lines. The table has been prepared for each product line as at the following dates:

- Equities and ETO client claims as at 18 May 2015;

- Futures, FX, Saxo, IB and Carbon client claims as at 15 May 2015;
- All CSA balances as at 17 May 2015; and
- Counterparty funds, stock and options positions based on the date in which the counterparty provided confirmation.

We group the various CSAs into different product lines. Please note, that the balances of individual CSAs within the below product lines may vary, and any “pooling” of CSAs, whether along the above lines or otherwise, will depend on the outcomes of the application to Court. Our analysis has not taken into consideration the post appointment inflows and outflows from the CSAs. Further analysis is performed incorporating both these factors in section 4.6.

We also note that there are an additional 9 bank accounts held with St. George Bank and NAB totalling \$134,500 that we have classified as “other trust accounts”. These accounts are not directly linked to any one product and appear to have been used for ad hoc purposes or specific client placements or IPOs. The nature of these accounts are further discussed in section 6.2.3.

For a further breakdown of the Client Segregated Accounts across the product lines with bank balances as at our appointment date, refer to Appendix 35.

Counterparties

We have confirmed with the counterparties listed below whether they hold any client monies or open positions. However, this information is subject to change given open positions are likely to change based on market fluctuations. We are in the process of requesting the return of funds held by the counterparties. Upon receipt, the Liquidators intend to hold the funds in the accounts pending the outcome of the Court proceedings.

As the date of our appointment, the following counterparty relationships were in place across the respective products lines:

Product	Counterparties
Equities and ETO	ASX
Futures	ABN and ADM
Foreign Exchange (FX)	Halifax and CMC Markets
Saxo	Saxo
Interactive Brokers (IB)	IB
Carbon	Unknown ¹²

As a number of these counterparties also hold stock, futures and options positions, the final value of returned funds may fluctuate based on the market value of open positions and the cost to close out. Therefore, these figures cannot be considered as final until all positions are closed and funds are received by the Liquidators.

¹² Carbon trading counterparties are unknown due to the poor and incomplete state of records maintained by BBYL.

BBY Limited – Summary of client monies and counterparties									
\$m	Equity ¹³	ETO	Futures	FX	Saxo	Carbon	IB	Other	Total
CSA Account Balances									
Client Segregated Account Balances	8.4	0.3	0.5	1.2	0.2	-	0.0	0.1	10.8
less: Receivers' Claim of Debtors ¹⁴	(0.3)	-	-	-	-	-	-	-	(0.3)
Total CSA Cash at 17 May 2015 (net of Receivers claim)	8.1	0.3	0.5	1.2	0.2	-	0.0	0.1	10.5
Counterparty cash									
ASX (Returned Collateral)	-	3.4	-	-	-	-	-	-	3.4
Interactive Brokers	-	-	-	-	-	-	7.5 ¹⁵	-	7.5
Halifax Investment Services	-	-	-	0.5 ¹⁶	-	-	-	-	0.5
ABN Amro	-	-	1.8	-	-	-	-	-	1.8
Saxo Capital Markets	-	-	-	-	0.2 ¹⁷	-	-	-	0.2
ADM	-	-	2.0	-	-	-	-	-	2.0
CMC Markets	-	-	-	0.0	-	-	-	-	0.0
Total Counterparty Cash	-	3.4	3.8	0.5	0.2	-	7.5	-	15.4
Counterparty Stock and Options									
Interactive Brokers	-	-	-	-	-	-	9.9 ¹⁸	-	9.9
Saxo Capital Markets	-	-	-	-	4.4	-	-	-	4.4
ADM	-	-	(0.2)	-	-	-	-	-	(0.2)
Total Counterparty Stock and Options	-	-	(0.2)	-	4.4	-	9.9	-	14.0
Total Counterparty Cash, Stock and Options	-	3.4	3.5	0.5	4.6	-	17.4	-	29.4
Total CSA Cash and Counterparty Cash, Stock and Options	8.1	3.7	4.0	1.7	4.7	-	17.4	0.1	39.9
Client Claims									
Client Cash Claims ¹⁹	(6.2)	(3.7)	(13.4)	(2.3)	(7.5)	(0.0)	(5.1)	-	(38.3)
Unpresented Cheques	(1.0)	-	-	-	-	-	-	-	(1.0)
Other Client Claims ²⁰	-	-	-	-	(4.4)	-	(13.3)	-	(17.6)
Total Client Claims	(7.2)	(3.7)	(13.4)	(2.3)	(11.9)	(0.0)	(18.4) ²¹	-	(56.9)
Surplus/(Shortfall)	1.0	-	(9.4)	(0.6)	(7.1)	(0.0)	(1.0)	0.1	(17.0)

Note: this table is for illustrative purposes only and includes calculation rounding.

These counterparty balances were confirmed at various dates:

Counterparty	Confirmation Date	Reference	Return of Funds
CMC Markets	30 August 2015	Appendix 34	Awaiting
ASX (Returned Collateral)	5 June and 3 August 2015	Appendix 35	Returned on 4 August 2015
ABN	15 May 2015	Appendix 30	Awaiting
ADM	5 August 2015	Appendix 29	Awaiting
Halifax	15 June 2015	Appendix 31	Returned on 15 June 2015
SCMA	7 August 2015	Appendix 32	Returned on 2 December 2015
IB	29 October 2015	Confidential Exhibits 21 and 22	Awaiting

We have also received confirmation from Chi X Australia, Asia Pacific Stock Exchange, ANZ, Leveraged Equities, and the Clean Energy Regulator, who may have had a previous relationship with BBYL and they have all confirmed that they do not hold funds or any open position on behalf of BBYL or BBYL clients. The Liquidators have opened a separate trust account for each counterparty

¹³ We have disaggregated Equities and ETOs for our reporting and scenario analysis purposes. This has been done by identifying within the client trust ledger any derivative journal entries within the Equity/ETO ledger.

¹⁴ We note per discussions with the Receivers that they seek to claim approximately \$1.1 million of debtor receipts held in the Equity/ETO Trust Account (AC 553452541) of which approximately \$0.3 million was received by BBYL prior to appointment.

¹⁵ \$7.7m in cash held with IB is as at 24 November 2015 including two BBYL House Accounts and 2 BBYL Master Accounts

¹⁶ Halifax funds have been returned to the Receivers.

¹⁷ Received from SCMA on 2 December 2015 and is currently being held in the Liquidators' segregated trust account

¹⁸ \$9.9m in stock, options and interest held with IB is as at 24 November 2015 including two BBYL House Accounts and 2 BBYL Master Accounts

¹⁹ Client cash claims as at 15 May 2015 except for Equity and ETO that are as at 18 May 2015.

²⁰ Other Client Claims relates to the market value of open positions as at various confirmation dates.

²¹ Total \$18.4m of IB client claims represents cash, stock and options positions including the two BBYL House Accounts.

and are liaising with these parties instructing for the transfer of all client monies held as cash to these trust accounts established by the Liquidators.

In addition to the above counterparties, we note that the ASX also held stock, bank guarantee and cash collateral at 15 May 2015. As outlined in section 4.2.1 we have excluded client collateral held with the ASX in our client entitlement calculations. We can report, as at 15 May 2015, the ASX held:

- \$169,812,108 of stock collateral
- \$21,991,047 of cash collateral
- \$1,450,000 of bank guarantees as collateral
- 4,625 open ETO positions

Refer to Confidential Exhibit 28 for a breakdown of these collateral balances that we obtained from the ASX.

These client collateral positions have been excluded from our client claims calculation and our surplus/shortfall analysis above as these positions were subsequently either:

- One of the 2,785 open ETO positions that were closed by the ASX and \$3.4 million of client collateral was returned to the Liquidator on 4 August 2015 and is being held in a separate trust account; or
- Stock collateral that was sold with the proceeds being returned directly to clients on or around October 2015 totalling approximately \$232,431; or
- Transferred to other brokers, together with the respective client collateral held with the ASX.

Following the close out process \$3.4m of cash collateral held with the ASX was returned to the liquidator on 4 August 2015 and \$0.2m of surplus cash stock collateral was returned directly to clients by the ASX. This is discussed further in section 4.5.4.

4.4 Post appointment transactions

The Liquidators currently have read-only access to the online BBYL bank accounts held with STG and NAB and the Receivers have not given the Liquidators operational control over all BBYL bank accounts. We have been reconciling all BBYL bank accounts and have kept records of post appointment transactions. Other than in respect of three instances described below, the majority of the bank accounts have moved by immaterial amounts, primarily due to interest, service and bank charges.

The following table summarises the post appointment transactions impacting the CSAs of the various product lines. Refer to Appendix 38 for all bank balances as at 4 December 2015.

BBY Limited – Post appointment transactions									
\$m	Equity	ETO	Futures	FX	Saxo	Carbon	IB	Other	Total
CSA Account Balances									
Client Segregated Account Balances	8.4	0.3	0.5	1.2	0.2	-	0.0	0.1	10.8
less: Receivers' Claim of Debtors	(0.3)	-	-	-	-	-	-	-	(0.3)
Total Available CSA as at 15 May 2015	8.1	0.3	0.5	1.2	0.2	-	0.0	0.1	10.5
Post Appointment									
Inflows									
Equity Facilitation Payment	2.4	-	-	-	-	-	-	-	2.4
Equity Settlement	2.1	-	-	-	-	-	-	-	2.1
Margin Calls (on 18 May 2015)	-	0.7	-	-	-	-	-	-	0.7
Margin Calls (Post 19 May 2015)	-	2.4	-	-	-	-	-	-	2.4
Collected Debtors	0.8	-	-	-	-	-	-	-	0.8
Return of Funds	0.6	-	-	-	-	-	-	-	0.6
Other Receipts	0.3	-	0.6	0.2	-	-	-	-	1.0
Total Inflows	6.1	3.1	0.6	0.2	-	-	-	-	9.9
Outflows									
Equity Sale Proceeds Return to Clients	(4.6)	-	-	-	-	-	-	-	(4.6)
Margin Return to Clients	-	(1.4)	-	-	-	-	-	-	(1.4)
Other Payments	(0.2)	-	(0.0)	(0.0)	-	-	-	-	(0.2)
Transfer to Equity from FX, 19 May 2015	-	-	-	(0.5)	-	-	-	-	(0.5)
Total Outflows	(4.8)	(1.4)	(0.0)	(0.5)	-	-	-	-	(6.8)
FX movements	-	-	0.2	0.1	0.0	-	-	-	0.3
Total Client Funds as at 4 December 2015	9.5	2.0	1.2	0.9	0.2	-	0.0	0.1	14.0

Note: this table is for illustrative purposes only and includes calculation rounding.

Significant movements in the CSA's across product lines since our appointment are discussed in detail below.

4.4.1 Equities/ETO Trust Account – movement of the Equities/ETO trust account (AC 553452541)

The “BBY Ltd Client Trust” account designated to the Equities/ETO product line (AC 553452541) in Australian Dollars, primarily used to facilitate Equities and ETO trading, has increased by approximately \$3.037 million since our appointment. The Receivers have provided us with documentation supporting the transactions that are outlined in the following table (for full breakdown refer to Confidential Exhibit 31):

BBY Limited - Post Appointment Transactions – Equity/ETO Trust Account (AC 553452541)²²	
Description	Amount
Opening Bank Balance, 18 May 2015	7,685,805.04
Post Appointment Transactions:	
Debtor Receipts (receipts from clients)	763,487.02
Equity Settlement	2,066,428.59
Equity Sale Proceeds Return	(4,561,754.22)
Margin Call (from Clients)	3,080,590.66
Collateral Return (to Clients)	(1,426,106.90)
Other Client Related Transactions	194,091.00
Dividends due to Clients	100,388.30
Return of Funds	552,925.57
Bank Interest	9,730.03
Bank Transfer (receipts)	2,435,098.15
Bank Transfer (withdrawals)	(177,744.91)
Other	10.00
Net Post Appointment Transactions	3,037,143.29
Closing Bank Balance, 4 December 2015	10,722,948.33

We set out below a brief explanation for each item:

- Debtor receipts: represent payments received from clients identified by the Receivers as being debtors of BBYL in respect of trades that settled prior to our appointment.
- Equity settlement: funds deposited by clients to facilitate equity settlements with the ASX.
- Equity sale proceeds return: payments, facilitated by the Receivers, to clients in respect of proceeds received by BBY from the ASX for the sale of shares. The Liquidators (then Administrators) did not sanction this payment.
- Margin call (from clients): funds received from clients in relation to open ETO positions, the balance is made up of the following (according to the Receivers):
 - \$684,433 representing margin called from clients during the Receivers trading in respect of ETO settlements processed by the Receivers on 18 May 2015, and;
 - \$2,397,599 representing margin called from clients post 18 May 2015 during the period of the receivership. We note from discussion with the Receivers have informed us that they believe the drawings on the 19th and 20th of May 2015 represent drawn down on client CMA bank accounts. This is discussed further in section 4.5.3.
- Collateral return (to clients): return of collateral to clients with open ETO positions by the Receivers on 18 May 2015.
- Other client related transactions: representing other client related receipts and payments, in particular:
 - A receipt from a new BBYL client of \$200,000 in anticipation of trading activity received on 18 May 2015;
 - Three receipts from clients totalling \$4,553.36 that require further investigation; and
 - Two payments totalling \$10,462.36 to clients processed on 18 May 2015 that also require further investigation.
- Dividends due to clients: representing dividend income received in respect of client share holdings.

²² Movement in the STG Equities/ETO trust account (AC 553452541) only.

- Return of funds: representing dishonoured payments previously made to clients.
- Bank interest: interest income received in respect of cash holdings.
- Bank transfers (receipts): representing a payment from the St George FAC account (A/C 553453106) processed by the Receivers to facilitate settlement on 18 May 2015. We note from the facilitation template that the payment represents the following
 - \$2,374,936.70 receivable from CHES; and
 - \$60,161.45 receivable from ASX Clear.
- Bank transfer (withdrawals): these transfers are made up of the following processed by the Receivers on 18 May 2015:
 - \$111,125.98 transfer to the NAB trust account for cheque payments to be made to clients; and
 - \$66,618.93 transfer to the general BBYL bank account as part of the end of day bank sweep.
- Other: representing a banking error.

4.4.2 FX Trust Account

The “BBY Ltd FX Trust” account in Australian Dollars has decreased by \$390,209 since our appointment. This is made up of the following:

- A \$548,859 payment from FX to the Equities/ETO Trust Account on 19 May 2015 classified by the Receivers as being a debtor receipt. During our onsite discussions with BBY employees, it was noted that
 - The funds related to proceeds from the sale of Linc Energy shares in Singapore;
 - There were difficulties during the currency conversion process from Singapore Dollars to Australian Dollars; and
 - The final amount was not paid until 15 May 2015.

The payment was initially received into the BBYL FX AUD account on 15 May 2015 and on 19 May 2015 was transferred from FX to Equities, this transfer was approved by the Receivers and have been accounted for by the Receivers as a receipt of debtors.

- Four post appointment receipts totalling \$158,794 (three receipts on 18 May 2015 and one on 19 May 2015) from clients.

4.4.3 Futures USD Trust Account

The “Futures Seg USD” trust account has increased by \$449,987 USD (\$620,136 AUD equivalent) due to a payment received from ADM on 18 May 2015 into the USD futures account. We note from correspondence with ADM and a review of company books and records that management requested a return of funds from ADM on 15 May 2015 that we understand was for the purpose of client payments.

4.4.4 Payments made by clients in “error”

We note that there have been some instances where clients have paid monies into the CSA’s post appointment for reasons other than margin call or payment of a debt.

We examined bank statements for each of the CSAs from 18 May 2015 to 16 December 2015 for deposits paid by clients in anticipation of future trading. The following steps were conducted during our review:

- Deposits made into the respective CSA’s that appear on the bank statements were reviewed for narrations that appear client related.
- The Receivers trust account reconciliation was reviewed to identify payments made by clients in the period of the reconciliation that have been classified as client related transactions.
- Where possible, we have reviewed the client’s respective position per the client trust reports to determine if the client is in a net debit or credit position on 15 May 2015. Note, this process has limitations as client account numbers are not consistent across different products.
- Where the bank statements did not provide sufficient information to identify the relevant client, we requested from the bank a trace on the payment.

Based on the analysis conducted we have identified 26 deposits that we believe may fall into the category of a payment made in error. The following table summarises the deposit by product line:

BBY Limited - Payments made in error post appointment			
Product	Currency	Account	Amount
FX	AUD	553619268	158,793.84
FX	EUR	204226EUR01	24,096.24
Futures	AUD	553619284	102,550.00
Saxo	AUD	553619356	895.00
IB	AUD	553619321	2,300.00
Equity/ETO	AUD	553452541	204,553.36

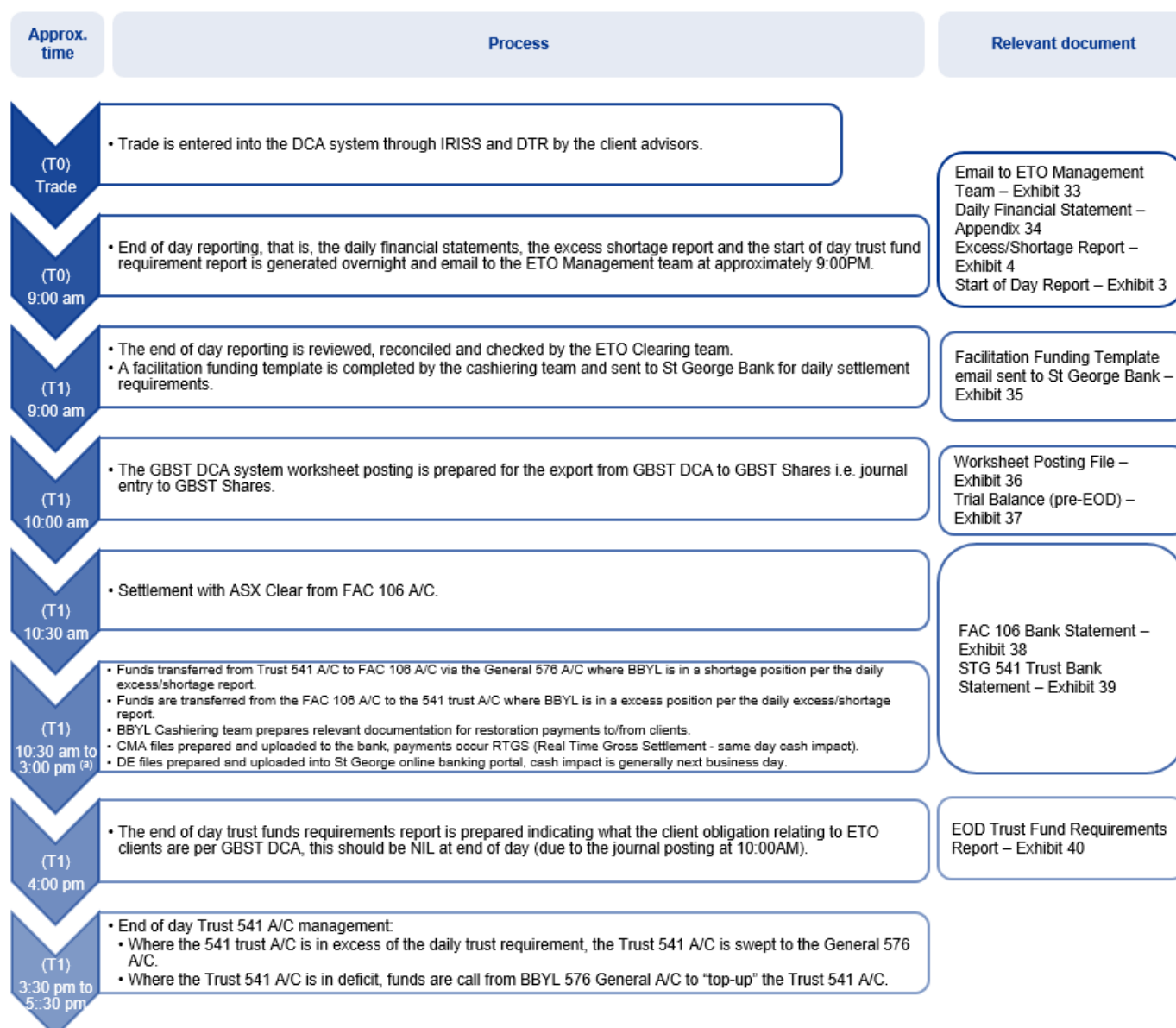
Refer to Confidential Exhibit 32 for the detailed information breaking down the amounts outlined in the table above.

4.5 Post appointment client withdrawals and ASX returned collateral

4.5.1 ETO clearing timeline

Set out below is a timeline that outlines that key events during the ASX ETO settlement process:

ETO Settlement Timeline – post ASX review in December 2014



Note (a): it is unclear from the bank statements whether the payments referred to in the first and second dot-points occurred before or after settlement with ASX Clear at 10:30am.

4.5.1 Settlement with ASX Clear

ASX Clear is a clearing house that provided counterparty services to BBYL for derivative and exchange traded options. We note from our investigations that BBYL settled with ASX Clear at approximately 10:30am each morning. The relationship between BBYL and ASX Clear is governed by the ASX Clear Operating Rules. Settlement with ASX Clear was on a net basis and funded directly from the STG FAC Account (AC 553453106). We also note, based on our funds flow analysis, that daily funding movements between the Equity/ETO trust Account (AC 553452541), General Account (AC 553452476) and the STG FAC Account (AC 553453106) were processed to facilitate ETO (and Equity) settlements (in situations where BBYL was a net payer). Refer to Appendix 55 for the funds flow analysis.

From time to time based on the market value of open option positions, BBYL was a net receiver for settlement with ASX Clear. In this situation BBYL received a return of ETO client collateral from ASX Clear. We note from our analysis of the bank statement data that returned margin was deposited by ASX Clear directly into the STG FAC Account (AC 553453106) and transferred to the Equity/ETO Trust Account (AC 553452541).

Refer to Appendix 56 for example funds flow analysis.

4.5.2 BBYL settlement with ETO clients

We note from the product disclosure statement between BBYL and ETO clients that BBYL incurs the margin obligations to the clearing house. BBYL would call from the client all amounts of margin which the clearing house calls from BBYL. Refer to Appendix 11 for a copy of the ETO product disclosure statement.

As discussed in section 3.2.2, the Excess Shortage Report detailing ETO client's daily trading position was utilised by BBYL to settle with ETO Option clients (following settlement with ASX Clear).

Settlement with the ETO clients would occur as follows:

- Where the client owed BBYL for a margin call settled by BBYL with ASX Clear:
 - Funds from the clients CMA account would be withdrawn by the GBST Shares system into the Equity/ETO Trust Account (AC 553452541);
 - The clients personal bank account would be debited via direct debit authority processed by the Cashiering team and paid into the Equity/ETO Trust Account (AC 553452541);
 - Clients would deposit monies directly into the Equity/ETO Trust Account (AC 553452541); and
 - The client trust account would be debited and the client would remain a debtor where the client has not settled with BBYL by the end of the day.
- Where the client was owed monies by BBYL for a return of collateral on settlement with ASX Clear:
 - The clients CMA account would be credited through payment processed by the Cashiering team paid from the Equity/ETO Trust Account (AC 553452541);
 - The clients personal bank account would be credited through a payment processed by the Cashiering team paid from the Equity/ETO Trust Account (AC 553452541);
 - BBYL prepared and posted a cheque to the client; and
 - The client trust account would be credited and funds remain in the Equity/ETO Trust Account (AC 553452541) at the client's request.

4.5.3 Margin called from clients post 18 May 2015

The Receivers have advised that between the period of 19 May 2015 and 26 June 2015 a total of \$2.4 million of funds had been received into the Equity/ETO Trust Account (AC 553452541) to meet margin calls relating to open ETO positions.

On 18 May 2015 BBYL's trading license was suspended. ETO clients with open positions were advised by notice from the ASX that (refer to Confidential Exhibit 29 for a copy of the ASX notice):

- Client could transfer their positions with a new clearing participant;
- The new clearing participant must notify ASX Clear by 1:30pm on 18 May 2015 of the clients position to be transferred; and
- The new clearing participants must have completed the transfer process by 5pm 20 May 2015.

If a client's position was not transferred as described above the position was earmarked for closure. On 19 May 2015 the ASX began the option close out process that we note was completed on or around 21 May 2015.

Based on our analysis of the bank statement data and investigations to date, settlement with ASX Clear was funded through the STG FAC Account (AC 553453106).

We have been advised by the Receivers that the data feed between GBST and the ASX remained live during the close out process and was not disconnected until 20 May 2015. As a result daily margin calls relating to open option positions were being

communicated to the GBST system on the 18th to 20th of May 2015 and withdrawal of client funds from the relevant clients CMA account into the Equity/ETO Trust Account (AC 553452541) were being made.

We also note from the records provided to us by the Receivers that there were also clients that made deposits in respect of these margin calls into the Equity/ETO Trust Account (AC 553452541) on 26 June 2015.

Refer to Confidential Exhibit 31 for a breakdown of the post appointment client withdrawals listing prepared by the Receivers.

All payments received in relation to this matter were received into the Equity/ETO Trust Account (AC 553452541) and have not been mixed with other CSAs.

4.5.4 Returned client collateral

On 5 June 2015 the ASX advised the Liquidators that the close out process had been completed that resulted in a \$3.4 million residual cash margin of ETO clients derivative accounts and \$0.2 million return of cash stock refund (being the proceeds from the sale of stock collateral used to fund the cost of close out). The ASX also provided the Liquidators with an accounting of how both the collateral and cash stock refund was calculated on an individual client basis. Refer to Exhibit 30 for a copy of the calculation prepared by the ASX supporting the residual cash margin return and cash stock refund.

On 4 August 2015 the ASX paid into the Liquidators segregated account a total of \$3,400,115.54 in respect of the residual cash margin, the proceeds in respect of the cash stock refund we note were paid directly to ETO option clients. Refer to Appendix 37 for a copy of the bank statement showing receipt of payment from the ASX.

From our review of the calculation prepared by the ASX we note that the \$3.4 million residual cash margin return has been calculated as follows:

- Where a client's position closed at a loss, the clients residual cash margin represents the difference between the cash collateral held and the cost of close out (where the client had sufficient cash to cover the loss);
- Where a client's positions closed at a loss and the client did not hold sufficient cash margin to cover the cost of close out, the residual cash margin for this category of client would be NIL as stock collateral would have been utilised to cover the cost of close and excess cash returned directly to the client; and
- Where the clients position closed at a profit, the residual cash margin represents the profit on close out plus any cash collateral held with the ASX.

We also note from discussion with the Receivers that there were two instances where a client had insufficient collateral to cover the cost of close out. The Receivers have advised that in this scenario the cost of closeout was funded from the CMM collateral held by the ASX.

From our investigation funding to support ETO settlement was sourced from the STG FAC Account (AC 553453106).

4.6 Pooling scenarios

On 6 November 2015, the Liquidators published a notice to creditors detailing expected return scenarios.

The scenarios presented below differ slightly as compared to the client notice as we have disaggregated the "other products" product line category and have included Carbon and IB as separate product lines. At the time of writing the notice, were still investigating the IB product line, in particular the counterparty positions, and as such it was excluded from the scenario analysis. We have also subsequently confirmed a number of other counterparty positions, which we have incorporated into our pooling scenarios. As a result, our recovery estimate differs from what we had presented in the notice to creditors dated 6 November 2015.

Each of our four scenarios below take into consideration a number of assumptions, which we have summarised in the table below. Our pooling scenarios refer to all the available cash being combined for an equal pro-rata distribution amongst clients across all product lines. The scenarios do not include the Liquidators' remuneration, costs and expenses, BBYL's costs and expenses, or the legal expenses of the representative defendants that may be recouped from the CSAs and related recoveries.

Scenario	Assumptions	Pooling
A	<ul style="list-style-type: none"> Balance of CSAs as at 15 May 2015 included Balance of client cash claims included CSAs are not pooled across product lines Post appointment transactions excluded Potential counterparty recoveries excluded 	✘
B	<ul style="list-style-type: none"> Balance of CSAs as at 15 May 2015 included Balance of client cash claims included CSAs are pooled across product lines Post appointment transactions excluded Potential counterparty recoveries excluded 	✔
C	<ul style="list-style-type: none"> Balance of CSAs as at 4 December 2015 included Post appointment transactions included, except: <ul style="list-style-type: none"> \$2.4 million in relation to ETO margin called post 19 May 2015 excluded, and \$3.4million in relation to ASX Returned Collateral excluded. These are excluded on assumption that the separate claims against these monies are successful. \$1.1m in relation to Equities collected debtors excluded Potential counterparty recoveries included 	✔
D	<ul style="list-style-type: none"> Balance of CSAs as at 4 December 2015 included Post appointment transactions included (including \$3.4 million in relation to ASX returned collateral), except: <ul style="list-style-type: none"> \$2.4m in relation to ETO margin called post 19 May 2015 excluded on assumption that the separate claim against these monies are successful. \$1.1m in relation to Equities collected debtors excluded Potential counterparty recoveries included 	✔

The distribution outcomes in each scenario are as follows:

Scenario	Non Pooling							Pooling
	Equity	ETO	Futures	FX	Saxo	Carbon	IB	All
A/B ²³	\$1.00	\$1.00	\$0.04	\$0.53	\$0.02	\$0.00	\$0.00	\$0.29
C	\$1.00	\$1.00 ²⁴	\$0.36	\$0.60	\$0.40	\$0.00	\$0.95	\$0.69
D	\$1.00	\$0.80	\$0.36	\$0.60	\$0.40	\$0.00	\$0.95	\$0.71

For detailed calculations in each of the above scenarios, refer to Appendices 39 to 42.

The "pooling scenarios" indicate a potential surplus in funds if the CSAs for the Equities and ETOs product lines are not pooled with any other product line. A potential consequence of this is that the surplus would be available to BBYL and all of its creditors, subject to the security in favour of STG.

²³ Scenario B is based on the assumption of pooling of product lines in Scenario A. Refer to Appendix 40 for the detailed calculations for Scenario B.

²⁴ Our workings at Appendix 41 have indicated that the ETO distribution outcome of \$0.00 in Scenario C for ETO clients who do not have an open position is based on the assumption that the claims by clients with an open position against the \$2.4 million in ETO margin calls made post 19 May 2015 and \$3.4 million returned ASX margin are successful. However, given our findings that BBYL used one main CSA for both Equities and ETOs product lines, when you apply the monies in that CSA against the claims of both Equities clients and ETOs clients who do not have an open position, the result is a distribution estimate of \$1.00 for all Equities clients and all ETOs clients.

5. Investigation approach

5.1 Scope of work

As outlined in section 1, the main objectives of our investigations into the CSAs were to identify:

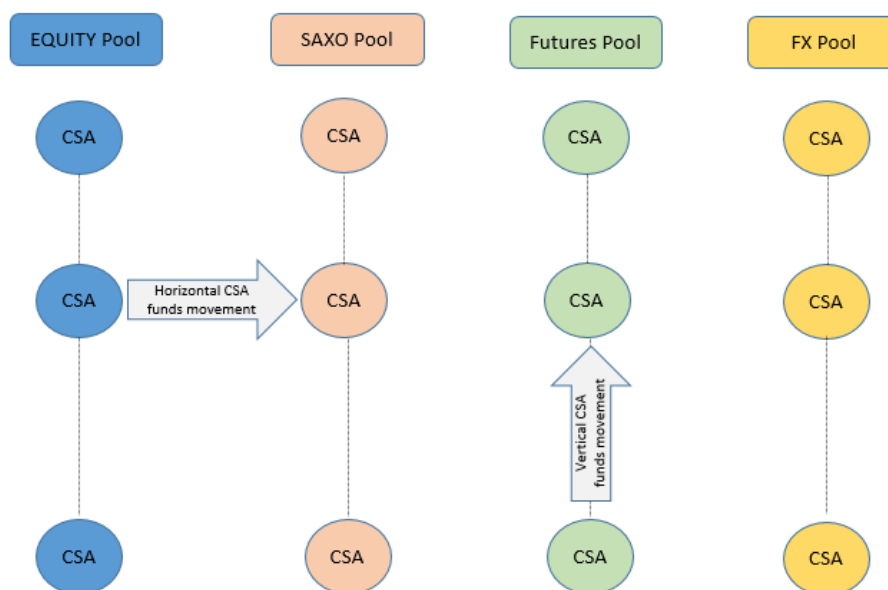
- How any shortfalls between the client funds on hand and the value of the client entitlements arose; and
- Whether funds held in the CSAs had been intermingled between accounts within product lines, across product lines, and / or with BBYL 'house' accounts.

5.1.1 In scope

In order to address these objectives, we developed a scope of work to focus our analysis. Specifically, our analysis aimed to identify any examples of the following funds flows:

1. Vertical funds transfers between CSAs (i.e. funds movements between CSAs within the same product line²⁵)
2. Horizontal funds transfers between CSAs (i.e. funds movements between CSAs of different product lines²⁶)
3. Funds transfers from CSA to BBYL House accounts
4. Funds transfers from BBYL House accounts to CSAs
5. Funds transfers between related parties²⁷ and BBYL accounts
6. Any unusual funds movement patterns
7. Transactions relating to the Aquila transaction
8. Transactions relating to the Saxo 1:1 funding agreement
9. Any other transactions of interest (e.g. transfers between counterparties)

The diagram below illustrates what we mean by 'Vertical' and 'Horizontal' funds movements between CSAs:



5.1.2 Out of scope

Due to limitations on the availability of comprehensive books and records and systems access, and the significant volume of bank transactions during the period of our review, it has not been possible to identify certain categories of transactions that would impact the CSAs (except where we are advised of such instances by former BBYL staff members), as follows:

- Uncorrected deposits made by a client of one product line into a CSA belonging to another product line.

²⁵ For example, a transfer from Futures CSA No. 1 to Futures CSA No. 2.

²⁶ For example, a transfer from Equity CSA No. 2 to Saxo CSA No. 4.

²⁷ All parties related to the BBY Companies, known by the Liquidators, such as the BBY officers, entities owned by the BBY officers etc. (see Appendix 43).

For example, if a client had both a Saxo account and a Futures account with BBYL and accidentally made a deposit relating to a Saxo trade into BBYL's Futures account, and the funds were not transferred from Futures to Saxo. This would create a reconciliation difference between the client entitlements and the Trust funds in respect of both Saxo and Futures. As client deposits are not often labelled with the client account number or product line, we are unable to identify these instances from our review of the bank statement data.

- Payments made to a client of one product line out of a CSA belonging to another product line, which was not reconciled.

For example, if a USD payment was made to a Futures client out of the USD FX Trust account, in the event that Futures did not have sufficient USD, and the funds were not reimbursed by Futures to FX. This would create a reconciliation difference between the client entitlements and the Trust funds in respect of both Futures and FX. As payments out of CSAs are often not labelled with the client account number or product line, particularly if the payments are made by RTGS²⁸ or bulk transfer, we are unable to identify these instances from our review of the bank statement data.

The primary information source that we have used for the purposes of our analysis is bank statement data, which is discussed in more detail below. However, it is not possible to identify these types of transactions from the bank statements alone. We would expect to be able to identify these types of transactions, and other transactions of interest, through review of complete and comprehensive reconciliations of the CSAs designated to each product line (particularly those transactions not corrected, as we would expect these to be noted as reconciling items on product reconciliations). However, we have not been able to identify such comprehensive reconciliations within the BBYL books and records. Former BBYL staff members have also not been able to provide such reconciliations.

In the absence of comprehensive product reconciliations, identification of the above types of transactions would only be possible through full reconciliation of the bank transactions and accounting data in respect of each product line, which has not been possible within the timeframe of our current CSA investigations. This process, and the limitations faced by the Liquidators in this regard, is discussed further in section 5.2.4.

5.2 Procedures undertaken

As outlined in section 1 above, our work to date in respect of the CSA investigation can be categorised into a number of workstreams. Each of the workstreams is discussed in more detail below.

5.2.1 Collation and profiling of bank transactions

To date, the Liquidators have identified 118 BBYL bank accounts relevant to our investigations (including accounts closed prior to our appointment but excluding post-appointment accounts opened by the Liquidators), held with three financial institutions, STG, NAB and BNZ. Based on information obtained during the Administration, and a BBYL bank account schedule identified during our investigations²⁹, these bank accounts identified have been categorised as follows:

- House Accounts
- Other trust accounts
- Equity / ETO
- Futures
- FX
- Saxo
- Interactive Brokers
- Carbon Trading

The trust accounts that do not appear to be assigned to a specific product have been grouped together as 'Other Trust Accounts' for the purposes of our analysis and this report. A detailed list of the BBYL bank accounts identified as at the date of our report is set out at Appendix 45, which includes the categorisation of accounts as set out above.

Confirmation was also sought from both STG and NAB of all bank accounts (including term deposits and closed accounts) in the name of BBYL for the period 1 January 2014 to 17 May 2015, our initial review period. A second confirmation request was also issued to STG and NAB during our investigations in respect of the period 1 January 2011 to 31 December 2013, in order to confirm bank accounts held by BBYL during 2011 to 2013, which became relevant to some aspects of our investigations.

In relation to the BNZ bank accounts, although these accounts are listed on BBYL's bank account schedule and appear to be relevant to the BBYL product lines, the bank accounts are in the name of BBYL (NZ) Limited. As we are not appointed as Liquidators

²⁸ Real-time gross settlement systems (RTGS) are specialist funds transfer systems where transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period.

²⁹ BBY bank account schedule "BBY Bank Account Apr15.xls" attached at Appendix 44.

to this entity, we have been unable to obtain bank statement data or confirmation of the balance on these accounts as at the date of our appointment. These accounts are therefore out of scope for the purposes of our analysis.

A summary of the BBYL bank accounts identified is provided by the table below:

	BBY CSAs	Other Trust Accounts	House accounts	Other ³⁰	Total
No. of BBYL bank accounts open as at the date of our appointment	38	9	14	6	67
No. of BBYL bank accounts closed as at the date of our appointment	23	6	11	4	44
No. of BNZ bank accounts (out of scope)	7	-	-	-	7
Total no. of accounts	68	15	25	10	118

We are also aware of a number of bank accounts held with Bankwest, STG and NAB relating to Smartrader Ltd and Hometrader Ltd, however we have not identified any transactions of interest between the BBYL bank accounts and the Bankwest accounts, and therefore these accounts have not been included in our analysis.

In relation to obtaining bank statement data, we were provided with read only access to BBYL's STG and NAB online banking portals, from which we were able to download between 12 to 18 months of bank transaction history in electronic format. Hard copy statements were provided by STG and NAB in relation to closed bank accounts identified by the Liquidators that were not available on the online portals, as well as accounts for which we required historical transactions. The hard copy statements obtained had to be manually transferred into electronic format, using text recognition software, which was a time consuming process. Appendix 45 sets out the data range for which we were able to obtain bank statements, either in hard copy or soft copy format, in respect of each account. The bank statement data obtained, and relied upon for the purposes of our investigations, is also included at Confidential Exhibits 41 to 49.

Once in electronic format, all available transaction data was uploaded to a secure relational database management system used by the Liquidators' data analytics team. This system allows for efficient analysis of large volumes of data. Preliminary profiling was carried out on the transaction data to gain an understanding of the level of activity going through each account per day, the nature of the transaction activity and the average value of the transactions. A summary of our profiling of each of the bank accounts is included at Appendix 46.

Our observations on the use of each of the bank accounts is set out in section 6.2.

5.2.2 Disclosure hotline & inbox

In August 2015, the Liquidators set-up a BBYL disclosure hotline and dedicated email inbox, leveraging the infrastructure of KPMG's existing whistle-blower hotline service. The service allows individuals to call or email information anonymously, and is staffed by specific members of the Liquidators' team. Details of this facility were sent to all email addresses of former BBYL employees (based on information held by the Liquidators at that time), inviting any former members of staff, with information relating to any misuse of client funds and/or related misconduct, to report this to the Liquidators anonymously. A copy of the email communication sent out by the Liquidators is attached at Appendix 47.

The Liquidators received a number of disclosures via this facility and held follow-up interviews with those disclosers who were comfortable providing their details to the Liquidators. We have not disclosed details of the disclosers in this report in order to maintain confidentiality. The information obtained from these disclosers provided further insight into the working environment at BBYL and also some examples of potential misuse of client funds / misconduct, including areas for investigation outside of the CSA analysis.

The disclosure hotline and dedicated email inbox will remain open throughout our appointment.

5.2.3 Interviews and discussions with former BBYL employees

During the course of the administration and liquidation to date, we interviewed the directors and other individuals considered key to the CSA investigation. These interviews focussed on gaining an understanding of the operation of, and transactions within, the CSAs, and possible reasons for shortfalls in client funds, that could be provided to assist with our analysis.

We have indicated separately in this report the instances in which we have relied upon what was said in these interviews and discussions. Apart from those specific instances, this report is based on our analysis of the business records kept by the BBY Group.

³⁰ This category includes Term Deposit accounts and Bank Guarantee Accounts.

5.2.4 Analysis of bank transactions

In the absence of comprehensive and reliable books and records and bank reconciliations, detailed analysis of the BBYL bank transactions was undertaken by the Liquidators' team in order to identify transactions of interest, specifically, transactions relating to the scope items set out in section 5.1 above. We analysed the electronic bank transaction data using two key methods; Method A - Transaction Matching and Method B - Generic reference and key word searching. These methods are discussed in more detail below, along with an additional method, Method C that we have not undertaken to date.

Method A - transaction matching matrix

In order to identify funds transfers between BBYL accounts (including House accounts and CSAs), the transaction data was analysed within a relational database management system³¹, heuristically matching debit and credit transactions between all the BBYL bank accounts (i.e. assumed matches not individually confirmed by the respective banks), based on four different levels of "match" quality, explained below:

- **High quality match:** There is a debit value in the 'sending account' equal to a credit value in the 'receiving account' on the same date. The transaction descriptions have the same numeric characters in sequence and there must be at least four numeric characters in the transaction description.
- **Medium-High quality match:** There is a debit value in the 'sending account' equal to a credit value in the 'receiving account' on the same date. The transaction descriptions either match with only three numeric characters or they do not match (it is not uncommon for the debit and credit descriptions of the same transfer to be different). There is only one corresponding transaction identified on the same date for these transactions.
- **Medium-Low quality match:** There is a debit value in the 'sending account' equal to a credit value in the 'receiving account' on the same date, but the transaction descriptions do not match. There are instances in this category where there are multiple possible debits relating to the same credit, or vice versa (for example there is a debit transaction of \$10,000 in one account and three credit transactions of \$10,000 in other accounts, on the same date). In this event, in respect of the quantum of those shown in the matrix, each possible transaction is included within the detail that sits behind the matrix, however the match value is not double counted.
- **Low quality match:** This category applied the same rules as Medium-Low quality but extends the timeframe connecting the debits and the credits to three business days.

Transactions in currencies other than AUD were converted into AUD for the purposes of this analysis. In order to address potential AUD value differences arising from the FX conversion of two different currency values into AUD, we allowed a 2% value tolerance in respect of the funds transfer matrix 'match'. FX rate information obtained for this purpose is included at Appendix 48.

The outcome of this matching analysis was presented both numerically (in a transaction matrix) and visually (through an interactive electronic display tool) in order to ascertain the extent to which funds had been transferred either vertically or horizontally between CSAs, as well as to and from BBY 'House' bank accounts. A funds movement matrix including both 'high' and 'medium-high' grades of 'matched' transactions is set out at Appendix 49.

As can be seen from the matrix appended, there is a significant volume and value of 'matched' transactions in respect of each quality of match. The 'High' quality match results alone show 2,098 transactions with a total funds transfer value of \$292 million. Due to sheer volume of results, funds movements were investigated on a sample basis, to further understand the nature of the funds transfers picked up by the matrix. It has not been practical to investigate every funds movement identified within the timeframe. The findings of this analysis are discussed further in section 6.

Further investigations into individual transactions included reviewing the individual transaction in more detail in the context of the sending and receiving accounts; conducting further searches for the same transaction value in order to establish if the same value had been transferred more than once, through different accounts; and conducting email searches to identify email correspondence in relation to the funds transfer, potentially discussing the reason for the transfer and to establish who approved the transfer.

Method B – generic reference and key word searching

During our analysis of transactions described under Method A above, and also from discussions and information provided by interviewees, we noted a pattern of generic descriptions being presented within the bank statement data relating to transactions of interest. The use of these generic descriptions in respect of non-BAU funds transfers was also confirmed by former BBY staff members during our interviews. We therefore undertook a process of identifying and extracting transactions with particular generic descriptions within the bank transaction data, for further review and investigation.

Searches were carried out for transactions with the following generic bank statement descriptions:

³¹ A computer database structured to recognize relations between stored items of information.

Generic Transaction Descriptions	
INTERNET WITHDRAWAL BBY	INTERNET WITHDRAWAL HIGH INT TRF
INTERNET DEPOSIT BBY	INTERNET DEPOSIT HIGH INT TRF
INTERNET WITHDRAWAL HI	INTERNET WITHDRAWAL HIGH INT TRF BBY
INTERNET DEPOSIT HI	INTERNET DEPOSIT HIGH INT TRF BBY
INTERNET WITHDRAWAL Trf	TRF BBY
INTERNET DEPOSIT Trf	AM/GR
BBY BBY	

Additionally, key word searches were also run across the transaction data in order to identify transactions to and from known individuals or related parties, and transactions relating to specific trades or patterns of activity.

The findings of this analysis are discussed further in section 6.

Method C – reconciliation of G/L, client ledger system data and bank transactions

A third method of identifying transactions of interest would be to carry out a full data matching and reconciliation exercise using the following data sources:

- Bank transaction data;
- BBYL general ledger from the SAP accounting system; and
- Client ledger systems for each product, much of which is held by third party service providers, such as GBST.

This would then confirm the funds movements that were BAU and/or client related, and presumably highlight any funds movements of interest, relevant to the objectives of the CSA investigation. However, it has not been possible to complete this exercise prior to the date of this report for the following main reasons:

- The BBYL general ledger data is incomplete, particularly in relation to 2015 (as reported in our 439A report dated 12 June 2015);
- The client ledger data is split across a number of systems, and a number of third party service providers, and are not integrated. The Liquidators' team also do not have the requisite knowledge and training to operate each of these systems. Further, the level of co-operation from the service providers that we have contacted to date has been varied;
- Reconciliation of each of the data sets is likely to be extremely time consuming (potentially several months of full time work) and potentially complex. There is also a risk that the reconciliation will not be able to be completed due to incomplete BBYL books and records to allow matching between bank transactions;
- There are likely to be significant costs involved in obtaining the required system data. For example, GBST has estimated that we will incur costs of between \$7,000 - \$12,000 in relation to technical assistance alone required to be provided by GBST to obtain and analyse the required data. This does not include the cost of staff to review and analyse the data; and
- The main review period was 1 January 2014 to 17 May 2015 (bank transaction data permitting), however it is likely that analysis will be required back to 2011, in order to establish further information in respect of how the shortfalls in client funds first arose (the requirement for the review of historical data back to 2011 is discussed further in section 6). Extending the review period will significantly increase the time and cost involved in this exercise.

5.2.5 Review of electronic data (including employee mailboxes)

The Liquidators obtained a copy of the BBYL server data initially obtained by the Receivers, and also took forensic images of a number of BBYL employee PCs in both Sydney and Melbourne.

The BBYL server data received from the Receivers is extensive; in compressed electronic form the data is 6.54 terabytes. In uncompressed form, the data would represent a much larger volume, potentially over 10 terabytes (the equivalent of approximately 50 million word documents of four pages each). It has not been practical to manually review all documents and data captured. We have therefore carried out key word searches over the server data to attempt to identify documentation that may be relevant to our investigations.

Onsite computer imaging was completed by KPMG Forensic personnel in May 2015 at BBYL offices in Sydney and Melbourne. A total of 17 independently verifiable forensic images were captured from computer hard drives and one independently verifiable image was captured from a mobile phone.

The Liquidators developed a list of key BBYL employees from staff organisation charts and extracted back-ups of the email mailboxes for these individuals from both the server data and PC images. This data was then indexed and uploaded into a forensic software platform – a total of 57,351 individual email items were extracted from the PC images taken and a total of 2,787,560

individual email items were identified within the custodian and functional mailboxes extracted from the server data. Key words and search terms were run over the email data to identify email correspondence and documentation relevant to our investigation. Review of email correspondence has been a useful source of information in respect of transactions of interest.

Further information in relation to the electronic data obtained by KPMG Forensic is included at Appendix 50.

5.2.6 Detailed review into specific trading events

During our analysis of the BBYL bank transactions, key word searching and email review, we identified a significant volume and/or value of funds transfers across a number of product lines relating to two specific events:

- Aquila equity transaction; and
- Saxo agreement termination.

We therefore carried out a detailed review into these events to establish the funds movements that had occurred, through manual tracing of funds through the bank statement data, supported by targeted email searches.

The results of our review are set out in sections 6.8 and 6.9.

5.3 Assumptions

We have made the following assumptions during our work to date:

- That the transactions 'matched' within our funds transfer matrix relate to the same transaction (it has not been practical or cost effective to obtain confirmation from the respective banks in respect of every transaction matched within our matrix);
- That transactions containing a client account reference within the description are BAU client related transactions and are therefore not transactions of interest for the purposes of our analysis (see examples at 6.5.1);
- That no further bank accounts exist with the financial institutions that have provided confirmation of existing and closed bank accounts; and
- That relevant email correspondence identified was sent or received by the individual to which the email address pertains.

6. Findings

6.1 Introduction

This section sets out our observations and findings as a result of the procedures undertaken to date, as outlined in section 5 above, and covers the following:

- Our observations in respect of how the BBYL bank accounts were operated;
- The results of our data analysis and resulting funds transfer matrix;
- Our findings in respect of our investigations into vertical funds movement between CSAs within the same product line;
- Our findings in respect of our investigations into horizontal funds movements between CSAs of different product lines;
- Our findings in respect of our investigations into funds movements between CSAs and BBYL House accounts;
- Our findings in respect of our investigations into 'other' funds movements, including funds transfers between BBYL and related parties;
- Findings from our investigation into the funds movements relating to the Aquila transaction;
- Findings from our investigation into the funds movements relating to the Saxo trading termination; and
- Other relevant matters arising from our investigations.

6.2 Operation of the BBY bank accounts

As set out in section 5.2 above, the Liquidators have identified 118 bank accounts in the name of the BBY Companies, 67 of which were open as at the date of our appointment (excluding BNZ accounts), including 39 product CSAs and 9 other client accounts. These bank accounts have been grouped into the following account pools for the purposes of our analysis, based on BBYL's bank account schedule³² and the account names:

- House Accounts
- Other Trust accounts
- Equity / ETO
- Futures
- FX
- Saxo
- Interactive Brokers
- Carbon Trading

Preliminary profiling was carried out on the electronic bank statement data obtained in order to gain an understanding of the level of activity going through each account, the nature of the transaction activity and the average value of the transactions. The results of our data profiling are set out at Appendix 46.

Our observations in respect of the use of the BBYL bank accounts in each pool are set out below.

6.2.1 Operation of the NAB BBYL House bank accounts

The BBYL NAB House accounts are set out in the table below:

NAB House Accounts			
Bank	Account Name	Account No.	Currency
NAB	BBY Ltd Operating Account	169290891	AUD
NAB	Broker Services Australia Pty	169290840	AUD
NAB	BBY Holdings Pty Ltd	169107268	AUD
NAB	BBY Advisory Services Pty Limited	169592689	AUD
NAB	BBY Staff Holdings Pty Ltd	169290998	AUD
NAB	BBY Equities General Account	124078643	AUD
NAB	BBY Ltd	BBYLTUSD01	USD

We understand from discussions with former BBY staff, that the NAB House accounts were primarily managed by the Sydney Finance Team.

³² BBY bank account schedule "BBY Bank Account Apr15.xls" (Appendix 44).

Operating Account: The BBY Ltd Operating Account was the main account used for the operations of the business. Revenues from product sales were drawn into this account on a monthly basis and intercompany transfers were made to BBY Holdings and Broker Services Australia accounts. Operational expense payment (such as utilities, rent, charges etc.) were made out of this account.

Broker Services Australia Pty Ltd account: The BSA account received funds from the NAB Operating account in order to fund payroll and commission payments paid out of this account.

BBY Holdings Pty Ltd account: The activity through the BBY Holdings Pty Ltd account appears to relate primarily to intercompany transactions. Funds are deposited from the NAB Operating account and transfers are made out to the Broker Services Australia account. We also note payments to the “tax office” being made out the BBY Holdings account.

BBY Advisory Services Pty Ltd account: The activity through the BBY Advisory Services Pty Ltd account (renamed from Jaguar Advisory Services) is minimal (i.e. generally low value transactions and/or low frequency, compared to the other accounts). However, one transaction of interest was noted and is discussed further in section 6.7.

The activity through the **BBY Staff Holdings** and **BBY Equities General accounts** is also minimal. No transactions of interest were noted within these accounts in respect of our CSA investigations.

A copy of the bank statement data we obtained in respect of the NAB House accounts is attached at Confidential Exhibit 41.

During our investigations we identified a NAB USD account – we have not yet received statements for this account and have therefore not been able to review the transactions on this account to date. We also identified seven further NAB House accounts that were closed as at the date of our appointment – the accounts were closed between May 2011 and July 2014 and are detailed at Appendix 45. We have not identified any transactions of interest within these accounts and therefore we have not analysed these accounts further at this stage.

6.2.2 Operation of the STG BBY House / Clearing bank accounts

The BBYL STG House accounts are set out in the table below:

STG House Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd General Account	553452576	AUD
STG	BBY Ltd Facilitation Account	553453106	AUD
STG	BBY Ltd OD Excess Account	553774516	AUD
STG	BBY Ltd Operating Ac	553619401	AUD
STG	BBY Ltd Clearing Account	553581319	AUD
STG	BBY Ltd Operating	204226USD04	USD

We understand from discussions with former BBYL staff, that the STG House accounts were primarily managed by the Equities/ETOs Clearing team, with the exception of the General Account that was managed by the Strategy team (April Yuen). From our review of the bank statements, we note a significant amount of activity going through the Facilitation, General and Clearing House accounts during 2014 and 2015.

General Account: The BBY Ltd General account was the working general account which processed business cash requirements each business day³³. The General account was the flow through account in respect of ASX margin payments, receiving funds from the Equity / ETO Client Trust account (541) and transferring funds onto the Facilitation account. From early-2015, the General account also provided funding to the Equity/ETO Client Trust account (541) to cover dishonoured client receipts, and paid the monthly Equity/ETO commissions to the NAB Operating account. These funds flows are shown on the Equity/ETO funds flow diagrams included at Appendices 53 to 56.

Facilitation Account: The BBY Ltd Facilitation account was the overdraft facility provided by STG which was used to settle the daily market obligations and support business funding requirements of the Equity/ETO business³⁴. The Facilitation account was originally a \$3 million overdraft facility, which was increased to \$8 million in December 2012³⁵. Up until early-2015, the Facilitation account provided daily overnight funding to the Equity/ETO Client Trust account (541) to cover open buys and client direct debits, which do not clear until the following day. This funding cycle was changed following a review by the ASX in December 2014. Payments to and from the ASX were also made from the Facilitation account, both pre and post ASX review. Up until early 2015, funding for the CMM, CHESS and ACH margins was received from the Equity/ETO Client Trust account, however from early-2015, the CMM margin requirement was funded by the Facilitation account, following the ASX review. These funds flows are shown on the Equity/ETO funds flow diagrams included at Appendices 53 to 56.

³³ BBY word document “Equity & ETO Banking (processing & requirement)” created in August 2014 (see Appendix 51).

³⁴ BBY word document “Equity & ETO Banking (processing & requirement)” created in August 2014 (see Appendix 51).

³⁵ St George Facility Offer letter dated 12 December 2012 (see Appendix 52).

OD Excess Account: The BBY Ltd Overdraft Excess account provided additional funding to BBYL via the Facilitation account in respect of specific transactions, as agreed between BBY and STG. The activity within this account is minimal except for the provision of an additional \$26 million funding in June 2014 at the time of the Aquila transaction (which is discussed further in section 6.8 below) and an additional \$2.7 million in May 2015 in respect of a CBPL margin payment to ASX³⁶.

Operating account: The activity through the BBY Ltd Operating account is minimal – mostly low value interest deposits and service charges. However, we noted one transaction of interest which flowed through this account in June 2014, which is discussed in section 6.8 in respect of the Aquila transaction funds flows.

Clearing Account: The BBY Ltd Clearing account is a STG CMA account which facilitated daily payments and receipts in respect of Equity/ETO clearing. We are aware of other CMA accounts with various financial institutions, however, confirmation as to the entity to which these accounts belong is pending. The CMA accounts were effectively flow-through accounts in respect of client funds and therefore did not have a running balance of funds.

During our investigations, we identified three further STG House accounts which were closed as at the date of our appointment (closed in June 2014) and are detailed at Appendix 45. The activity within these accounts is minimal however specific transactions of interest flow through two of these accounts in relation to the Aquila transaction, which is discussed further in section 6.8 below.

A copy of the bank statement data we obtained in respect of the STG House accounts is attached at Confidential Exhibit 42.

6.2.3 Operation of Other Trust Accounts

The Other Trust accounts are set out in the table below; including those that were closed:

Other Trust Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY LTD General Trust Account	553980002	AUD
STG	BBY TRUST ACCOUNT 1	553619153	AUD
STG	BBY LTD – TRUST ACCOUNT 2 (Dormant)	553619196	AUD
STG	BBY TRUST ACCOUNT 3	553619217	AUD
STG	BBY TRUST ACCOUNT 4 (Closed)	553619372	AUD
STG	BBY LTD - TRUST ACCOUNT 5 (Closed)	553619233	AUD
STG	BBY LTD - TRUST 6 (Closed)	553577408	AUD
NAB	BBY Limited Trust Ac1	169133546	AUD
NAB	BBY Limited Trust Ac2	166655330	AUD
NAB	BBY Limited Trust Ac3	166655349	AUD
NAB	BBY Limited Trust Ac4	166655357	AUD
NAB	Corporate cheque Ac Trust Ac5	198057204	AUD
NAB	BBY Limited Trust Account 6 - Corporate Cheque Ac (Closed)	140865217	AUD
NAB	BBY Limited Client Segregated Trust Ac (Closed)	176798714	AUD
NAB	BBY Limited Trust Account CCA (Closed)	144581107	AUD

The above accounts have been categorised as 'Other Trust' accounts as they do not appear to be aligned to any particular product line. We note that these accounts are not listed on BBYL's bank account list³⁷ however we have deemed these accounts to be trust accounts on the basis of the account names.

From our review of the bank statements and our discussions with former BBYL staff, we understand that a number of the Other Trust accounts were used for specific client placements, such as Equity placements or IPOs (e.g. the details of an Other Trust account would be included on a prospectus, a high volume of clients would deposit funds into that account in regard to buying shares and the deal would be settled, in theory returning the Other Trust account back to nil balance). However, a number of these accounts also appear to have been used by the Strategy Team for House funding purposes and/or specific projects.

General Trust Account: The BBY Ltd General Trust account had the highest volume of transactions of all of the Other Trust accounts. This account was opened in June 2014, following which \$3.5 million was transferred into this account from STG Trust Account 4 prior to Trust Account 4 being closed. From our analysis of the Aquila transaction which is set out in detail in section 6.8, it is likely that these funds from Trust account 4 contained CSA funds taken from Saxo and Futures during the Aquila transaction. From our review of the bank statements, and the Equities/ETOs funds flows (discussed further in section 6.2.4), we noted regular overnight funding being provided from the General Trust account 002 to the Equities/ETOs Client Trust account between June 2014 and December 2014. This funding appears to relate to the BBYL House obligation in relation to aged Equity debtors, provided to the Client Trust account 541 in order to meet the Equities Trust Obligation at the end of each business day. A particular transaction of interest between the General Trust Account 002 and the Equities/ETOs Client Trust account 541 is discussed in section 6.6.3. The General Trust Account was also utilised during the upload of funds to SCMA, which is discussed in section 6.9.

³⁶ Email correspondence between BBY and ASX/STG "ASX Clear – CBPL Payment requirement" dated 6 May 2015 (Confidential Exhibit 51).

³⁷ BBY bank account schedule "BBY Bank Account Apr15.xls" at Appendix 44

STG Trust Account 1: There were only 11 transactions through the BBY Trust account 1 between June 2014 and December 2014. These transactions were generally high value (between \$2 million and \$29 million) and primarily related to the Aquila transaction, which is discussed further in section 6.8. The remaining transactions in December 2014 relate to a deposit of funds from Ficema Pty Ltd which is discussed further in section 6.9, in relation to the upload of funds to SCMA.

STG Trust Account 2: We were advised by STG that BBY Ltd Trust account 2 is dormant and therefore there are no transaction data available for this account since it was opened in 2012.

STG Trust Account 3: From our review of the bank statements, we note 73 transactions through BBY Trust account 3 between June 2014 and February 2015. The majority of these transactions appear to be to/from other BBY accounts, such as the General Trust account 002. We also note deposits being made into this account by GARF Pty Ltd (a related party of Glenn Rosewall) and Ficema Pty Ltd (a related party of Ken Rosewall) – these transactions are discussed further in relation to the Aquila transaction and the upload of funds to SCMA in sections 6.8 and 6.9, respectively.

STG Trust Account 4: Similar to Trust Account 3 above, the activity within Trust Account 4 appears to primarily relate to transfers to / from other BBY accounts. From our review of the bank statements, and the Equity/ETO funds flows (discussed further in section 6.2.4), we noted regular overnight funding being provided from the STG Trust Account 4 to the Equity/ETO Client Trust account between February 2013 and June 2014. This funding appears to relate to the BBY House obligation in relation to aged Equity debtors, provided to the Client Trust account 541 in order to meet the Equity Trust Obligation at the end of each business day. We note a deposit of \$2 million into this account in December 2012, however we do not have sufficient bank statement data back to 2012 to confirm the source of these funds. Trust Account 4 was also utilised during the Aquila transaction, which is discussed further in section 6.8 below. The account was closed at the end of June 2014, following completion of the Aquila Transaction. The balance of funds on this account (\$3.5 million) was transferred to the General Trust account 002 prior to closure.

STG Trust Accounts 5 & 6: During our investigations, we identified two further Other Trust accounts - BBY LTD Trust Account 5 and BBY Ltd Trust 6. We were advised by STG that both of these accounts were closed in June 2013, which is prior to the initial period of our review.

NAB Trust Account 1: From our review of the bank statements, it appears that the BBY Limited Trust Ac 1 was used on an ad hoc basis between March 2014 and March 2015, with only 38 transactions through this account during this period. Most of the transactions were low value interest / commissions transactions, however we also note some high value funds transfers in and out of this account. It appears that this account was used as an intermediary account in respect of a small number of funds movements between the NAB Trust Account 3 and the STG Trust Account 3. We also note funds transfers between the Trust Account 1 and the General Trust account 002.

NAB Trust Account 2: From our review of the bank statements, it appears that the BBY Limited Trust Ac 2 was used for a specific Equity project for a client, Capital Mining, in 2015. Client deposits can be seen coming into this account in February 2015 (consideration for share purchase), followed by settlement payments to Capital Mining.

NAB Trust Account 3: From our review of the bank statements, it appears that the BBY Limited Trust Ac 3 was also used for a specific Equity project, a large share placement that BBY carried out for Phytotech, a medical company. A high volume of client deposits can be seen coming into this account in December 2014 (consideration for share purchase), followed by settlement payments to Phytotech, and a high volume of cheque payments being made out of the account in early 2015 (return of client funds received in excess of the share allocations awarded).

NAB Trust Account 4: From our review of the bank statements, we note that there were only 19 transactions through the BBY Limited Trust Ac 4 between January 2014 and July 2014. \$3 million was deposited into the account in January 2014, which appears to have come from the NAB BBY Holdings House account. We also note some ad hoc withdrawals from this account to the STG Trust Account 4 and the STG BBY Holdings House account.

NAB Trust Account 5 – Cheque Account: The activity within the Corporate Cheque account Trust Ac 5 from Jan 2014 is minimal – the majority of the transactions are low value interest payments which are transferred out to the NAB Operating account 0891. The balance on this account (\$261,000) was transferred to the NAB Operating account 0891 in June 2014.

NAB Trust Account 6 – Cheque Account: Hard copy bank statements were received in respect of this account in the week prior to the date of this report, and therefore this account has not been included within our analysis. The account was closed in June 2013, prior to the period of our analysis.

NAB Client Segregated Trust Account: The activity within the Client Segregated Trust account is minimal and the majority of the transactions are relatively low value (less than \$50,000). This accounts was closed in July 2014.

NAB Trust Account CCA: The activity within the Trust Account CCA is minimal (11 transactions between October 2013 and July 2014, all less than \$2,000). The account was closed in July 2014.

A copy of the bank statement data we obtained in respect of the Other Trust accounts is attached at Confidential Exhibit 43.

6.2.4 Operation of the Equity / ETO bank accounts

The Equity / ETO accounts are set out in the table below:

Equity/ETO Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd Client Trust Account	553452541	AUD
STG	BBY Ltd Equities Trust 2	553469415	AUD
STG	BBY Ltd ETO Trust Account	553486012	AUD
NAB	BBY Equities Trust Ac	124078694	AUD
BNZ	BBY (NZ) Ltd - Equities Account – out of scope	588085023	NZD
BNZ	BBY (NZ) Ltd - ETO Account – out of scope	588085024	NZD

We understand from discussions with former BBY staff, that the Equities/ETOs accounts were managed by the Melbourne Finance Team, under the direction of the Head of Operations. The funds flows in respect of the Equities/ETOs accounts changed significantly in 2015, following a review by ASX in December 2014³⁸. The key transactions through each of the above accounts, and the interactions with the House / Clearing accounts, is discussed below.

Equity/ETO Client Trust Account 541: The Client Trust account was the working trust account from which all client cash requirements were processed each business day³⁹. There was a high volume of transactions through this account each day. These transactions have been summarised as follows:

Client payments & withdrawals: Equity/ETO client payments and withdrawals were made in and out of the Client Trust account daily. Payments and receipts were made to/from either client CMAs directly, via direct debit / credit (“DE Files”), or by direct deposit from clients.

Funding from Facilitation account: Up until early 2015, the Client Trust account received daily overnight funding from the STG Facilitation account in respect of current client debts (open fails and direct debit payment from clients which clear the following day) in order for the total Equity/ETO Trust Obligation to be fully funded as at close of business each day. A graph summarising the movements between the Facilitation account and the Equity/ETO 541 account between June 2014 and May 2015 is included at Appendix 57.

Funding from Other Trust: During our investigations, we also noted regular overnight funding being provided to Equity/ETO from Other Trust accounts (Trust Account 4 between February 2013 and June 2014 and General Trust 002 between June 2014 and December 2014). From our review of the BBY bank movements’ records⁴⁰ and Equity/ETO bank statements, it appears that these funding movements related to funding of aged Equity client debts. We have been unable to trace the source of funds in Trust Account 4 back to 2013 due to limitations of availability of electronic bank statements, however the source of funds in the General Trust account 002 appears to be CSA funds utilised during the Aquila transaction. It therefore appears that CSA funds from other products were being used by BBY House to provide overnight funding to the Equity/ETO business. The funds movements between the Equity/ETO Client Trust account and Other Trust, and the Aquila funds movements, are discussed further in sections 6.5, 6.6 and 6.8, respectively.

ASX margin funding to House: Funding in respect of the daily CMM, CHES (Equity) and ACH (ETO) margins payable to the ASX was transferred from the Equity/ETO Client Trust account 541 to the House General account 576 on a net basis each business day. This funding was later paid to the Facilitation account. The ASX advised BBY during its review in December 2014, that client funds could not be used to meet the CMM margin requirements and therefore the CMM margin was funded out of the Facilitation account from early 2015. A graph summarising the movements between the Equity/ETO 541 account and the General 576 account between June 2014 and May 2015 is included at Appendix 58.

Revenues & commissions: Client payments made into the Equity/ETO Client Trust account were made gross of commissions and GST. The revenues / commissions were then drawn down from Equity/ETO to the NAB House Operating account on a monthly basis.

Movements between Equity & ETO Trust Accounts: At the end of each business day, the balance of the Equity and ETO Trust Obligations were transferred to the Equities Trust 2 account (415) and the ETO Trust Account (012) respectively. These balances were then returned to the Client Trust account 541 at the start of the following day. Funds were also transferred from the Client Trust account 541 to the NAB Equities Trust account each business day in order to fund client withdrawals being paid by cheque.

Equities Trust 2 account: The Equities Trust 2 account held the full balance of the Equity Trust Obligation, segregated from the working trust account (541). As noted above, until early-2015, the balance of the Equity Trust Obligation was transferred into this

³⁸ ASX Review Report – BBY Limited – Interim Report dated 10 February 2015 (Confidential Exhibit 1)

³⁹ BBY word document “Equity & ETO Banking (processing & requirement)” created in August 2014 (see Appendix 57)

⁴⁰ Bank Movements 2013-14 FY2.xlsx and Bank Movements 2015 Current.xlsx

account from the Client Trust account (541) at the end of each business day and held overnight, before being transferred back to the Client Trust account at the start of the following day. This process changed following the ASX review - the ASX requested that the process / funds flows were simplified and therefore the Equities Trust 2 account was no longer used from early 2015. Instead, the Equities Trust Obligation was held in the Client Trust account 541 from early 2015.

ETO Trust account: The ETO Trust account held the full balance of the ETO Trust Obligation, segregated from the working trust account (541). As noted above, until early 2015, the balance of the ETO Trust Obligation was transferred into this account from the Client Trust account (541) at the end of each business day and held overnight, before being transferred back to the Client Trust account at the start of the following day. This process did not change following the ASX review.

Equities Trust account (NAB): The Equities Trust Account was a chequing account, which was used to make payments to client via cheque. The value of unpresented cheques was held in this account at the end of each business day, funded by the Client Trust account 541.

BNZ Accounts: As outlined in section 5.2.1, the BNZ accounts are in the name of BBY (NZ) Limited (an entity to which we are not appointed) and therefore we have no access to bank statement information in respect of these accounts.

Funds flow diagrams summarising the funds flows between Equity/ETO accounts and the House accounts, in respect of both Equity/ETO trust obligations and margin payments, are set out at Appendices 53 to 56.

A copy of the bank statement data we obtained in respect of the Equity/ETO accounts is attached at Confidential Exhibit 44.

6.2.5 Operation of the Futures bank accounts

The Futures accounts are set out in the table below:

Futures Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd Futures House	553619305	AUD
STG	BBY Ltd Futures Client Seg	553619284	AUD
STG	BBY Limited - Future SEG CAD	204226CAD02	CAD
STG	BBY Limited - Future SEG CHF	204226CHF02	CHF
STG	BBY Limited - Future SEG EUR	204226EUR02	EUR
STG	BBY Limited - Future SEG GBP	204226GBP02	GBP
STG	BBY Limited - Future SEG HKD	204226HKD02	HKD
STG	BBY Limited - Future SEG JPY	204226JPY02	JPY
STG	BBY Limited - Future SEG NZD	204226NZD02	NZD
STG	BBY Limited - Future SEG USD	204226USD02	USD
STG	BBY Limited - Future SEG SGD	204226SGD02	SGD
BNZ	BBY (NZ) Ltd - Futures SEG NZD – out of scope	588085025	NZD

As at the date of our appointment, we identified two Futures AUD accounts and nine Futures currency accounts.

Futures House: The activity within the 'BBY Ltd Futures House' account is minimal, with only 21 transactions between 30 May 2014 and 30 April 2015. The majority of these transactions are low value interest credits, however we also note some transactions to / from ABN Amro, the Futures clearing House. Although this account is called "house", it has been classified as a product CSA in line with BBY's bank account listing⁴¹.

Futures Client Segregated Account: The main Futures account was the BBY Ltd Futures Client Seg account. The activity through this account primarily relates to client deposits/payments, revenues/commissions and transactions to/from the ABN and ADM clearing houses.

Futures Currency Accounts: The nine Futures currency accounts facilitated client trading in a range of currencies. These accounts had a lower volume of activity than the AUD accounts, with the USD account being the most active out of the currency accounts.

BNZ Account: As outlined in section 5.2.1, the BNZ accounts are in the name of BBY (NZ) Limited (an entity to which we are not appointed) and therefore we have no access to bank statement information in respect of this account.

We have noted a number of transactions between the Futures accounts and other product accounts, as well as House accounts, which are discussed further in sections 6.4 to 6.9. We were advised by former BBY employees during interviews that the FX and Futures bank accounts, in particular, were in practice treated as one interchangeable pool of funds. Some examples of funds transfers between FX and Futures CSAs are included in sections 6.5.2 and 6.5.3.

A copy of the bank statement data we obtained in respect of the Futures accounts is attached at Confidential Exhibit 45.

⁴¹ The 'Futures House' account was categorised by BBY as a Futures Client Trust Account per schedule 'BBY Bank Accounts Apr15' (see Appendix 49) identified during our email review, and therefore we have treated this account as a CSA for the purposes our investigations.

During our investigations we identified nine additional NAB Futures currency accounts, which appear to have been used before BBYL moved the majority of its banking to STG. These accounts were closed in 2013. We have not yet received statement data for these accounts and therefore no further review of these accounts has been carried out to date. These accounts are included on bank account listing at Appendix 45.

6.2.6 Operation of the FX bank accounts

The FX accounts are set out in the table below:

FX Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd FX Trust	553619268	AUD
STG	BBY Limited - FX Trust USD	204226USD01	USD
STG	BBY Limited - FX Trust NZD	204226NZD01	NZD
STG	BBY Limited - FX Trust FJD	204226FJD01	FJD
STG	BBY Limited - FX Trust THB	204226THB01	THB
STG	BBY Limited - FX Trust CAD	204226CAD01	CAD
STG	BBY Limited - FX Trust CHF	204226CHF01	CHF
STG	BBY Limited - Trust EUR	204226EUR01	EUR
STG	BBY Limited - FX Trust GBP	204226GBP01	GBP
STG	BBY Limited - FX Trust HKD	204226HKD01	HKD
STG	BBY Limited - FX Trust JPY	204226JPY01	JPY
STG	BBY Limited - FX Trust PHP	204226PHP01	PHP
STG	BBY Limited - FX Trust SGD	204226SGD01	SGD
STG	BBY Limited - FX Trust Ac ZAR	204226ZAR01	ZAR
BNZ	<i>BBY (NZ) Ltd - Margin FX account – out of scope</i>	<i>588085026</i>	<i>NZD</i>

As at the date of our appointment, we identified one FX AUD account and 13 FX currency accounts.

FX Trust account: The BBY Ltd FX Trust account was the main FX account. The activity through this account primarily relates to client deposits and payments, revenues, conversation fees and transactions to/from the FX counterparty, Halifax.

FX Currency Accounts: The FX currency accounts facilitated client trading in a range of currencies. These accounts had a lower volume of activity than the AUD account, with the USD account being the most active out of the currency accounts.

BNZ Account: As outlined in section 5.2.1, the BNZ accounts are in the name of BBY (NZ) Limited (an entity to which we are not appointed) and therefore we have no access to bank statement information in respect of this account.

We have noted a number of transactions between the FX accounts and other product accounts, as well as House accounts, which are discussed further in sections 6.4 to 6.9. We were advised by former BBYL employees during interview that the FX and Futures bank accounts, in particular, were in practice treated as one interchangeable pool of funds. Some examples of funds transfers between FX and Futures CSAs are included in sections 6.5.2 and 6.5.3.

A copy of the bank statement data we obtained in respect of the FX accounts is attached at Confidential Exhibit 46.

During our investigations we identified eight additional NAB FX currency accounts, which appear to have been used before BBYL moved the majority of it's banking to STG. These accounts were closed in 2013. We have not yet received statement data for these accounts and therefore no further review of these accounts has been carried out to date. These accounts are included on bank account listing at Appendix 45.

6.2.7 Operation of the Saxo bank accounts

The Saxo accounts are set out in the table below:

SAXO Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd Saxo Buffer	553619356	AUD
STG	BBY Limited - SAXO Buffer	204226EUR03	EUR
STG	BBY Limited - SAXO Buffer	204226GBP03	GBP
STG	BBY Limited - SAXO Buffer	204226HKD03	HKD
STG	BBY Limited - SAXO Buffer	204226NZD03	NZD
STG	BBY Limited - SAXO Buffer	204226USD03	USD
STG	BBY Limited - WLP Omnibus	553619137	AUD
BNZ	<i>BBY (NZ) Ltd - WLP Omnibus NZD – out of scope</i>	<i>588085027</i>	<i>NZD</i>

Saxo Buffer: From our review of the bank statements, the Saxo Buffer AUD account appears to be the main Saxo bank account. The activity within this accounts appears to relate to direct and bulk client deposits/payments, and transactions to/from SCMA.

Saxo Currency Accounts: The Saxo currency accounts facilitated client trading in a range of currencies. These accounts had a lower volume of activity than the AUD account, with the NZD and USD accounts being the most active out of the currency accounts.

WLP Omnibus: This account is categorised by BBY under “online” on its bank account schedule⁴², which lists both Saxo and IB accounts, instead of attributing the account to one particular product line. The account name makes reference to “WLP”, however both the Saxo and IB products operate on White Label Platforms. From our review of the bank statements, the activity within the WLP Omnibus account appears to relate to direct client deposits and bulk transfers to both Saxo and IB platforms. It therefore appears that this account belongs to both Saxo and IB product lines. For the purposes of our analysis, and our report, we have classified this account as a Saxo account.

We have noted a number of transactions between the Saxo accounts and other product accounts, as well as House accounts, which are discussed further in sections 6.4 to 6.8. We also carried out a detailed review into the upload of funds to SCMA in the second half of 2014, which is set out in section 6.9, which suggests that there was a significant shortfall in the Saxo client funds as at April 2014.

A copy of the bank statement data we obtained in respect of the Saxo accounts is attached at Confidential Exhibit 47.

During our investigations we identified a BBYL Declaration of Limited Trust dated 30 June 2012, which is attached at Appendix 59. This document lists the following additional Saxo bank accounts, which are designated as “Protection Trust” accounts pursuant to the aforementioned Declaration of Limited Trust:

Bank	Account Name	Account No.	Currency	Date Closed
STG	BBY Ltd (previously Smartrader Ltd)	553475874	AUD	4 June 2013
NAB	BBY Ltd (previously Smartrader Ltd)	195612428	AUD	15 July 2014
NAB	BBY Ltd (previously Stonebridge eBridge Buffer)	176820256	AUD	30 June 2014
NAB	BBY Saxo Buffer (USD)	STOSEUSD03	USD	2013*
NAB	BBY Saxo Buffer (EUR)	STOSEEUR03	EUR	2013*
NAB	BBY Saxo Buffer (GBP)	STOSEGBP03	GBP	2013*
BNZ	BBY Saxo Buffer (NZD) eBridge Buffer a/c - out of scope	0588085028	NZD	unconfirmed

*We identified email correspondence that suggests these accounts were closed in 2013⁴³, however confirmation of close dates from NAB is pending.

We understand from the BBYL Online Trader PDS (attached at Appendix 17) that BBY's intended practice was to receive client money paid to BBY into a CSA, but then "sweep" the total amount into a Protection Trust Account. To the extent required, BBY would then pay amounts out of the Protection Trust bank account to BBY's hedge counterparty (i.e. SCMA), however we note the following extract from BBYL's Online Trader PDS:

“BBY does not pay all moneys immediately to Hedge Counterparty because the amount of Margin BBY receives from clients is generally more than what is required as margin for the hedge positions, and because BBY considers it better credit protection to retain a surplus in the Protection Trust Bank Account. BBY considers that it is better credit protection for clients to do this because BBY has strict liquid capital requirements imposed on it by the ASX and so is confident that it will remain solvent.”⁴⁴

BBYL described the operation of the Protection Trust bank accounts, as follows:

“In simple terms, once the funds are in the Protection Trust Bank Account, BBY commits to using the funds only for hedging BBY Contracts or managing the hedge contracts, for paying fees and charges to which it is entitled and for payments back to BBY Contract Clients. Any amounts not required for these purposes are held in the Protection Trust Bank Account. If there is a trigger event, the funds in the Protection Trust Bank Account are held beneficially on trust for BBY Contract Clients and should not be available to creditors or anyone outside of that category of claimants.”⁴⁵

A "trigger event" includes BBYL appointing administrators, which occurred on 17 May 2015 and as such a trigger event occurred on that date. Confirmation as to whether the three NAB currency accounts were closed as at the date of our appointment is outstanding from NAB. Further, we are unable to confirm the balance on the BNZ Saxo Buffer account (NZD) as this account is in the name of BBY (NZ) Limited, a BBYL group entity, to which we were not appointed as Administrator or Liquidator.

6.2.8 Operation of the IB bank accounts

The IB accounts are set out in the table below:

⁴² BBY bank account schedule “BBY Bank Account Apr15.xls” at Appendix 44

⁴³ See Confidential Exhibit 52

⁴⁴ BBYL Online Trade Product Disclosure Statement June 2013, page 39 at Appendix 17

⁴⁵ BBYL Online Trade Product Disclosure Statement June 2013, page 49 at Appendix 17

Other Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd IB Buffer	553619321	AUD
BNZ	BBY (NZ) Ltd - IB Buffer account – out of scope	588085029	NZD

We are aware of one STG CSA in respect of IB. We understand from discussions with former BBYL staff that the Sydney Finance team was responsible for the operation of this account.

Interactive Brokers CSA: The main activity through the IB CSA appears to be deposits by clients and payments to clients, as well as interest earned on the account and bank service charges. This account also appears to interact regularly with the WLP Omnibus account in respect of bulk client transactions – we note that IB client payments are received into the WLP Omnibus account before being transferred to the IB Buffer. A transaction of interest in respect of the IB Buffer account was noted in December 2014 and is discussed further in section 6.6.3.

BNZ Account: As outlined in section 5.2.1, the BNZ accounts are in the name of BBY (NZ) Limited (an entity to which we are not appointed) and therefore we have no access to bank statement information in respect of this account.

A copy of the bank statement data we obtained in respect of the STG IB bank account is attached at Confidential Exhibit 48.

6.2.9 Operation of the Carbon Trading bank accounts

The Carbon Trading bank accounts are set out in the table below:

Other Accounts			
Bank	Account Name	Account No.	Currency
STG	BBY Ltd Carbon Trading Corp A/c	553486047	AUD

We are aware of one STG CSA in respect of Carbon Trading. We understand from discussions with former BBYL staff that the Sydney Finance team was responsible for the operation of this account.

Carbon Trading Corp A/c: There is minimal activity through the Carbon Trading account – mainly small value interest and service charges. However one withdrawal in December 2014 was flagged for further investigation during our review of the transaction data. This withdrawal is discussed further in section 6.6.3.

A copy of the bank statement data we obtained in respect of the Carbon Trading bank account is attached at Confidential Exhibit 49.

6.3 Funds transfer matrix findings

The bank statement data obtained and uploaded for the purpose of our analysis contains approximately 56,000 transactions. As outlined in section 5.2, the Liquidators carried out analysis of the available bank statement data within a relational database, given the volume of data.

Our data matching process identified a total of 10,027 internal funds transfers between BBYL accounts (for which we were able to obtain data), representing a total transfer value of \$8,832,057,893. A breakdown of the number of funds transfers identified, split by match quality, is set out below:

- **High:** 2,098 transactions matched with a total value of funds transferred of \$292,152,141.
- **Medium-high:** 5,804 transactions matched with a total value of funds transferred of \$8,179,022,128.
- **Medium-low:** 1,408 transactions matched with a total value of funds transferred of \$310,004,789.
- **Low:** 717 transactions matched with a total value of funds transferred of \$50,878,835.

A summarised version of our funds transfer matrix is attached at Appendix 49. This version of the matrix contains the funds transfers we identified in respect of the High and Medium-High match quality only, as the Medium-Low and Low match quality matrix contains all possible match results, inflating the number and value of funds transfers identified. The transfers identified evidenced both vertical and horizontal CSA funds transfers, as well as transfers between CSAs and BBY House accounts.

Given the volume of funds transfers identified, the transactions were investigated further on a sample basis, in order to identify the types of funds transfers captured in our matrix. Our findings in this regard are set out in the sections that follow. The examples included below were selected to provide coverage across each scope item, where applicable, with a value of \$100,000 or above.

A number of transactions were also highlighted to us by former BBYL staff who we interviewed, as being transactions that may be of interest to us in respect of our CSA investigations. The information provided to us by the former BBYL staff is discussed further in the sections that follow and is attached at Confidential Exhibits 53 and 54. The results of our investigations into these transactions (above \$100,000) are included under the appropriate headings below.

6.4 Vertical funds movements identified

As outlined in section 5.1, our scope of work included identification of vertical funds movements between CSAs within the same product line. Our funds transfer matrix shows a significant volume of vertical funds movements across all product categories – the results of our further investigations into a number of these transfers suggests that the funds movements within our matrix can be categorised as one of the following:

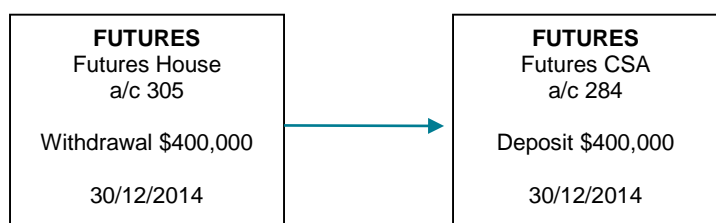
- BAU funds movements (e.g. daily margin call funding requirements, client related funds movements, etc.);
- Vertical funds movements between CSAs that appear to have been corrected (i.e. that the 'borrowed' funds were later restored);
or
- Transactions of interest that do not appear to be BAU or do not appear to have been corrected.

The existence of BAU and corrected transactions explains the significant volume of funds transfers identified by our funds transfer matrix. Examples of the transactions that we have identified, split by the above categories, are set out below.

6.4.1 Vertical funds movements which appear to be BAU

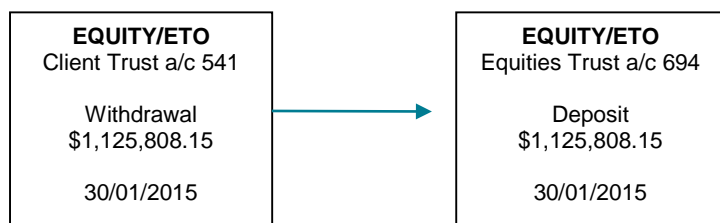
The transactions set out below are examples of funds movements that we have identified as being vertical funds movements, captured in our matrix, between CSAs within the same product line, which appear to be BAU transactions.

FUTURES to FUTURES \$0.4 million (30 December 2014) - ABN AMRO Clearing



The above transfer of \$0.4 million from the Futures House⁴⁶ account to the Futures CSA ending 284 was identified by our funds transfer analysis. Our email searches did not identify any email correspondence in relation to this transfer, however the bank statement description for this transaction is "ABN AMRO CLEARING" and therefore we assume that these funds have been transferred back from ABN to the Futures CSA, via the Futures House account.

EQUITY/ETO to EQUITY/ETO \$1.1 million (30 January 2015) – Unpresented Cheques



The above transfer of \$1.1 million from the Equity/ETO Client Trust account to the Equities Trust account was identified by our funds transfer analysis. We have identified a number of high value funds movements within our funds transfer matrix similar to the example above. Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 55. The email correspondence suggests that this value represents the balance of funds required to be transferred to the NAB Equities Trust account from the Equity/ETO Client Trust account, in order to cover the balance of unpresented cheques as at 30 January 2015.

We have traced this transfer through to BBYL's bank movements records⁴⁷ which shows the above deposit of funds into the Equities Trust account, followed by a number of cheques drawn on that account (see extract at Confidential Exhibit 56). This funds movement is in line with our understanding of the Equity/ETO funds movements discussed in section 6.2.4 and therefore this transfer appears to be a BAU vertical funds movement.

6.4.2 Vertical funds movements which appear to have been corrected

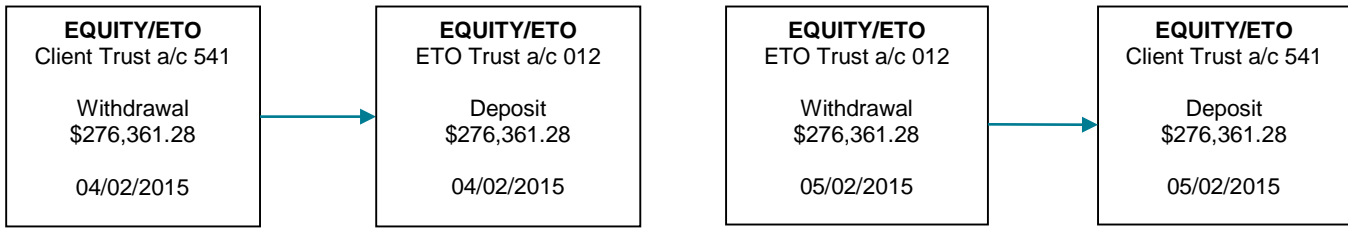
The transactions set out below are examples of funds movements that we have identified as being vertical funds movements, captured in our matrix, between CSAs within the same product line, that appear to have been corrected / restored (*for example, the*

⁴⁶ The 'Futures House' account was categorised by BBY as a Futures Client Trust Account per schedule 'BBY Bank Accounts Apr15' identified during our email review, and therefore we have treated this account as a CSA for the purposes our investigations.

⁴⁷ BBY bank movements schedule "Bank Movements 2015 Current.xlsx" at Appendix 44

same value of the funds transferred out of CSA 1 to CSA 2 can be seen being transferred back from CSA 2 to CSA 1 either on the same day or on a future date).

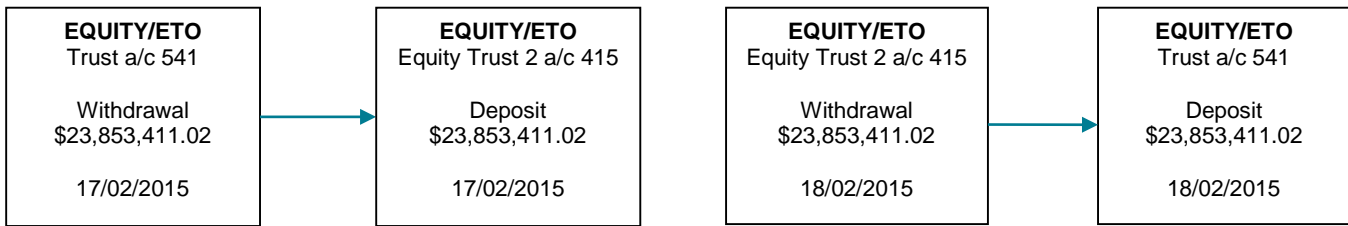
EQUITY/ETO to EQUITY/ETO - \$0.3 million (4 & 5 February 2015) – Daily Funding Pattern



The above transfer shows \$0.3 million being transferred from the Equity/ETO Client Trust account to the ETO Trust account, before being returned the following day. We have identified a number of high value funds movements within our funds transfer matrix similar to the example above. These transfers between Equity/ETO 541 account and the ETO Trust 012 account are in line with our understanding of the daily BAU transfers between the Equity/ETO accounts (refer to section 6.2.4). As outlined in section 6.2.4, the balance of the ETO Trust obligation at the end of each business day was transferred from the Equity/ETO Client Trust account to the ETO Trust account and held overnight, before being transferred back to the 541 account the following morning.

Our email searches identified correspondence, which is attached at Confidential Exhibit 57, explaining that this amount related to the “ETO Trust obligation for clients” on 4 February 2015. We also traced the funds transfers through to BBY’s bank movements records⁴⁸ which show the above withdrawals/deposits of funds within the Equity/ETO accounts (see extract at Confidential Exhibit 58). From the information we have obtained in respect of these transfers, we conclude that they appear to be BAU funding movements captured within our matrix.

EQUITY/ETO to EQUITY/ETO - \$23.9 million (17 & 18 February 2015) – Daily Funding Pattern



The above transfer shows \$23.9 million being transferred from the Equity/ETO Client Trust account to the Equity Trust 2 account, before being returned the following day. We have identified a number of high value funds movements within our funds transfer matrix similar to the example above. These transfers between Equity/ETO 541 account and the Equity Trust 2 account are in line with our understanding of the daily BAU transfers between the Equity/ETO accounts. As outlined in section 6.2.4, the balance of the Equity trust obligation at the end of each business day was transferred from the Equity/ETO 541 account to the Equity Trust 2 account and held overnight, before being transferred back to the 541 account the following morning. The use of Equity Trust 2 account for this purpose ceased in March 2015, following the ASX review.

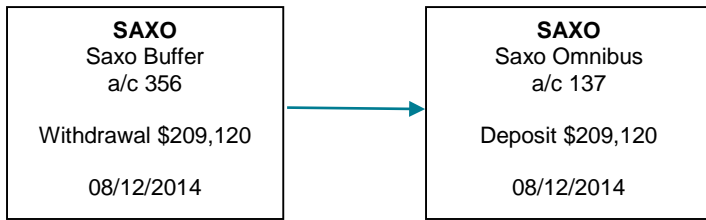
Our email searches identified correspondence, which is attached at Confidential Exhibit 59, explaining that this amount related to the “Trust obligation for clients” on 17 February 2015. We also traced the funds transfers through to BBY’s bank movements records⁴⁹ which show the above withdrawals/deposits of funds within the Equity/ETO accounts (see extract at Confidential Exhibit 60). From the information we have obtained in respect of these transfers, we conclude that they appear to be BAU funding movements captured within our matrix.

6.4.3 Vertical funds movements – transactions of interest

The transactions set out below are examples of funds movements that we have identified as being vertical funds movements between CSAs of the same product line, captured in our matrix, and do not appear to be BAU transactions. These transactions therefore are transactions of interest in respect of our CSA investigation. We have not identified any full value ‘make-right’ transactions in respect of these transfers (unless explicitly stated), where the same value is returned to the original sending account, however we note the limitation outlined in section 5.4 in respect of our ability to identify make-right transactions.

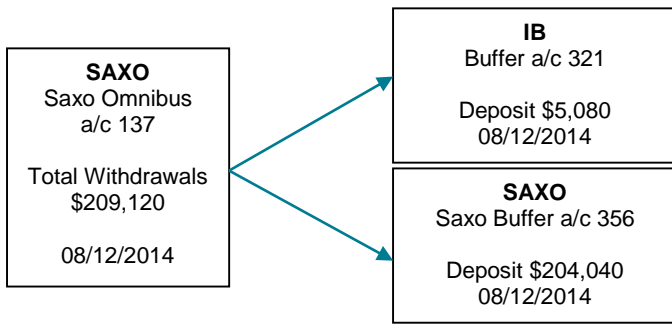
⁴⁸ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44

⁴⁹ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44



The above transfer of \$0.2 million from the Saxo Buffer account to the Saxo Omnibus account was identified within our funds transfer matrix. This transfer was also highlighted to the Liquidators by a former BBYL staff that we interviewed, as being a transaction that may be of interest to us in respect of non-BAU funds movements between CSAs. The information was provided to the Liquidators via email, which included a list of *“funds transferred between accounts by verbal direction from Senior Management”*. The email correspondence, an extract of which is included at Confidential Exhibit 53, also states that there was *“...no formal documentation around “borrowed monies...”* within BBYL.

Our email searches did not identify any email correspondence in relation to this transfer. The bank statement description for this transaction is “EB/WLP TO COVER PAYMENT” and therefore we assume that these funds were transferred from the Saxo Buffer account to cover payments out of the Saxo Omnibus account. However, from review of the Saxo Omnibus bank statements, it appears that the majority of the funds were transferred back to the Saxo Buffer account the same day. The balance of the funds appears to have been transferred to the IB account, as set out below:



From our review of the respective bank statements, the purpose of these transfers / use of the funds following transfer is not clear.

Further examples of vertical funds movements between accounts belonging to the same pool are included in our detailed analysis of the Aquila transaction and the Saxo upload and termination, in sections 6.8 and 6.9, respectively.

6.5 Horizontal funds movements identified

As outlined in section 5.1, our scope of work included identification of horizontal funds movements between CSAs within different product lines. Our funds transfer matrix shows a significant volume of horizontal funds movements – the results of our further investigations into a number of these transfers suggests that the funds movements within our matrix can be categorised as one of the following:

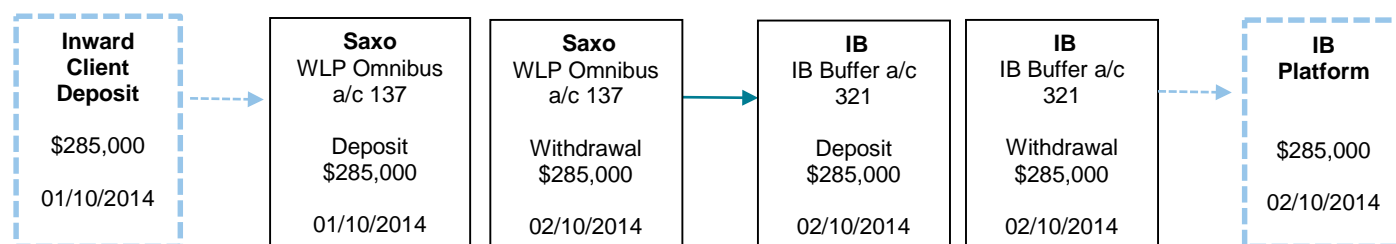
- BAU funds movements (e.g. a client-initiated transfer of money from one of their product accounts to another);
- Horizontal funds movements between CSAs that appear to have been corrected (i.e. that the ‘borrowed’ funds were later restored); or
- Transactions of interest that do not appear to be BAU or do not appear to have been made right.

The existence of BAU and corrected transactions explains the significant volume of funds transfers identified by our funds transfer matrix. Examples of the transactions that we have identified, split by the above categories, are set out below.

6.5.1 Horizontal funds movements which appear to be BAU

The transactions set out below are examples of funds movements that we have identified as being horizontal funds movements, captured in our matrix, between CSAs of different product lines, which appear to be BAU.

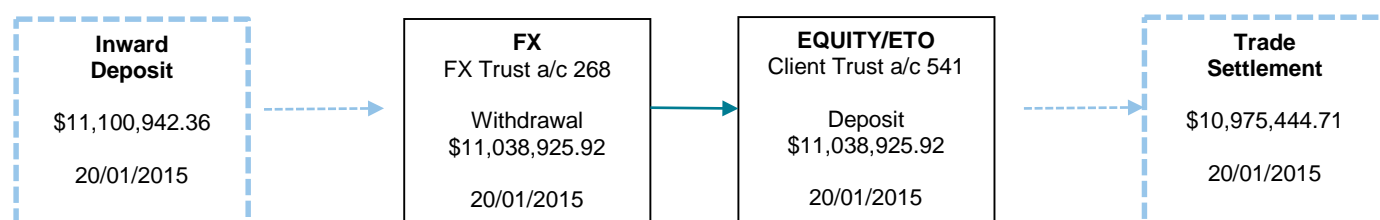
Saxo to IB \$0.3 million (1 & 2 October 2014) – Client deposit



The above transfer of \$285,000 from Saxo to IB was identified within our funds transfer matrix. We did not identify email correspondence in respect of this specific transfer, however the reference number included in the bank statement description corresponds to a client account reference. From the funds movements identified, it appears that client funds were deposited into the Saxo WLP account and transferred across to the IB Buffer account, before being paid up to IB platform from the IB Buffer account.

These funds movements are in line with our understanding that the IB client deposits were often made into the WLP Omnibus account and transferred over to the IB Buffer account, as outlined in section 6.2.8. We have therefore categorised this transaction as BAU.

FX to EQUITY / ETO \$11 million (20 January 2015) – Currency exchange

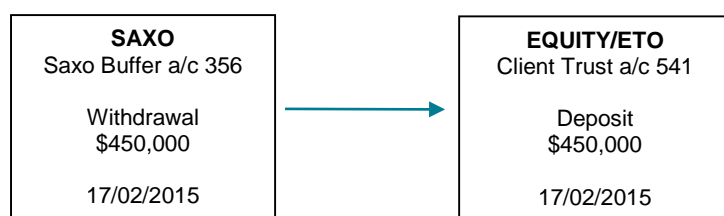


The above transfer of \$11 million from the FX Trust account to the Equity/ETO Client Trust account was identified within our funds transfer matrix. Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 61. The email correspondence suggests that this transaction relates to the sale of GBP for AUD in respect of a client trade, which was facilitated through the FX Trust account. The client account reference relates to a counterparty which trades on behalf of BBYN.

From our review of the FX Trust bank statements, we identified an inward payment of \$11,100,942.36 to the FX Trust account on 20 January 2015, prior to the above transfer to the Equity Client Trust account. Similarly, our review of the Equity/ETO Client Trust account bank statements identified a subsequent trade settlement payment of \$10,975,444.71. Our email searches also identified documentation in respect of this payment, which suggests that this payment relates to the trade consideration less brokerage, and supports the fact that this transaction relates to a valid client trade. A copy of this email correspondence is included at Confidential Exhibit 61.

From the information we have obtained in respect of this transfer, we conclude that it appears to be a BAU funding movement between FX and Equity/ETO, which is captured within our matrix.

SAXO to EQUITY / ETO \$0.45 million (17 February 2015) – Client funds movement

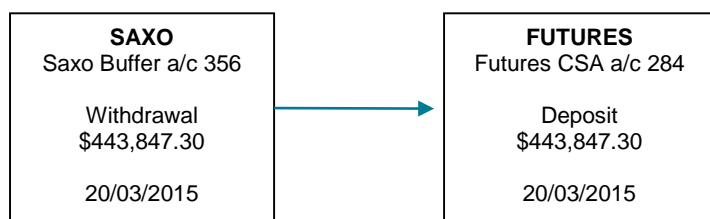


The above transfer of \$450,000 from the Saxo Buffer account to the Equity/ETO Client Trust account was identified within our funds transfer matrix. Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 63. The email correspondence suggests that this transaction is a transfer of funds from a client's Saxo account to the same client's Equity account. The bank statement description in respect of this transfer is 'EB/EQ S40500xxx-147xxx⁵⁰' which appears to relate to the clients' Saxo account number and Equity account number.

⁵⁰ 'EB' is BBY's reference for the Saxo Buffer account, which was previously called 'eBridge Buffer'. The description contains two client account numbers, one with 8 numerical character (Saxo) and one with 6 numerical characters (Equity). The full client account numbers have been redacted to maintain client confidentiality.

From the information we have obtained in respect of this transfer, we conclude that it appears to be a BAU funding movement between Saxo and Equity/ETO, which is captured within our matrix. We have not identified any central record of funds transfer requests made by clients with accounts across different product lines.

SAXO to FUTURES \$0.4 million (20 March 2015) – Client funds movement



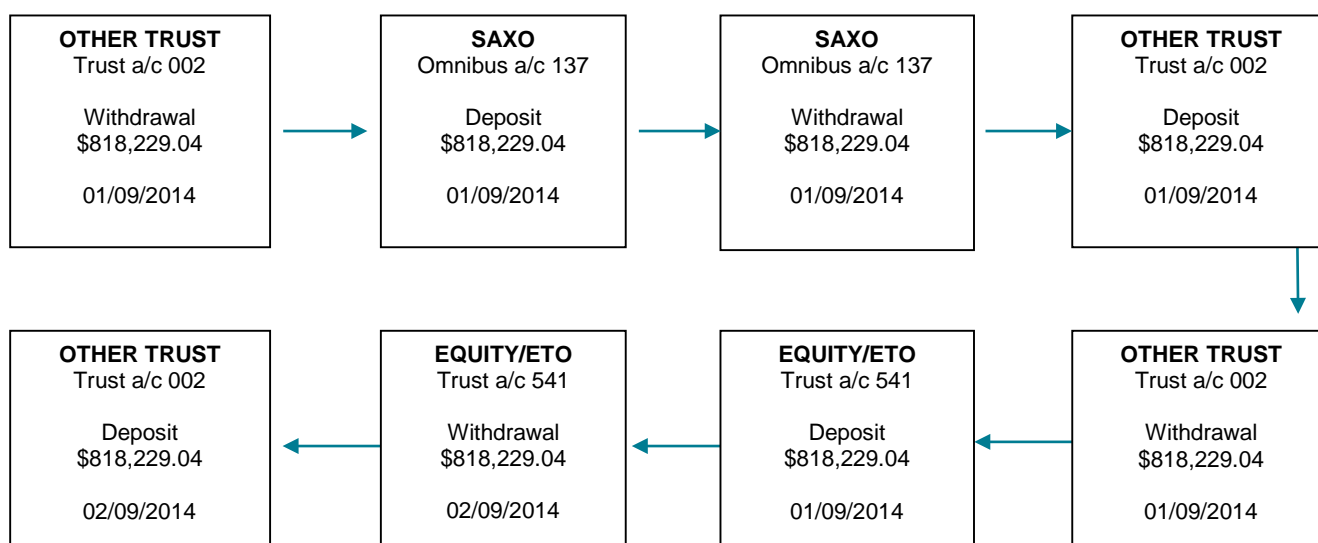
The above transfer of \$443,847.30 from the Saxo Buffer account to the Futures CSA account was identified within our funds transfer matrix. Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 64. The email correspondence suggests that this transaction is a transfer of funds from a client’s Saxo account to the same client’s Futures account, using BBYL’s standard funds transfer request template. The bank statement description in respect of this transfer is ‘EB/FUT 91800xx⁵¹’ which appears to relate to the client’s Futures account number.

From the information we have obtained in respect of this transfer, we conclude that it appears to be a BAU funding movement between Saxo and Futures, which is captured within our matrix. We have not identified any central record of funds transfer requests made by clients with accounts across different product lines.

6.5.2 Horizontal funds movements which appear to have been corrected

The transactions set out below are examples of funds movements that we have identified as being horizontal funds movements, captured within our matrix, between CSAs within different product lines, which appear to have been corrected/restored (for example, the same value of the funds transferred out of CSA 1 to CSA 2 can be seen being transferred back from CSA 2 to CSA 1 either on the same day or on a future date).

OTHER TRUST / SAXO / OTHER TRUST / EQUITY/ETO / OTHER TRUST - \$0.8 million (1 & 2 September 2014)



The above funds movements were identified within our funds transfer matrix. The movement of funds from Other Trust account 002 to Equity/ETO Client Trust account 541 on 1 September 2014, and the return of funds on 2 September 2014, is an example of a regular funding pattern between Other Trust and Equity/ETO, in respect of equity debtors, identified during our investigations (as outlined in sections 6.2.3 and 6.2.4).

The fact that the funds appear to have been moved through the WLP Omnibus account and back to Other Trust before being transferred to Equity/ETO is unexplained. From our review of the bank statements, we have not identified any transactions to suggest that the above funds were required by the WLP Omnibus account for intra-day funding on this date.

⁵¹ ‘EB’ is BBY’s reference for the Saxo Buffer account, which was previously called ‘eBridge Buffer’. The description contains 8 numerical characters, which appears to represent a client account number. The last three characters have been redacted to maintain client confidentiality.

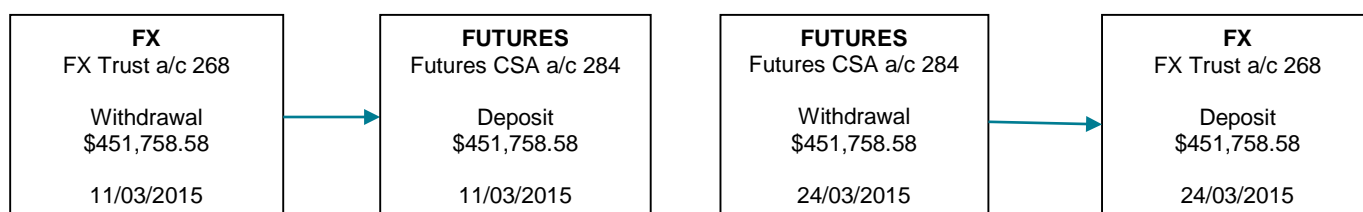
Our email searches identified correspondence relevant to the transfer of funds to Equity/ETO Client Trust account 541, which is attached at Confidential Exhibit 65. The email correspondence is from the Equity/ETO finance team to the Strategy team stating that this amount was required by Clearing for funding to cover:

“...failing trade coverage for Broker Dealers as well as the outstanding Mark to Mark..., Today Derivatives, and old Dishonours's items.”

BBYL's bank movements' records⁵² label this funds movement as “Funds from BBY Corp”. An extract from the relevant bank movements schedule is included at Confidential Exhibit 66.

As outlined in section 6.2.3, the balance of funds deposited into the General Trust account 002 in June 2014 (\$3.5 million) was transferred from the Other Trust Account 4, which contained Saxo and Futures CSA funds withdrawn as part of the Aquila transaction. It therefore appears that CSA funds from other products were being used to meet the above House funding obligation for the Equity/ETO business.

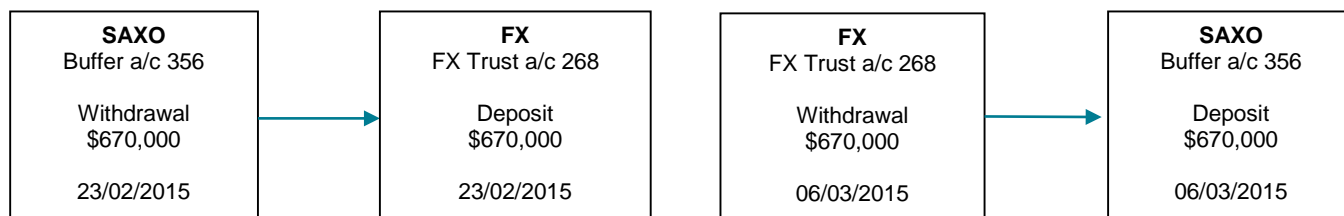
FX to FUTURES - \$0.5 million (11 & 24 March 2015) – Funds ‘borrowed’ to cover Futures payments



The above transfer of funds from FX to Futures was identified by our funds transfer analysis. Our email searches identified correspondence in respect of these transfers, which is attached at Confidential Exhibit 66. The email correspondence shows that these transfers related to a client request to withdraw funds from four Futures accounts, with a total value of \$797,847.60, but that the balance in the Futures account at the time was only \$346,088.52, which has been agreed to the bank statements.

The above transfer of \$451,758.58 from FX to Futures, which was approved by Glenn Rosewall by email, appears to have been made to provide temporary funding to the Futures account until funds were received from the relevant counterparty, ABN. The funds appear to have been returned to FX later that month.

SAXO to FX - \$0.7 million (23 Feb & 06 March 2015) – Funds ‘borrowed’ to cover FX payments



The above transfer of \$670,000 from Saxo to FX was identified by our funds transfer analysis. This transaction (and the associated mark-right) was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs. The details of this transaction were provided to the Liquidators by email as part of a schedule of “Saxo discrepancy transactions.” An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

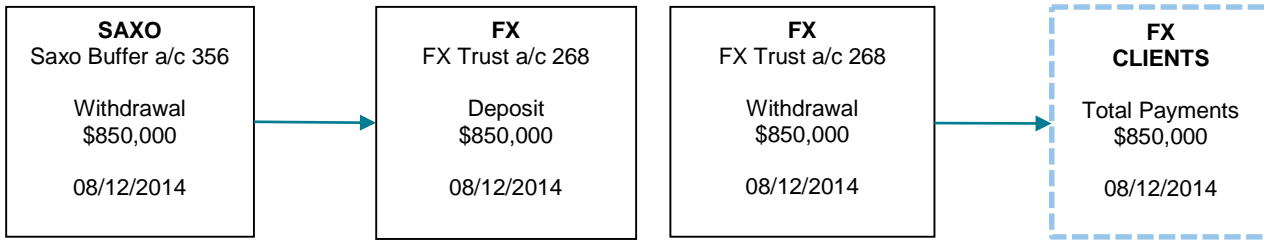
Our email searches identified correspondence in respect of these transfers, which is attached at Confidential Exhibit 68. The email correspondence shows that these funds were transferred from Saxo to facilitate settlement of FX deals via STG, as approved by Glenn Rosewall. The funds appear to have been returned to Saxo later that month.

6.5.3 Horizontal funds movements – transactions of interest

The transactions set out below are examples of funds movements that we have identified as being horizontal funds movements between CSAs of different product lines, captured in our matrix, and do not appear to be BAU transactions. These transactions therefore are transactions of interest in respect of our CSA investigation. We have not identified any full value ‘make-right’ transactions in respect of these transfers (unless explicitly stated), where the same value is returned to the original sending account, however we note the limitation outlined in section 5.4 in respect of our ability to identify make-right transactions.

⁵² BBY bank movements schedule “Bank Movements 2013-14 FY 2.xlsx”

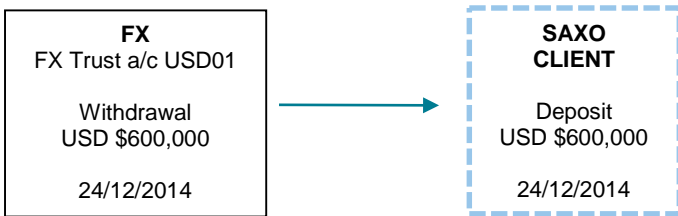
SAXO to FX \$0.85 million (8 December 2014) – Transfer to FX for client payments



The above transfer of \$850,000 from Saxo to FX was identified within our funds transfer matrix. This transaction was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs and reconciliation issues. The information was provided to the Liquidators via email, as part of a list of “...funds transferred between accounts by verbal direction from Senior Management.” An extract from this email correspondence is included at Confidential Exhibit 53.

Our email searches identified correspondence in relation to the FX client obligations due on 8 December 2014 (refer Confidential Exhibit 69). The fact that funds of this value were transferred into FX suggests that FX had insufficient funds to settle these client withdrawals. The balance on the FX Trust account ending 268 as at close of business on 5 December 2014 was \$409,004.41, and the total of the two client payments was \$850,000. We have not identified any transactions which suggest these funds were returned to Saxo by FX following this transfer. The former BBYL employee who highlighted this transaction was also not aware of these funds having been restored prior to our appointment.

FX to SAXO \$0.6 million USD (24 December 2014) – Direct payment to client



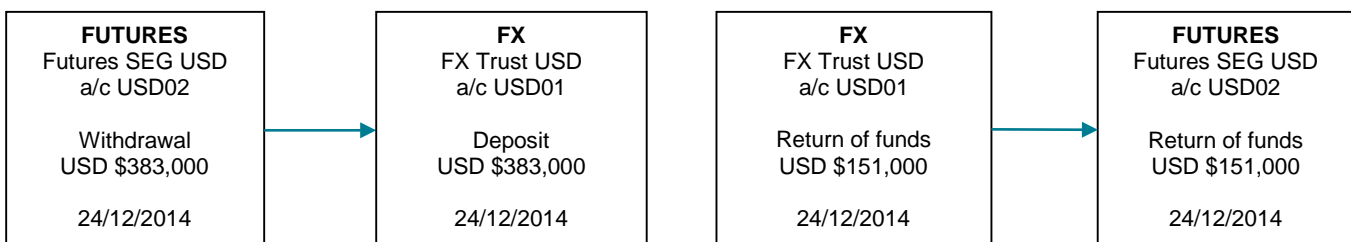
This transaction was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs and reconciliation issues. The details of this transaction were provided to the Liquidators by email as part of a list of “...funds transferred between accounts by verbal direction from Senior Management.” An extract from this email correspondence is included at Confidential Exhibit 53.

Our email searches identified correspondence in respect of this transaction, which is attached at Confidential Exhibit 70. The email correspondence confirms that this payment was for a Saxo client. The fact that the payment was made out of an FX account, suggests that there were insufficient funds in the Saxo USD account to meet this client payment and therefore the client payment was made out of the FX Trust USD account. The opening balance on the Saxo USD Buffer account on 24 December 2014 was \$338,691.04.

We have not identified any funds transfers which suggest that FX was reimbursed by Saxo in respect of this payment. The former BBYL employee who highlighted this transaction was also not aware of these funds having been restored prior to our appointment.

This transaction will not be captured within our matrix as the funds were paid out of the FX Trust account directly to a Saxo client. Refer to limitations set out at section 5.2.4.

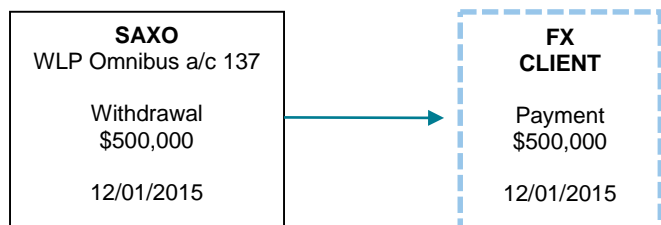
FUTURES to FX \$0.2 million (24 December 2014) – Transfer to FX not fully restored



This transaction was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs and reconciliation issues. The details of this transaction were provided to the Liquidators by email as part of a list of “...funds transferred between accounts by verbal direction from Senior Management.” An extract from this email correspondence is included at Confidential Exhibit 53.

We were advised that USD \$383,000 was 'borrowed' by FX from Futures on 24 December 2014 but that only USD \$151,000 was returned to Futures, resulting in a difference of USD \$232,000 owing from FX to Futures. We have confirmed these funds movements against the relevant bank statements⁵³, however we have not identified any email correspondence in respect of these transfers. We have not identified any transactions which suggest that the remaining balance of USD was returned to Futures from FX. The former BBYL employee who highlighted this transaction was also not aware of these funds having been restored prior to our appointment.

SAXO to FX \$0.5 million (12 January 2015) – Direct payment to client on behalf of FX



This transaction was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs and reconciliation issues. The details of this transaction were provided to the Liquidators by email as part of a list of "...funds transferred between accounts by verbal direction from Senior Management." An extract from this email correspondence is included at Confidential Exhibit 53.

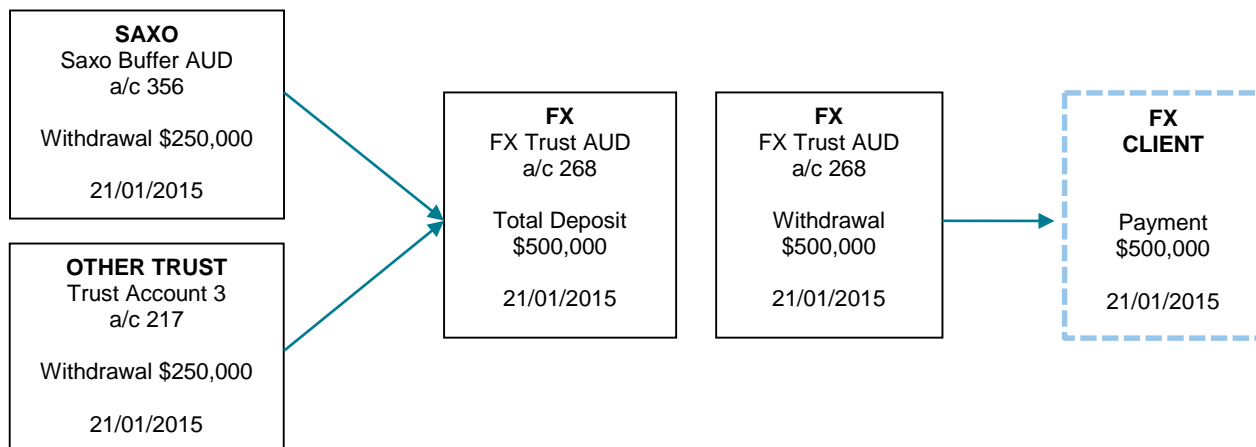
We were advised that this payment was made from the Saxo Omnibus account (which we confirmed through the review of bank statements) directly to an FX client, due to FX having insufficient funds to meet the client's withdrawal request. We note that the opening balance of the AUD FX Trust account on 12 January 2015 was \$415,535.70.

Our email searches identified some correspondence which appears to relate to this client payment, which is attached at Confidential Exhibit 71. The client wrote to the Head of FX and Futures at BBY on 9 January 2015 complaining about their withdrawal requests not being actioned by BBY.

We have not identified a transaction which suggests that these funds were reimbursed to Saxo from FX. The former BBYL employee who highlighted this transaction to us was also not aware of these funds having been restored prior to our appointment.

This transaction will not be captured within our matrix as the funds were paid out of the Saxo Omnibus account directly to a client. Refer to limitations set out at section 5.1.2.

SAXO & OTHER TRUST to FX \$0.5 million (21 January 2015) – Funds to cover payments



The above transfer of \$250,000 from the Saxo Buffer account to the FX Trust account was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs. The details of this transaction were provided to the Liquidators by email as part of a list of "...funds transferred between accounts by verbal direction from Senior Management." An extract from this email correspondence is included at Confidential Exhibit 53.

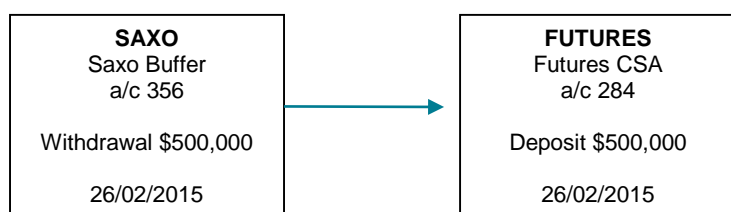
Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 72. The email correspondence suggests that this transfer related to a withdrawal request from an FX client for \$500,000, which was sent to the 'Clearing & Settlements' team/mailbox.

⁵³ See Futures and FX bank statements at Confidential Exhibits 45 & 46.

It would appear that the FX account had insufficient funds to meet this return of client funds, resulting in \$250,000 of funds being transferred from Saxo and Other Trust to the FX account. From our review of the FX bank statements, the balance of funds in the AUD FX Trust account at the start of the day on 21 January 2015 was \$312,109.43. From our review of the FX Trust bank statements, we also noted an additional deposit of \$250,000 from Trust account 3 (Other Trust) on the same day, which appears to have contributed towards the client payment of \$500,000. We have insufficient information to be able to confirm the original source of the funds withdrawn from Other Trust account 3.

We have not identified a transaction which suggests that these funds were reimbursed from FX to Saxo or Other Trust. The former BBYL employee who highlighted this transaction to us was also not aware of these funds having been restored prior to our appointment.

SAXO to FUTURES \$0.5 million (26 February 2015) – Funds to cover client payment



The above transfer of \$500,000 from the Saxo Buffer account to the Futures CSA was identified by our funds transfer analysis as a horizontal funds movement between CSAs of different product lines. This transaction was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs. The details of this transaction were provided to the Liquidators by email as part of a schedule of “Saxo discrepancy transactions.” An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 73. The email correspondence suggests that this transfer related to a withdrawal request from a Futures client for \$200,000 on 20 February 2015 and that there was insufficient funds in the Futures CSA account at this time to meet the client request. The balance of the Futures CSA at the start of the day on 20 February 2015 and 26 February 2015 was \$18,240.69 and \$39,881.73, respectively. The email chain shows approval from Glenn Rosewall on 26 February 2015 for \$500,000 to be transferred from Saxo to Futures to provide funding.

We have not identified a transaction which suggests that these funds were reimbursed from FX to Saxo or Other Trust. The former BBYL employee who highlighted this transaction to us was also not aware of these funds having been restored prior to our appointment.

6.6 CSA to House / House to CSA funds movements identified

As outlined in section 5.1, our scope of work included identification of funds movements between CSAs and the BBY ‘House’ accounts. Our funds transfer matrix shows a significant volume of funds movements between CSAs and House, and vice-versa – the results of our further investigations into a number of these transactions suggests that the funds movements within our matrix can be categorised as one of the following:

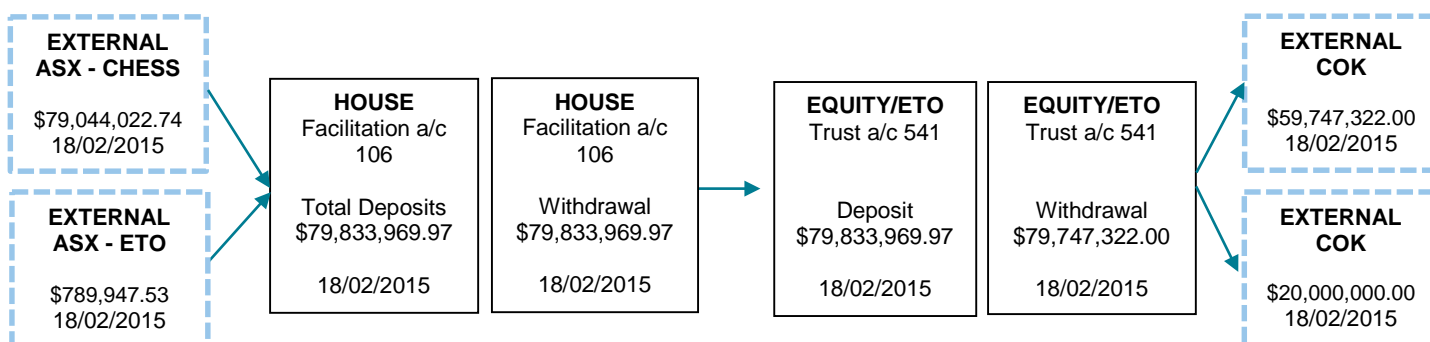
- BAU funds movements (e.g. brokerage and commissions being drawn down from product accounts);
- Funds movements between CSAs and House accounts that appear to have been corrected (i.e. that the ‘borrowed’ funds were later restored); or
- Transactions of interest that do not appear to be BAU or do not appear to have been corrected.

The existence of BAU and corrected transactions explains the significant volume of funds transfers identified by our funds transfer matrix. Examples of the transactions that we have identified, split by the above categories, are set out below. For the purposes of setting out our findings in this report, we have included movements between product CSAs and Other Trust account within this category.

6.6.1 CSA / HOUSE funds movements which appear to be BAU

The transactions set out below are examples of funds movements, captured within our matrix, between CSA accounts and House accounts, which appear to be BAU transactions.

HOUSE to EQUITY/ETO \$79.8 million (18 February 2015) – Trade funds movement

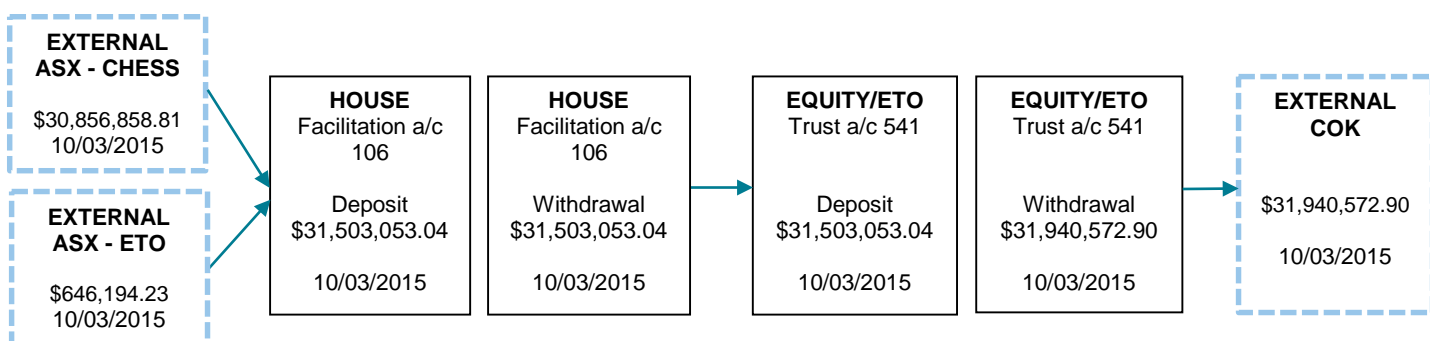


The above transfer of \$79.8 million from House to Equity/ETO was identified within our funds transfer analysis. From our review of the relevant bank statements, we identified the deposit of these funds into the House Facilitation account prior to the funds being transferred to the Equity/ETO Client Trust account. We traced these deposits into the Facilitation account through to BBY’s bank movement records⁵⁴ which describe these deposits as being funds received from the ASX in respect of the return of Equity and ETO margin. An extract from the bank movements schedule showing these entries is included at Confidential Exhibit 74.

BBYL’s bank movements records⁵⁵ also show the transfer of these funds into the Equity/ETO Client Trust account and the subsequent external payments – see Confidential Exhibit 74. The bank movement records reference these payments to “Cockatoo Coal – Placement”. Our email searches identified correspondence in relation to these payments, which is included at Confidential Exhibit 75. This correspondence shows that these payments were to the same client, following settlement of an Equity placement that BBYL underwrote for the client.

From the information we have obtained in respect of this transfer, we conclude the transfer from House to Equity/ETO appears to be a BAU funding movement, which is captured within our matrix. Refer to sections 6.2.2 and 6.2.4 where we set out the BAU funding movements in respect of the Facilitation account and Equities and ETO accounts.

HOUSE to EQUITY/ETO \$31.5 million (10 March 2015) – Trade funds movement



The above transfer of \$31.5 million from House to Equity/ETO was identified within our funds transfer analysis. From our review of the relevant bank statements, we identified the deposit of these funds into the House Facilitation account prior to the funds being transferred to the Equity/ETO Client Trust account. We traced these deposits into the Facilitation account through to BBY’s bank movements’ records⁵⁶ which describe these deposits as being funds received from the ASX in respect of the return of Equity and ETO margin. An extract from the bank movements schedule showing these entries is included at Confidential Exhibit 76.

BBYL’s bank movements records⁵⁷ also show the transfer of these funds into the Equity/ETO Client Trust account and the subsequent external payment – see Confidential Exhibit 76. The bank movement records reference this payment to “Cockatoo Placement”. Our email searches identified correspondence in relation to this payment, which is included at Confidential Exhibit 77. This correspondence shows that the payment related to the settlement of an Equity placement made to COK (Cockatoo Coal).

From the information we have obtained in respect of this transfer, we conclude the transfer from House to Equity/ETO appears to be a BAU funding movement, which is captured within our matrix. Refer to sections 6.2.2 and 6.2.4 where we set out the BAU funding movements in respect of the Facilitation account and Equities and ETO accounts.

6.6.2 CSA / HOUSE funds movements which appear to have been corrected

The transactions set out below are examples of funds movements that we have identified between CSAs and House accounts, or vice-versa, that will be captured in our matrix, but that appear to have been corrected / restored (*for example, the same value of the*

⁵⁴ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44

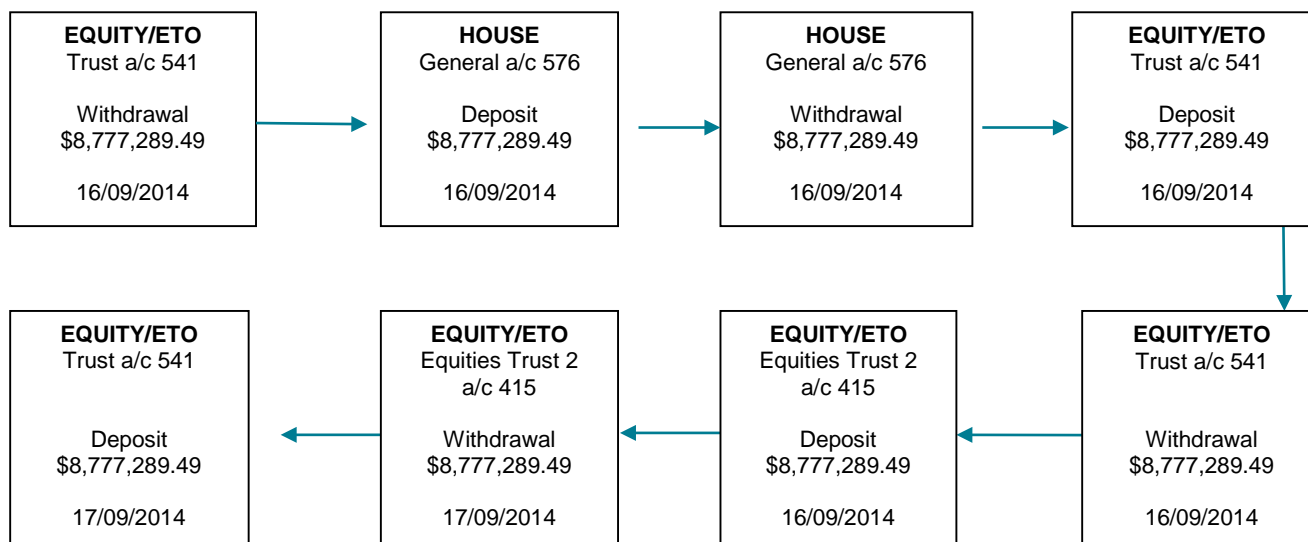
⁵⁵ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44

⁵⁶ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44

⁵⁷ BBY bank movements schedule “Bank Movements 2015 Current.xlsx” at Appendix 44

funds transferred out of CSA 1 to CSA 2 can be seen being transferred back from CSA 2 to CSA 1 either on the same day or on a future date).

EQUITY/ETO / HOUSE / EQUITY/ETO - \$8.8 million (16 & 17 September 2014)

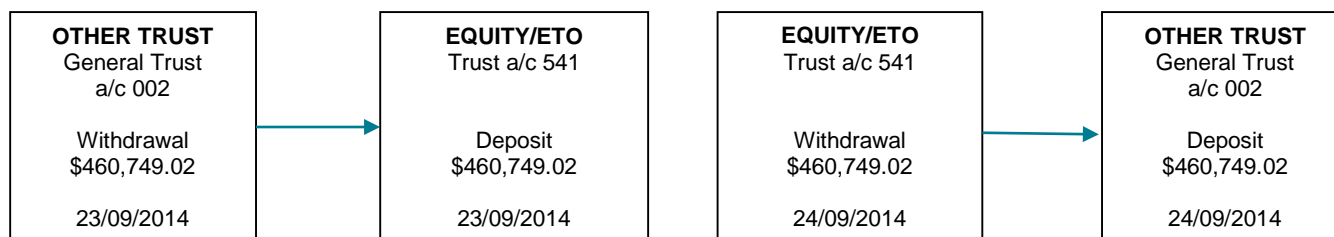


This series of funds movements was captured within our funds transfer matrix and was selected for further investigation due to the high value and the number of transfers of this amount within a two day period.

Our email searches identified correspondence in respect of these transfers, which is attached at Confidential Exhibit 78. The email correspondence suggests that these funds were required for funding in respect of the Equity/ETO ‘Trust Obligation’ on 16 September 2014. The latter funds transfers from Equity/ETO 541 account to the Equities Trust account is in line with our understanding of the daily BAU Equity/ETO funds movements, as explained in section 6.2. The balance of the Equity client trust obligation was transferred from the 541 account to the Equities Trust 2 account at the end of each day, and held overnight before being transferred back to the 541 account the following morning.

However, the fact that the funds were transferred out of the 541 account into the General 576 House account and back again the same day, before being transferred to the Equities Trust 2 account, remains unexplained. From our review of the General account bank statements, it does not appear that these funds were used for intra-day funding.

OTHER TRUST to EQUITY/ETO - \$0.5 million (23 & 24 September 2014) – Funds ‘borrowed’ to cover daily clearing



The above movement of \$460,749.02 from the General Trust 002 to the Equity/ETO Client Trust account 541 on 23 September 2014, and the return of funds on 24 September 2014, was identified within our funds transfer matrix. As outlined in sections 6.2.3 and 6.2.4, this is a regular funding pattern between Other Trust and Equity/ETO in relation to aged debts that was identified during our investigations.

Our email searches identified correspondence in respect of the above example, which is attached at Confidential Exhibit 79. The email correspondence is from the Equity/ETO team to the Strategy team, requesting this value of funds for Clearing on 23 September 2014. Specifically, the email correspondence states that the funds are required to cover the value of “failing trade coverage for >30days Broker Dealer Trades & Today’s Derivatives positions”.

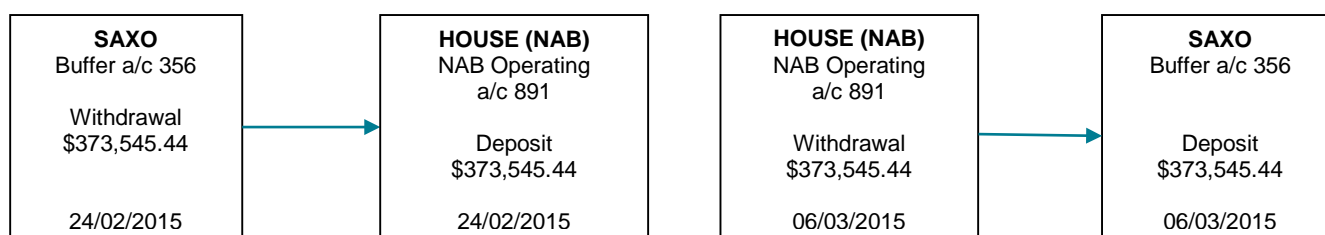
BBYL’s bank movements’ records⁵⁸ label this funds movement as “Funds from BBY Corp”. An extract of the relevant bank movements schedule is included at Confidential Exhibit 80.

As outlined in section 6.2.3, the balance of funds deposited into the General Trust account 002 in June 2014 (\$3.5 million) was transferred from the Other Trust Account 4, which contained Saxo and Futures CSA funds withdrawn as part of the Aquila

⁵⁸ BBY bank movements schedule “Bank Movements 2013-14 FY 2.xlsx”

transaction. It therefore appears that CSA funds from other products were being used to meet a House funding obligation for the Equity/ETO business.

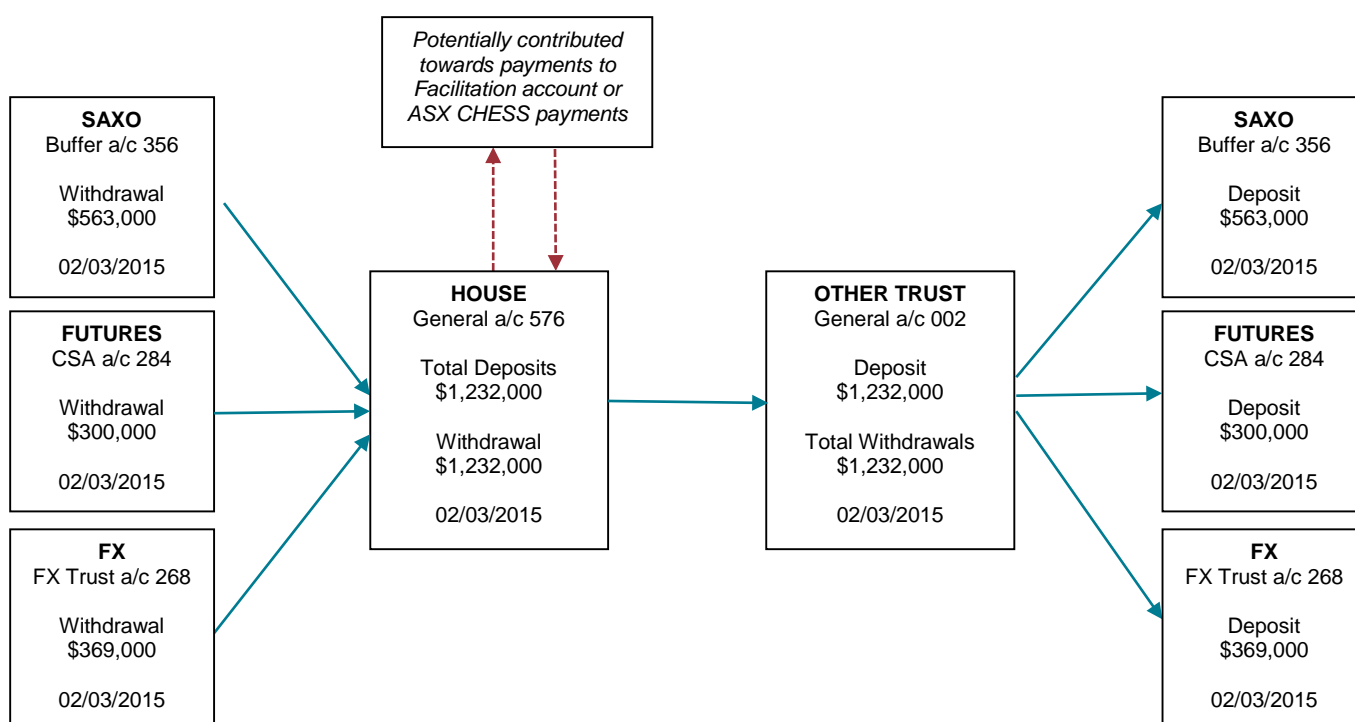
SAXO to HOUSE - \$0.4 million (24 Feb & 06 March 2015) – Funds 'borrowed' to cover FX payments



The above transfer of \$373,545.44 from the Saxo Buffer account to the NAB Operating account was identified by our funds transfer analysis as a funds movement between CSA and House. This transaction, and the related restore of funds, was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of CSA funds being transferred to House. The details of this transaction were provided to the Liquidators by email as part of a schedule of "Saxo discrepancy transactions." An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

Our email searches identified correspondence in respect of these transfers, which is attached at Confidential Exhibit 81. The email correspondence suggests that funds were 'borrowed' from Saxo by BBY House in respect of FX payments due on 24 February 2015. The use of the NAB Operating Account in this regard is unexplained. The email correspondence suggests Glenn Rosewall approved the return of funds back to Saxo on 6 March 2015.

CSAs to HOUSE - \$1.2 million (2 March 2015) – Funds 'borrowed' for House funding



The above funds movements were identified through our generic reference searches carried out over the bank transaction descriptions. The transfer of \$563,000 from the Saxo Buffer account, and related restore of funds back to Saxo, was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as a transaction that may be of interest to us in respect of CSA funds being transferred to House. The details of this transaction were provided to the Liquidators by email as part of a schedule of "Saxo discrepancy transactions." An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

The funds flows suggest that the CSA funds from Saxo, Futures and FX were used by House in order to provide intra-day funding to other parts of the business, further suggesting that House was short of funds at this time. From our review of the bank statements in respect of the General account ending 576, we note that the opening balance on this account on 2 March 2015 was \$22,849.79, a total of \$7,595,507.48 of funds were deposited on this day, and a total of \$6,295,730.92 of payments were made out of the account on this day (including payments to the Facilitation account and a payment to the ASX in respect of Equity/ETO margin settlement).

This means that a total of \$1,299,776.56 of funds deposited into the General account 576 on 2 March 2015 was not utilised, however it is not possible to establish, dollar for dollar, which deposits contributed to which payments on this day.

From our review of the relevant bank statements, we identified transactions that suggest that the CSA funds were transferred to the General account ending 002 (Other Trust), before being restored back to the respective CSAs by the end of the same day.

Email correspondence identified in respect of these transfers is attached at Confidential Exhibit 82. The email correspondence does not provide much in the way of explanation in respect of these transfers but suggests approval from Glenn Rosewall on 2 March 2015 in respect of the transfers of funds out of the three CSAs.

CSAs to HOUSE - \$1.52 million (4 March 2015) – Funds 'borrowed' for funding

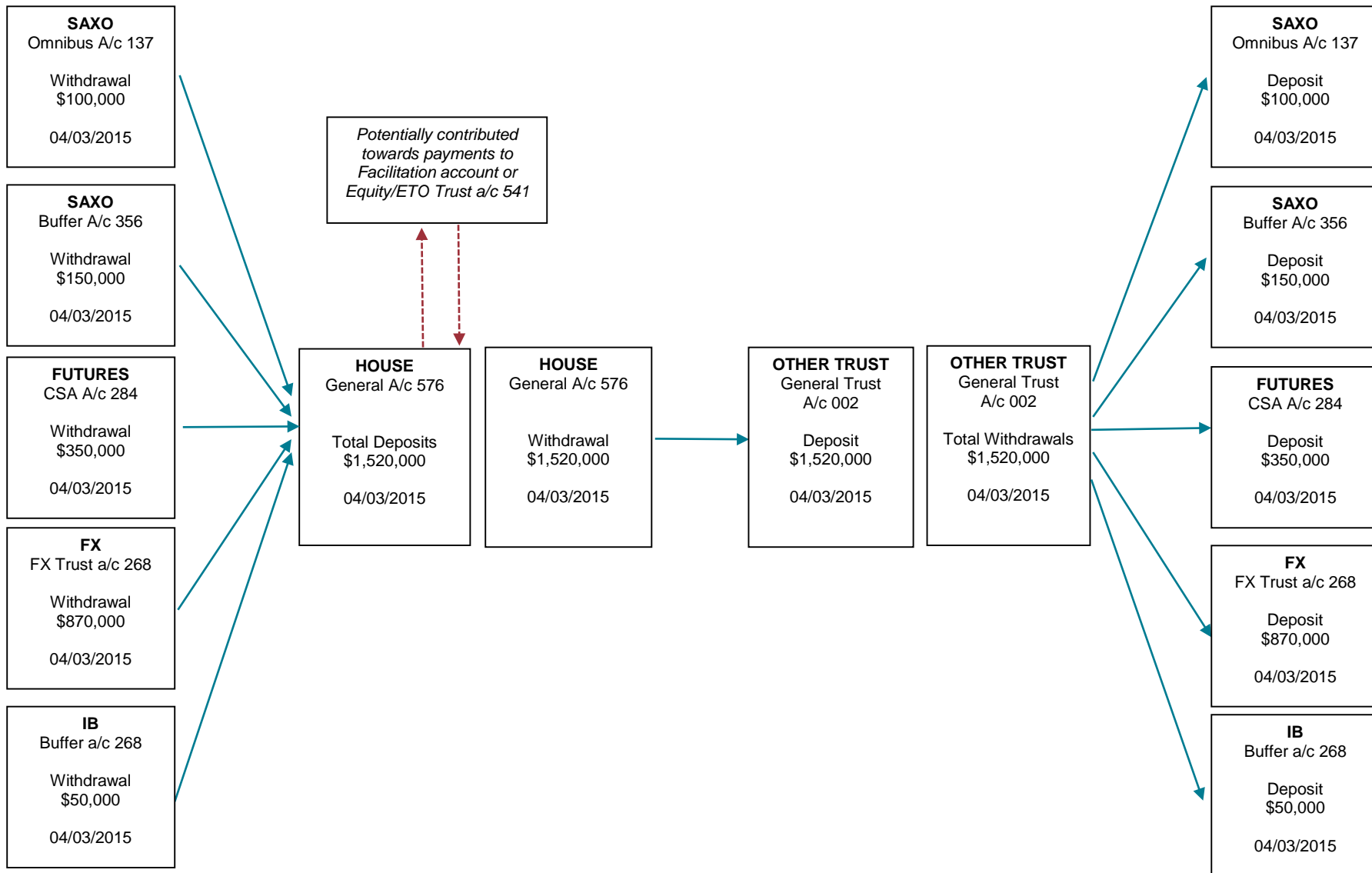
Our generic reference searches also identified a similar flow of funds two days later on 4 March 2015 – see funds flow diagram below. The transfer of \$150,000 from the Saxo Buffer account, and related restore of funds back to Saxo, was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as a transaction that may be of interest to us in respect of CSA funds being transferred to House. The details of this transaction were provided to the Liquidators by email as part of a schedule of “Saxo discrepancy transactions.” An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

The funds flows again suggest that the CSA funds from Saxo, Futures, FX and IB were required by House in order to provide intra-day funding to another part of the business, further suggesting that House was short of funds at this time. From our review of the bank statements in respect of the General account ending 576, we note that the opening balance on this account on 4 March 2015 was \$501,327.98, a total of \$9,103,889.91 of funds were deposited on this day (including the CSA funds), and a total of \$8,085,037.89 (excluding the restore of CSA funds) of payments were made out of the account on this day (including payments to the Facilitation account and the Equity/ETO 541 account). This means that a total of \$1,520,000 (the exact value of CSA funds deposited) of funds deposited into the General account 576 on 4 March 2015 was not utilised, however it is not possible to establish, dollar for dollar, which deposits contributed to which payments on this day. Refer to the bank statements of the General 576 account at Confidential Exhibit 42.

From our review of the relevant bank statements, we identified transactions that suggest that the CSA funds were transferred to the General account ending 002 (Other Trust), before being restored back to the respective CSAs by the end of the same day.

Email correspondence identified in respect of these transfers is attached at Confidential Exhibit 83. The email correspondence does not provide much in the way of explanation in respect of these transfers but suggests that these transfers were requested and approved by Glenn Rosewall on 4 March 2015.

CSAs to HOUSE - \$1.52 million (4 March 2015) – Funds 'borrowed' for funding (continued)



6.6.3 CSA / HOUSE funds movements – transactions of interest

The transactions set out below are examples of funds movements that we have identified between CSAs and House accounts, captured in our matrix, and do not appear to be BAU transactions. These transactions therefore are transactions of interest in respect of our CSA investigation. We have not identified any 'make-right' transactions in respect of these transfers (unless explicitly stated), where the same value is returned to the original sending account, however we note the limitation outlined in section 5.4 in respect of our ability to identify make-right transactions.

CSAs to OTHER TRUST to EQUITY/ETO \$1.9 million (16 December 2014) – CSA funds for Equity/ETO funding

A large volume of transfers out of product CSAs on 16 December 2014 were identified from our generic reference searches on bank transaction descriptions. The total value transferred out of five product CSAs was \$1.37 million. The funds were transferred into BBY's Trust Account 3 (Other Trust), along with \$14k of House funds and \$469k from accounts in the name of GARF Pty Ltd (an entity owned by Glenn Rosewall and his father Ken Rosewall) and GARF Private Superfund (which we understand is the private superannuation fund of Glenn Rosewall). See funds flow diagram below.

On the same day, the funds were transferred into BBYL's General Trust Account 002 (Other Trust), before making up a larger transfer of \$4.1 million to the Equity/ETO Client Trust account 541. As discussed in section 6.6.2 (and outlined in sections 6.2.3 and 6.2.4), we identified a regular funding pattern between the General Trust account 002 and the Equity/ETO Client Trust account which appears to relate to funding to cover aged client debts (a House obligation).

BBYL's bank movements records⁵⁹ label this funds movement as "Funds from BBY Corp - funding". An extract of the relevant bank movements schedule is included at Confidential Exhibit 84. This extract also shows that the \$8 million Facilitation account facility was fully utilised on this date, with available funds of only \$3.34.

We have identified further examples of funds being transferred from other product CSAs to House, to provide intra-day funding to Equity/ETO (refer to the transactions set out above on 2 March 2015 and 4 March 2015), for which we were able to identify email correspondence in relation to the request for funding from Equity/ETO and/or the approval to transfer CSA funds to House for this purpose. However, we have not identified any email correspondence in respect of these exact transfers.

We did however identify some email correspondence which explains that BBYL incurred an unusually high value of failed trades on 16 December 2014 (c.\$5 million) – see correspondence attached at Confidential Exhibit 85. The fact that funds were taken from a number of sources, including other product CSAs and related party account, suggests that House had insufficient funds to cover these client debts. From our review of the bank statements, we note that the opening balance on the General House account 576 on 16 December 2014 was \$5,162.85.

We have not identified any transactions which suggest that the funding of \$4.1 million was returned to General Trust 002 by Equity/ETO or that the funds were restored back to the product CSAs. Confidential Exhibit 84 includes an extract from BBYL's bank movements schedule on 16 December 2014, which does not show the return of the BBY Corp funding. In fact, this schedule shows further funding of \$0.28 million being provided by 'BBY Corp'.

In light of not being able to identify the return of funds in respect of this transaction, we have analysed all funds movements between the General Trust account 002 and the Equity/ETO Client Trust account 541. The results of our analysis are summarised below:

Other Trust - General Trust Account 002 (June 2014 to June 2015)	Credits	Debits	Total
<i>Opening balance on Other Trust account 553980002 (on 25/06/2014):</i>			\$0.00
Transfers out of / into General Trust Account 553980002 which are not to / from Equity/ETO Client Trust Account 553452541 (including first deposit of \$3.5m on 25/06/2014 from Other Trust Account 4)	\$38,425,753.85	-\$38,909,897.01	-\$484,143.16
BBY Corp Funding: Transfers between General Trust Account 553980002 and Equity/ETO Client Trust Account 553452541 in respect of 'BBY Corp funding' (June 2014 to Dec 2014)	\$79,270,992.13	-\$79,786,644.65	-\$515,652.52
Transfers between General Trust Account 553980002 and Equity/ETO Client Trust Account 553452541 in respect of commissions being paid to 'House'	\$1,000,000.00	\$0.00	\$1,000,000.00
<i>Closing balance in General Trust Account 553980002 (30/06/2015)</i>			\$204.32

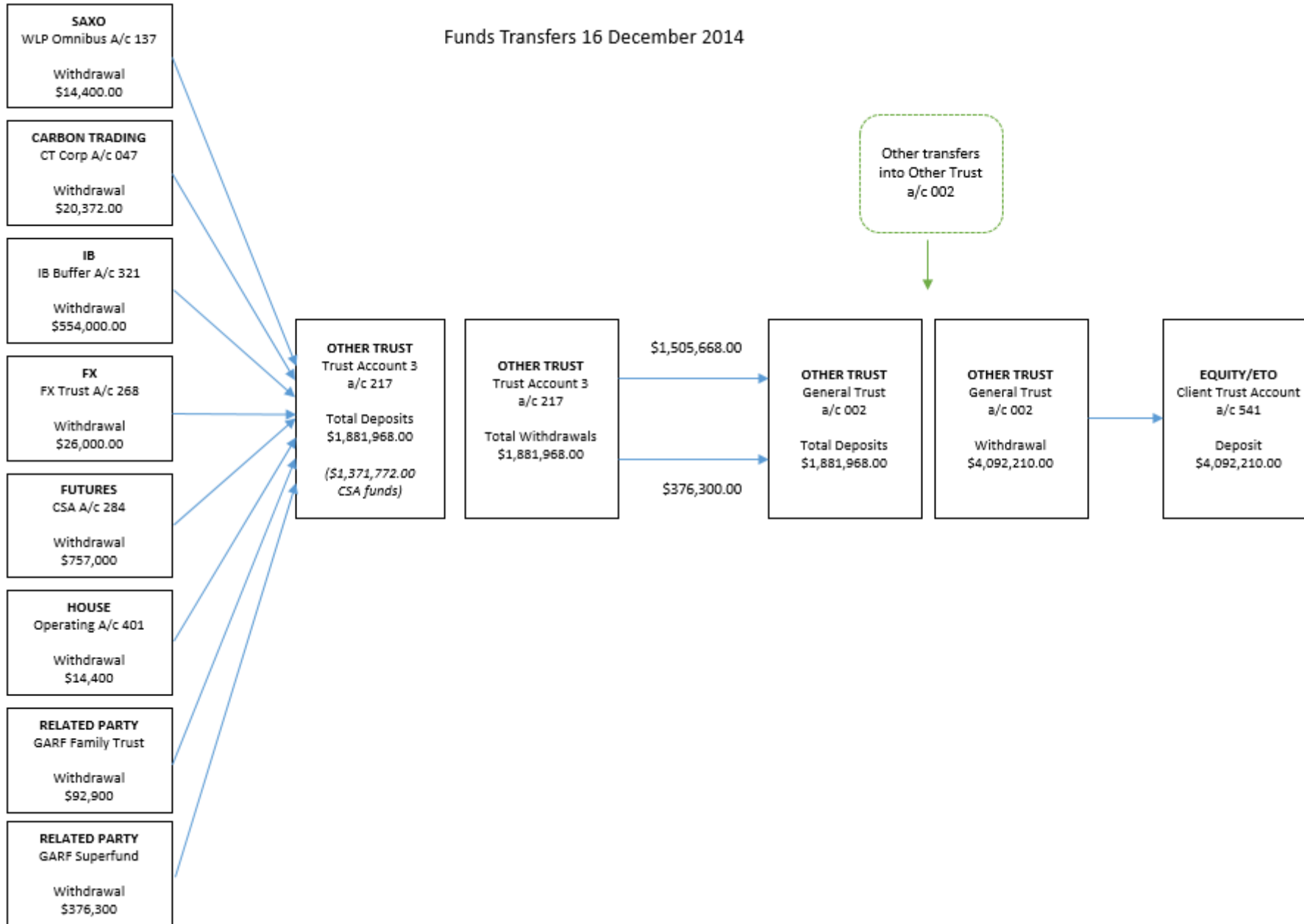
We identified movements between the General Trust account 002 and the Equity/ETO Client Trust account 541 between June 2014 and December 2014. As set out in the table above, the net effect of these movements is \$515,652.52 of funds having been transferred from General Trust Account 002 to Equity/ETO Client Trust Account 541 that do not appear to have been restored. Note however that this analysis does not take into account the net effect of prior BBY Corp funding movements between Trust Account 4⁶⁰ and the Equity/ETO Client Trust account. This analysis therefore suggests that, in respect of the 16 December 2014 funds movements discussed above, that the BBY Corp funding of \$4.1 million from General Trust account 002 to Equity/ETO Client Trust account 541 had been partly restored, taking into account all 'BBY Corp' funds movements identified, by 24 December 2014.

⁵⁹ BBY bank movements schedule "Bank Movements 2013-14 FY 2.xlsx"

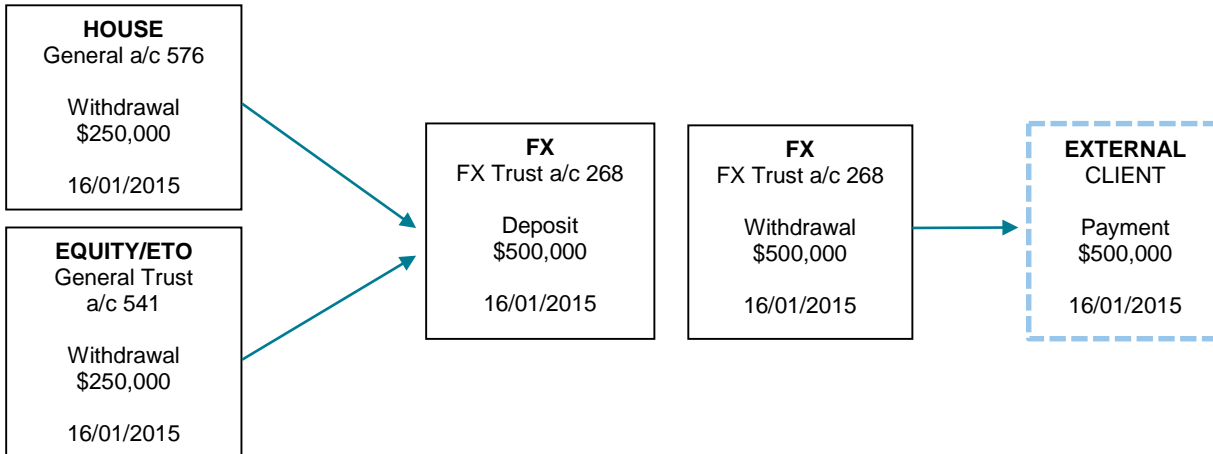
⁶⁰ Trust Account 4 was the Other Trust account that was used to provide funding to Equity/ETO Client Trust account 541 between February 2013 and June 2014, prior to the General Trust account 002 being opened.

From our review of the relevant bank statements, it is clear from the running balance on the IB and Carbon Trading accounts that the funds withdrawn from these accounts were not restored back to these products as at the date of our appointment. During our discussions with former BBY staff members, we were advised that it was BBY House's responsibility to restore the CSA funds back to the relevant CSAs following the return of funds back to House.

Funds Transfers 16 December 2014



HOUSE & EQUITY/ETO to FX \$0.5 million (16 January 2015) – Client payment



This transaction was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of intermingling between CSAs and reconciliation issues. The details of this transaction were provided to the Liquidators by email as part of a list of “...funds transferred between accounts by verbal direction from Senior Management.” An extract from this email correspondence is included at Confidential Exhibit 53.

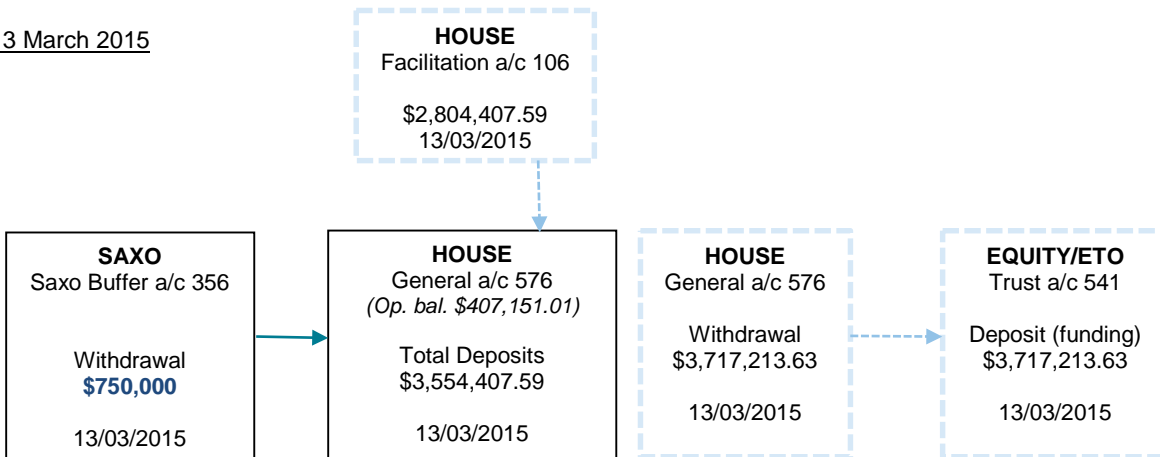
Our email searches identified correspondence in respect of the withdrawal from the Equity/ETO account, which is attached at Confidential Exhibit 86. The email correspondence is limited but suggests approval for the transfer from Equity/ETO by Arun Maharaj, the CEO at the time. The transfer of funds from House and Equity/ETO suggests that FX had insufficient funds to meet this client withdrawal request at this time. From our review of the FX Trust account bank statements, we note that the opening balance on the FX Trust account ending 268 on 16 January 2015 was \$202,359.76.

We have not identified any funds transfers which suggest that the House or Equity/ETO accounts were reimbursed by FX in respect of this payment. The former BBYL employee who highlighted this transaction to us was also not aware of these funds having been restored prior to our appointment.

A subsequent funds transfer in May 2015 in relation to a payment for the same client, is set out in section 6.7.

SAXO to HOUSE \$0.9 million (13 & 16th March 2015) – Funds for House funding to Equity/ETO

13 March 2015



The above transfer of \$750,000 from the Saxo Buffer account to House was identified during our generic reference searches on the bank statement descriptions. This transfer was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as a transaction that may be of interest to us in respect of CSA funds being transferred to House. The details of this transaction were provided to the Liquidators by email as part of a schedule of “Saxo discrepancy transactions.” An extract from the schedule of discrepancy transactions provided to us is included at Confidential Exhibit 54.

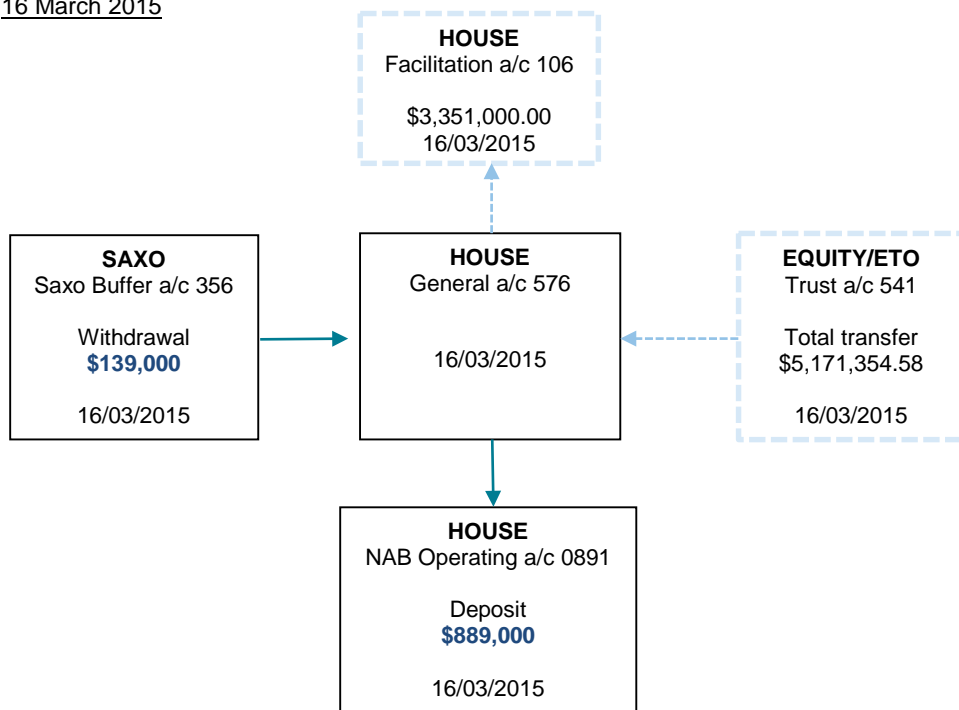
Our email searches identified correspondence in respect of this transfer, which is attached at Confidential Exhibit 87. The email correspondence does not provide an explanation for the transfer but suggests the transfer from Saxo being approved by Glenn Rosewall on 13 March 2015.

We traced the deposit of Saxo funds into the House General account through to BBY's bank movements records⁶¹ which describe the deposit as "Funds from BBYCorp re Funding", which does not appear to be a true reflection of the source of the funds. An extract from the bank movements schedule showing this entry, and the subsequent transfer of funds to the Equity/ETO Trust account 541, is included at Confidential Exhibit 88.

From review of the bank statements, this deposit from Saxo into the BBY General House account appears to contribute to a transfer of funding (\$3.7 million) from the General House account to the Equity/ETO 541 account later the same day. Email correspondence identified in relation to the Equity/ETO funding requirement of \$3.7 million is also attached at Confidential Exhibit 89.

In order to establish whether the Saxo funds had been restored back to the CSA by House, we reviewed the funds flows within the relevant accounts on the next business day, 16 March 2015, which are set out below:

16 March 2015



On 16 March 2015, we identified a further transfer of \$139,000 from the Saxo Buffer account to the House General account. We note that this transfer is also listed on the schedule of "Saxo discrepancy transactions" referred to above. On the same day, \$5.2 million was returned by the Equity/ETO Trust account to the House General account, following which the House General account returned \$3.4 million to the House Facilitation account. Further, we note that the total Saxo funds received by the House General account (\$889,000⁶²) was paid to the NAB House Operating account on the same day, instead of being returned to the Saxo Buffer account.

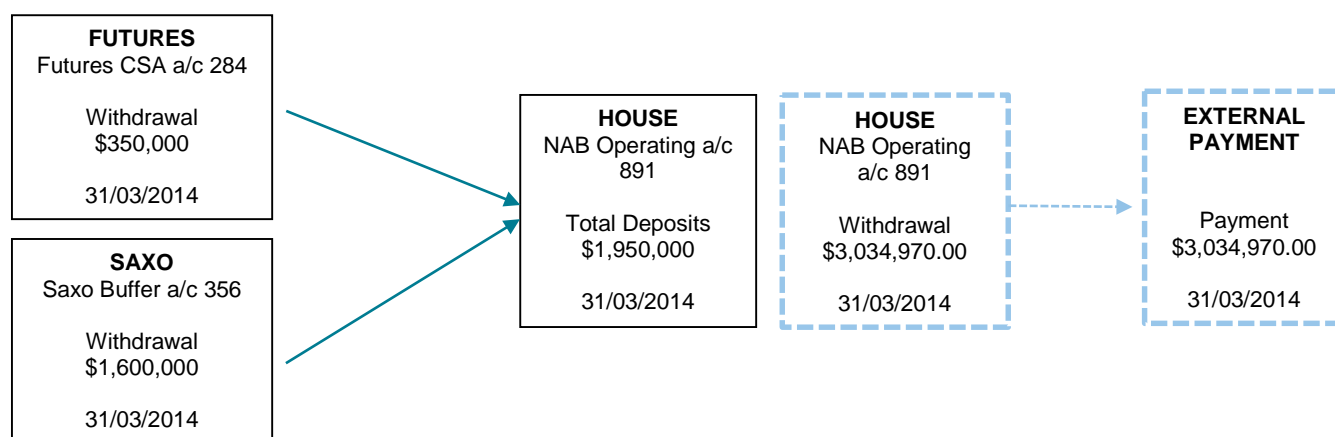
Our email searches identified correspondence in respect of this second transfer, which is attached at Confidential Exhibit 90. The email correspondence does not provide an explanation for the transfer but suggests the transfer from Saxo being approved by Glenn Rosewall on 16 March 2015. We identified further relevant correspondence, which is included at Confidential Exhibit 91, which explains that \$139,000 is required by the Equity/ETO Clearing team to meet the total ETO margin requirement on 16 March 2015, due to their being no funds available on the Facilitation account facility. From review of the Facilitation account bank statements, we note that the opening balance on the account on 16 March 2015 was -\$7,999,998.81 (i.e. \$1.19 of funds left on the \$8 million funding facility).

We have not identified any funds transfers which suggest that the Saxo funds were restored by the NAB Operating account back to the Saxo Buffer. The former BBYL employee who highlighted these transactions to us was also not aware of these funds having been restored prior to our appointment.

⁶¹ BBY bank movements schedule "Bank Movements 2015 Current.xlsx"

⁶² Being the transfer of \$750,000 on 13 March 2015 and the transfer of \$139,000 on 16 March 2015

FUTURES to HOUSE \$0.35 million (31 March 2015) – Unexplained transfer (C26)



The above transfer of \$350,000 from the Futures CSA account to the NAB Operating account was highlighted to the Liquidators by a former BBYL employee that we interviewed, as being a transaction that may be of interest to us in respect of non-BAU funds transfers. The details of this transaction were provided to the Liquidators by email as part of a list of “...funds transferred between accounts by verbal direction from Senior Management.” An extract from this email correspondence is included at Confidential Exhibit 53.

Our email searches identified correspondence in respect of these transfers, which is attached at Confidential Exhibit 92. The email correspondence suggests that the transfers were requested and approved by Glenn Rosewall, however no explanation for the movement of funds is noted in the correspondence. Both of these transfers into the NAB Operating Account appear to contribute to a payment made out of the NAB Operating Account on 31 March 2015 of \$3,034,970. Our email searches identified an invoice in this regard, which relates to the reimbursement of sub-underwriting fees to Noble Group. This therefore appears to be a House expense, for which CSA funds have been used to settle. From our review of the bank statements, we note that the opening balance on the NAB Operating account on 31 March 2014 was \$1,545,783.78.

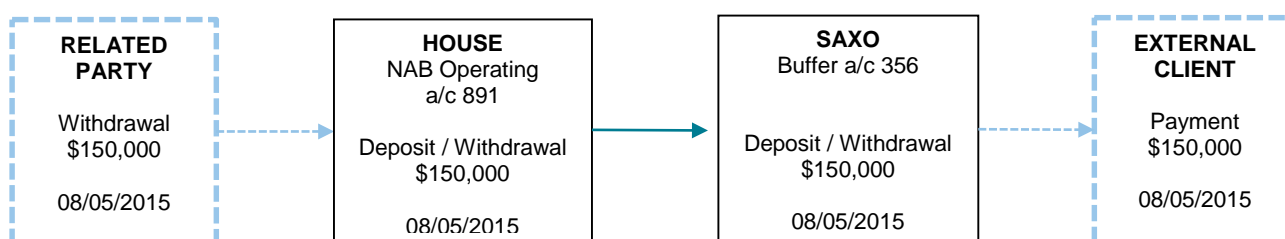
We have not identified any funds transfers which suggest that Futures or Saxo were reimbursed by House in respect of these transfers. The former BBYL employee who highlighted these transactions to us was also not aware of these funds having been restored prior to our appointment.

The withdrawal of \$1.6 million from the Saxo Buffer account discussed above is also included in our analysis of the termination of the Saxo agreement set out at section 6.9.

6.7 Other / Related Party funds movements identified

As outlined in section 5.1, our scope of work included identification of funds movements between related parties and BBY accounts. The transactions that we have identified to date in this regard, which have not already been included above or in section 6.8 and 6.9 below, are set out:

Related Party to HOUSE to SAXO - \$0.2 million (08 May 2015) – Funds to make client payment



The transfer of \$150,000 into the NAB Operating account from a related party was identified through our key word searches over the bank transaction descriptions. The description on this deposit was “TRANSFER CREDITS JAGUAR”.

The transfer of \$150,000 from the NAB Operating account to the Saxo Buffer account was also highlighted to the Liquidators by a former BBYL employee that we interviewed, as a transaction that may be of interest to us in respect of non-BAU funds transfers. The details of this transaction were provided to the Liquidators by email as part of a schedule of “Loans to Saxo Buffer Account.” The information provided included the fact that the original source of the funds from the NAB Operating account was from “Jaguar Austn Leader Long Acct”, which we understand to be a related party to Glenn Rosewall, as set out at Appendix 43. An extract from the schedule of loans to Saxo provided to us is included at Confidential Exhibit 54.

Our email searches identified correspondence relevant to these transfers, which is attached at Confidential Exhibit 93. The email correspondence suggests that this payment was required for a Saxo client, with the related party funds deposit and subsequent

movement to Saxo being approved by Glenn Rosewall. The fact that funds appear to have been transferred in from a related party account suggests that there were insufficient Saxo or House funds to make this payment at this time. The opening balance of funds in the NAB Operating account on 8 May 2015 was \$151,314.51 and the opening balance Saxo Buffer account on 8 May 2015 was \$92,729.30.

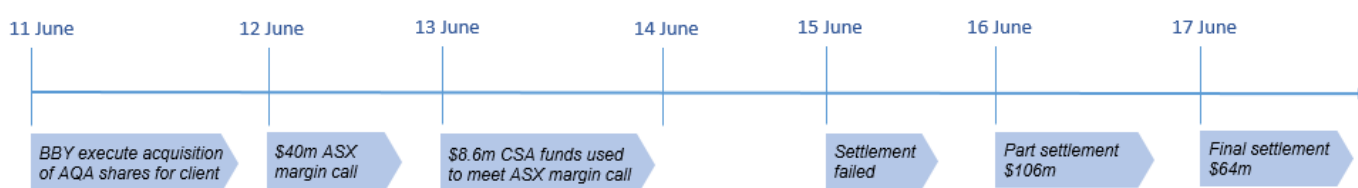
We have not identified any funds transfers which suggest that the funds were returned from Saxo to either the NAB Operating account or related party. The former BBYL employee who highlighted these transactions to us was also not aware of these funds having been restored prior to our appointment.

Further transactions identified between related parties and BBY accounts are set out in sections 6.8 and 6.9, in respect of our investigations into the Aquila transaction and the Saxo trading termination.

6.8 The Aquila transaction

As mentioned in section 2.4.3, BBYL facilitated a \$192 million acquisition of AQA shares for a client in June 2014. As part of our investigation into the CSAs, and in light of the transactions identified in our section 439a Report, we conducted an in-depth review of the funds flows surrounding this transaction.

The diagram below sets out the timeline of the trade:



We have summarised below the key aspects and funds movements in respect of this transaction, as identified from our review of the BBYL bank statements and email correspondence identified, and discussions with former BBYL staff members. Detailed funds flow diagrams in respect of this transaction, showing the key funds movements in diagrammatical format, are also set out in sections 6.8.10 to 6.8.15.

6.8.1 Wednesday 11 June 2014

On 1 June 2014, BBYL executed the acquisition of 51.4 million AQA shares at an average price of \$3.74 per share, on behalf of its client, Mineral Resources. The settlement date was 15 June 2014.

At the request of STG, BBYL requested a security deposit of \$29 million from the client prior to execution of the trade, which was deposited into BBY's Equity/ETO 541 account on 11 June 2014. See Confidential Exhibit 94.

A funds flow diagram showing the funds movements relevant to the Aquila transaction on this date is included in section 6.8.10.

6.8.2 Thursday 12 June 2014

On 12 June 2014, the AQA share price fell resulting in a loss in the mark to market value of BBYL's position in AQA. ASX Clear called a total margin of \$40 million in respect of BBYL's open positions. The margin call consisted of:

- \$18 million Initial Margin;
- \$7 million Variation Margin; and
- \$15 million CBPL additional margin.

BBYL advised the ASX that it had a \$30 million funding line from STG in order to pay the \$25 million Initial and Variation Margin, but had not considered the CBPL additional margin, which BBYL did not have funding for. The ASX advised BBYL that to prevent it from committing an event of default and suffering a possible insolvency event, the ASX would delay making the full CBPL call of \$15 million but would be making an additional CBPL call for \$5 million, which was the balance of funds available to BBY at that time.

BBYL paid \$25.7 million to the ASX in respect of the Initial and Variation Margin, and \$5 million of the CBPL additional margin, on 12 June 2014. From our review of the bank transactions, the \$25.7 million margin call appears to have been funded out of the client's security deposit, which was transferred to a BBYL House account, via an Other Trust account, earlier that day. See Confidential Exhibit 95 in respect of this margin call.

On the same day, \$2.5 million was transferred from Glenn Rosewall's Private Superfund into BBYL's Trust Account 3. See email correspondence at Confidential Exhibit 96.

A funds flow diagram showing the funds movements relevant to the Aquila transaction on this date is included in section 6.8.10.

6.8.3 Friday 13 June 2014

On 13 June 2014, BBYL stated to the ASX that shareholder funds had been received, following which BBYL settled the remaining \$10 million CBPL margin, plus a further \$3.2 million Variation Margin resulting from a further decline in the AQA share price.

From our review of the bank transactions, it would appear that the \$13.2 million paid to the ASX on 13 June 2014 was funded as follows:

- \$2 million from Broker Services Australia, a subsidiary company;
- **\$1.8 million from BBY's Saxo CSA account;**
- **\$6.8 million from BBY's Futures CSA account;**
- \$2.5 million from Glenn Rosewall's Private Superfund

These funds were transferred into a BBYL House account, via a number of 'Other Trust' accounts, before being paid to the ASX. It therefore appears that the CBPL margin was not funded by the shareholders, as advised by BBYL to the ASX. See email correspondence in relation to the transfer of funds to settle the margin call at Confidential Exhibit 97.

On the same day, \$164 million was received by BBYL from the client in respect of the remaining consideration for the share settlement. The funds were paid into BBYL's Equity/ETO 541 account, before being moved into BBYL's Equity/ETO Trust 2 account.

A funds flow diagram showing the funds movements relevant to the Aquila transaction on this date is included in section 6.8.11.

6.8.4 Sunday 15 June 2014

The seller failed to deliver the stock and therefore the trade was not completed on 15 June 2014 as originally planned.

6.8.5 Monday 16 June 2014

A proportion of the stock was delivered by the seller on 16 June 2014, facilitating a part settlement of \$105.9 million, which was paid by BBYL to the seller from the settlement funds received from the client on 13 June 2014.

On the same day, \$26 million was drawn down from the STG funding facility into the BBYL House account, however these funds do not appear to have been utilised during the trade, and therefore the purpose of this draw down is unexplained. It appears that these funds may have been drawn down so that STG was under the impression that the funds were being used to facilitate the trade, as opposed to the client's security deposit being used. See email correspondence in relation to this funding from STG at Confidential Exhibit 98.

\$3 million was also transferred to BBYL's Trust Account 3 from Ficema⁶³ (Ken Rosewall) on 16 June 2014, which appears to have been received too late in respect of funding the CBPL margin.

A funds flow diagram showing the funds movements relevant to the Aquila transaction on this date is included in section 6.8.12.

6.8.6 Tuesday 17 June 2014

The remaining stock was delivered by the seller on 17 June 2014 and BBYL paid the remaining client consideration of \$84.5 million to the seller, following which the trade was settled and the margin funds were returned to BBYL from ASX.

Following receipt of the \$15 million margin call funds back from the ASX:

- \$2.5 million was paid to Equity/ETO 541 account to 'restore' Equity/ETO following the transaction (see email correspondence in this regard at Confidential Exhibit 98); and
- \$8.8 million was then transferred to BBY Trust Account 4 (Other Trust).

On the same day, the untouched \$26 million drawn down from the STG funding facility the previous day, was repaid to STG.

A funds flow diagram showing the funds movements relevant to the Aquila transaction on this date is included in section 6.8.13.

6.8.7 Subsequent events

During the days which follow, we note the following transactions:

- 18 June 2014 - \$2.5 million transferred from BBY General Account (House) to BBY Facilitation Account (House);
- 23 June 2014 - \$2.5 million transferred from BBY General Account (House) to BBY Trust Account 4 (Other Trust);
- 24 June 2014 – the shareholders loans of \$2.5 million and \$3 million received from Glenn and Ken Rosewall, respectively were returned, being paid out of BBY's Trust Account 4 and Trust Account 3, respectively.

⁶³ See related parties schedule at Appendix 43.

On 25 June 2014, a total of \$7.5 million was transferred out of Trust Account 4 and onto three separate high interest term deposits of \$1 million, \$2 million and \$4.5 million. The remaining balance in Trust Account 4 was then transferred to BBY General Trust account 002 (Other Trust), before the account was closed on 26 June 2014. It would appear that these funds contained \$1.8 million of Saxo CSA funds and \$6.8 million of Futures CSA funds.

Tracing the term deposits through to maturity, we note that the funds were paid back into the BBY General Trust account 002 between 4 August 2014 and 14 October 2014. We have not identified any transactions to suggest that the Futures and Saxo client funds were restored back to the respective CSAs following maturity of the term deposits. The use of these funds is discussed further in section 6.9.

Funds flow diagrams showing the funds movements relevant to the Aquila transaction from 18 June 2014 onwards are included in sections 6.8.14 and 6.8.15.

On 2 February 2015, an email was sent to all BBY staff advising that BBY had been fined by the ASX in relation to the Aquila transaction. We note that the email advises staff that \$10 million of shareholder funds were received to meet the CBPL margin call. A copy of this email is included at Confidential Exhibit 100.

6.8.8 Summary of impact on CSAs

The table below summarises the net position in respect of the product lines following completion of the transaction:

	Equity/ETO	Futures	SAXO
	\$ AUD	\$ AUD	\$ AUD
Funds used to facilitate AQA transaction	(2.5m)	(6.8m)	(1.8m)
Funds returned following settlement of AQA transaction	2.5m	-	-
Total surplus / (deficit) position	-	(6.8m)	(1.8m)

6.8.9 Further analysis - \$6.8 million withdrawal from Futures

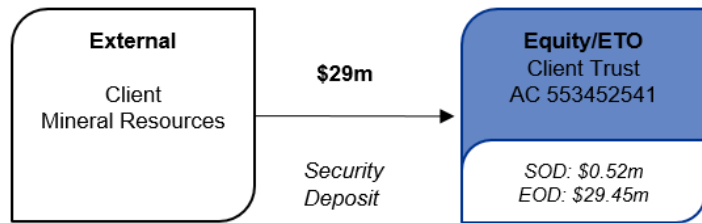
In addition to discussing the \$6.8 million withdrawal from the Futures CSA with former BBYL Finance staff, we have examined GMI ledger reports and available Finance reconciliations – each of these sources indicate that this withdrawal was never raised as an issue internally within BBYL. Following the funds withdrawal on 13 June 2014, a journal entry was posted into the GMI ledger on 24 June 2014. Refer to Appendix 60 for the GMI Report as at 24 June 2014, reflecting this journal entry.

Subsequent to this journal entry, we assume there would have been a \$6.8 million difference between the Futures trust ledger and the Futures Dealer's Report. However, as explained in section 3, it appears that these two sources were not being reconciled. As shown on Appendix 60, the GMI Trust Ledger was reporting \$1,970,738 USD (c.\$2,096,084 AUD) of client trust entitlements; whereas the Futures Dealer's Report, at Confidential Exhibit 101, was reporting \$14,160,900 of client trust entitlements, as at 24 June 2014.

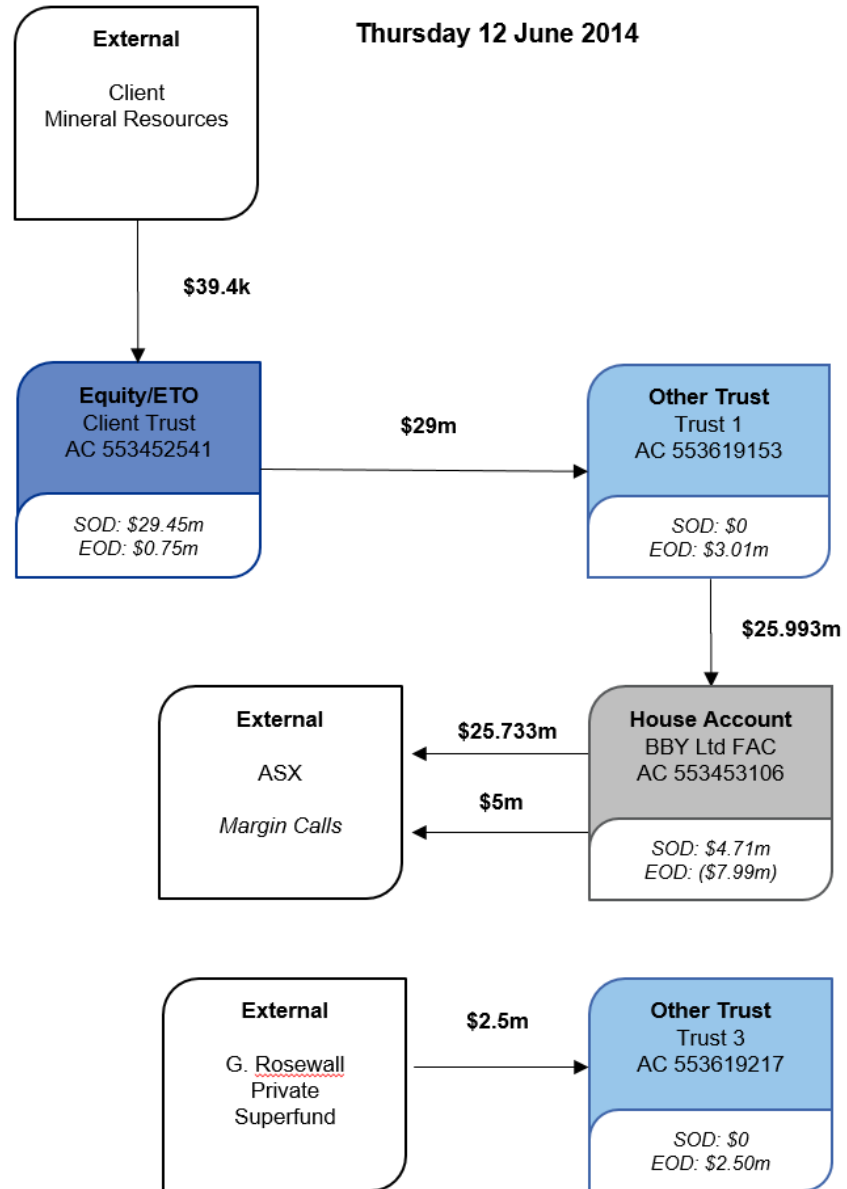
During the six business days between the date of the funds withdrawal and the date of the journal posting, \$6.8 million appeared on the Finance reconciliations as a reconciling item (see Appendix 61). However, after the journal was posted to GMI on 24 June 2014, this reconciling difference was cleared from the reconciliations (see Appendix 62), evidencing the deficiencies in the finance reconciliation process. As discussed in section 3 above, the Finance reconciliations were not structured or performed to question the nature or business validity of transactions in or out of the CSAs and no other reconciliation appears to have been completed comparing the total client entitlement position per the Dealer's Report with the total funds held.

6.8.10 Aquila Funds Flow Diagrams – 11 & 12 June 2014

Wednesday 11 June 2014

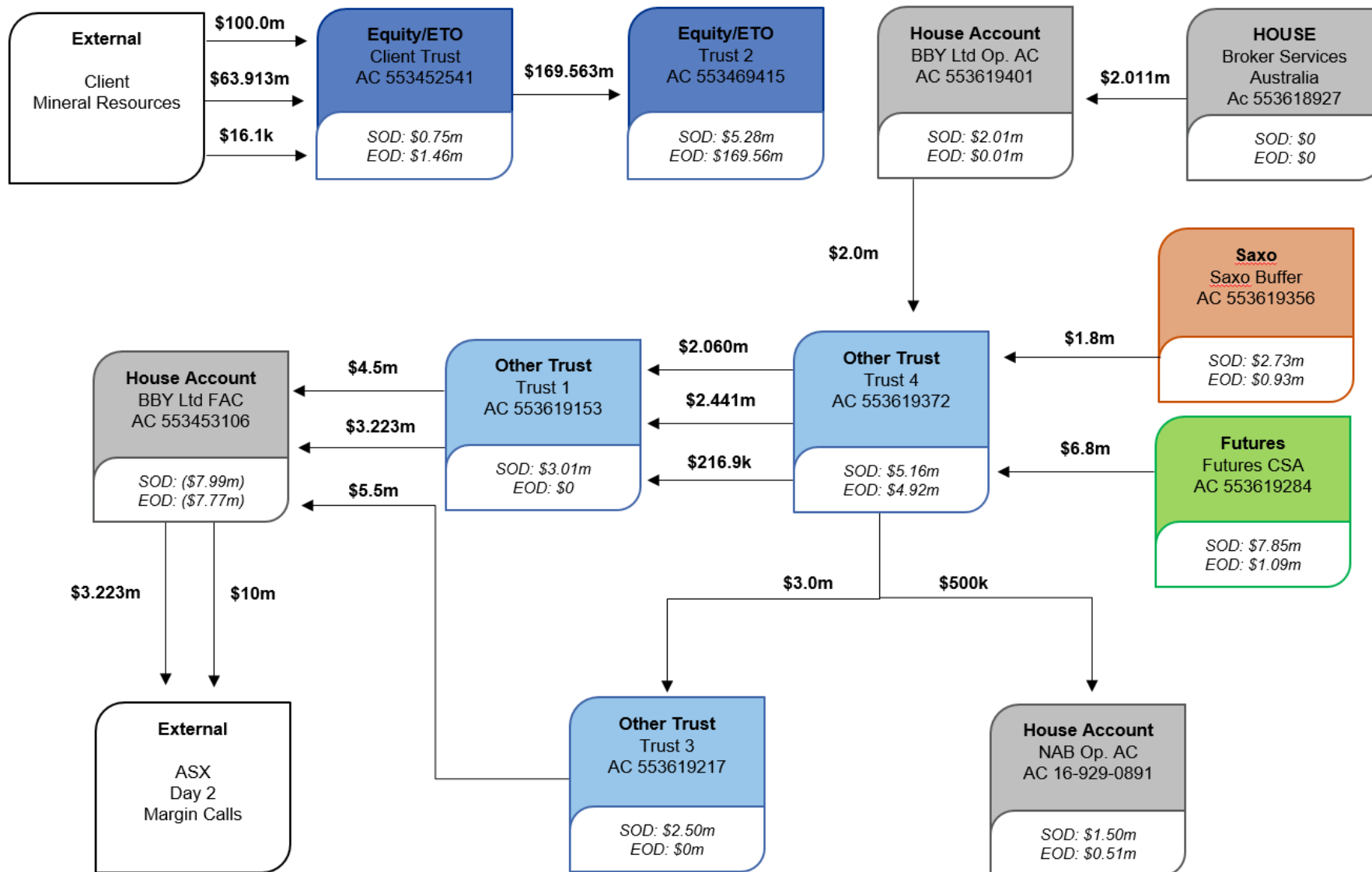


Thursday 12 June 2014



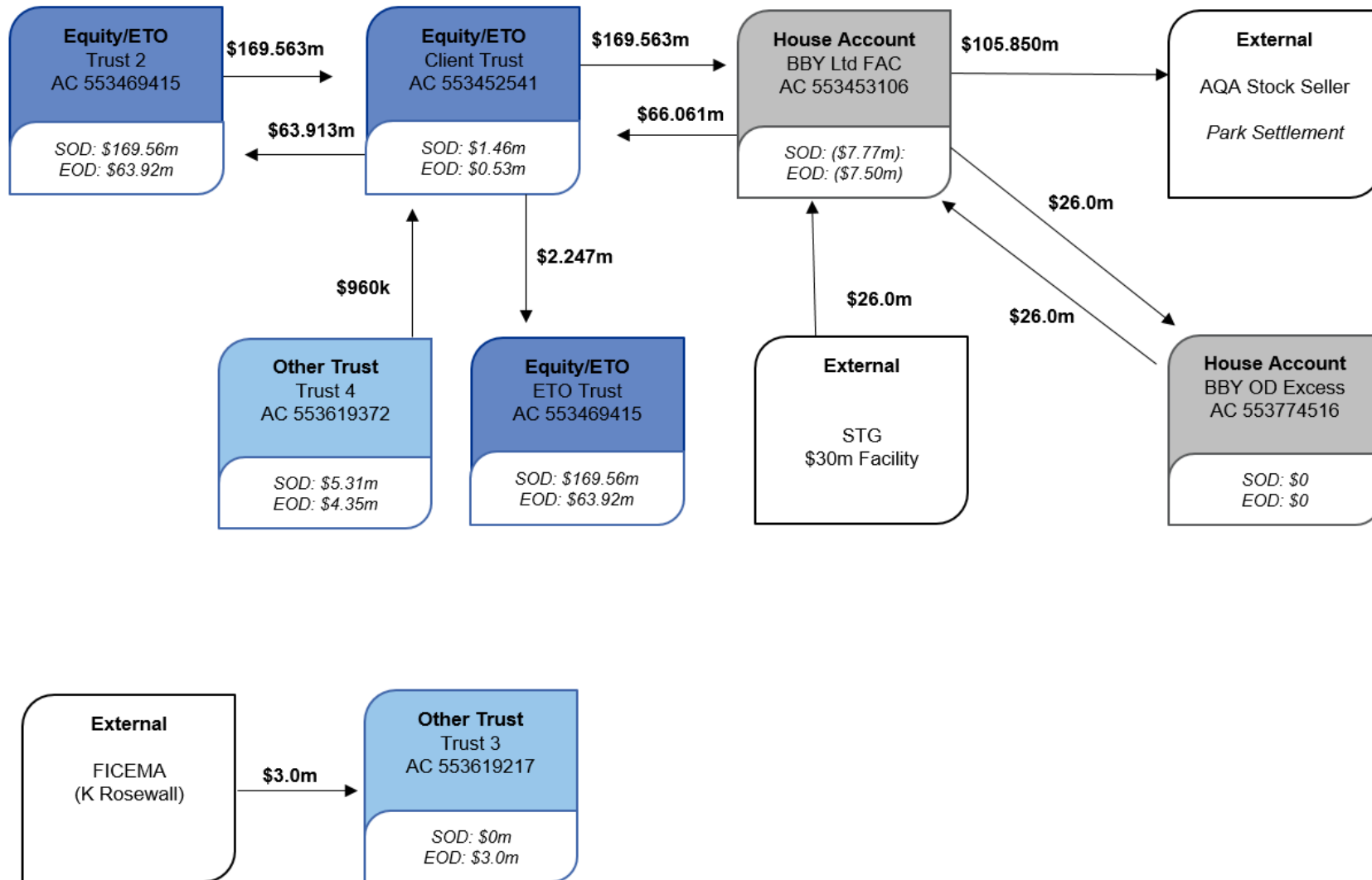
6.8.11 Aquila Funds Flow Diagram – 13 June 2014

Friday 13 June 2014



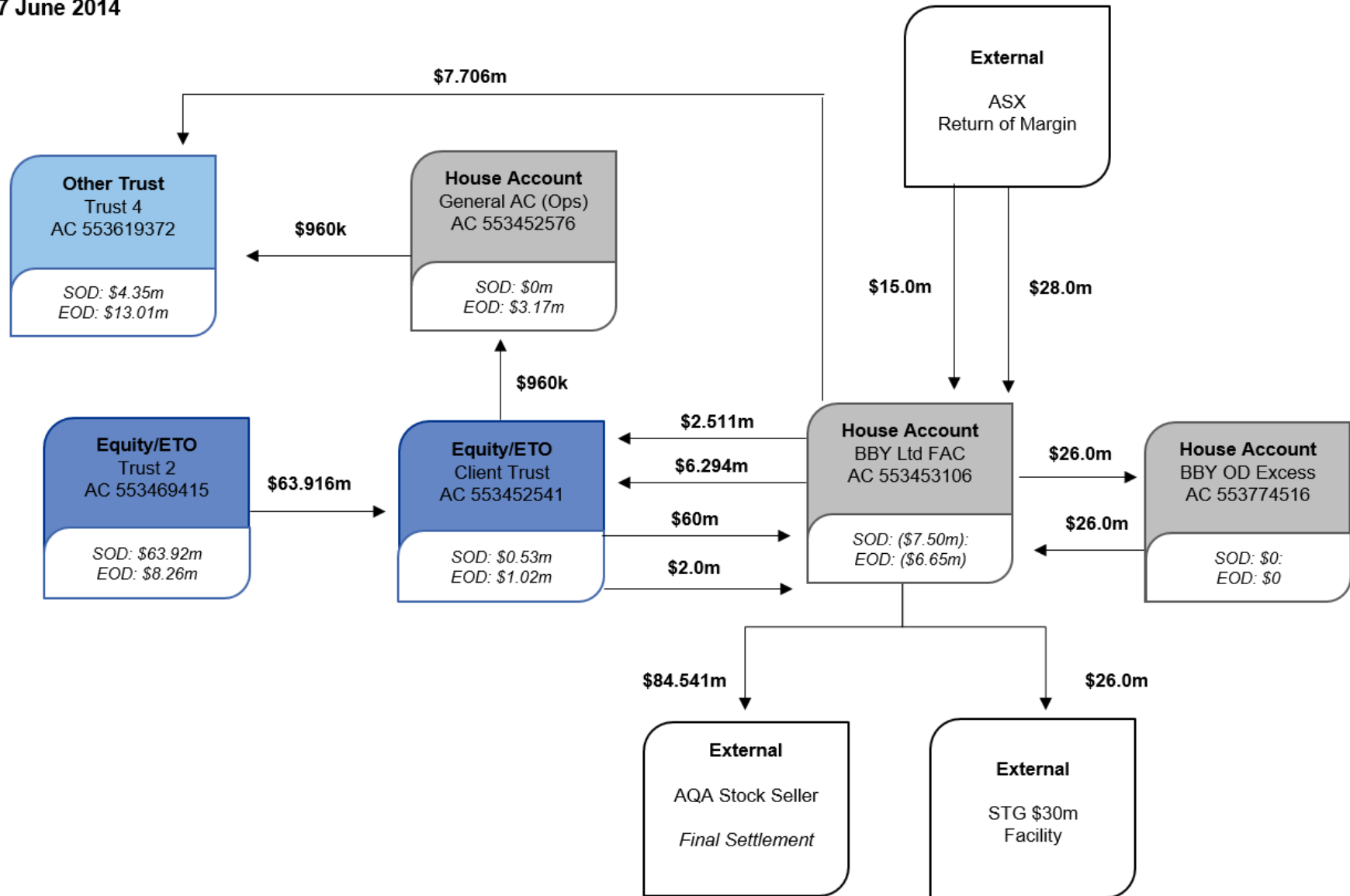
6.8.12 Aquila Funds Flow Diagram – 16 June 2014

Monday 16 June 2014



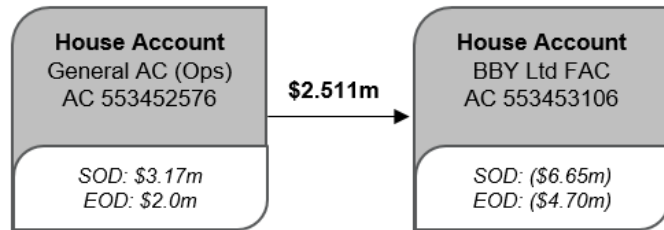
6.8.13 Aquila Funds Flow Diagram – 17 June 2014

Tuesday 17 June 2014

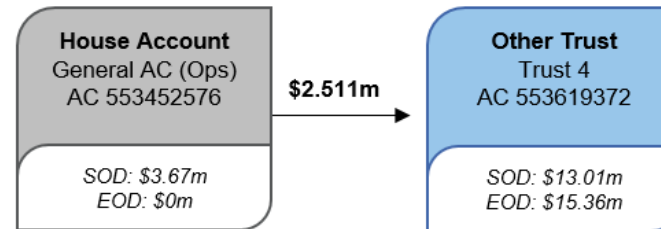


6.8.14 Aquila Funds Flow Diagrams – 18 to 24 June 2014

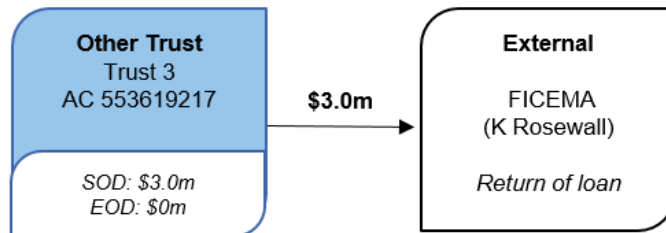
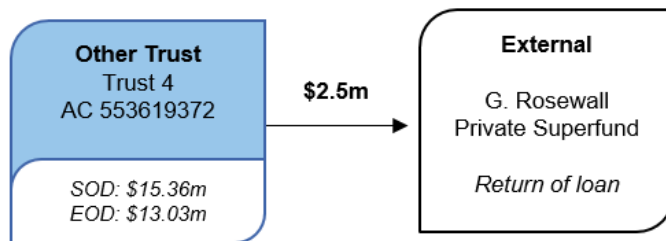
Wednesday 18 June 2014



Monday 23 June 2014



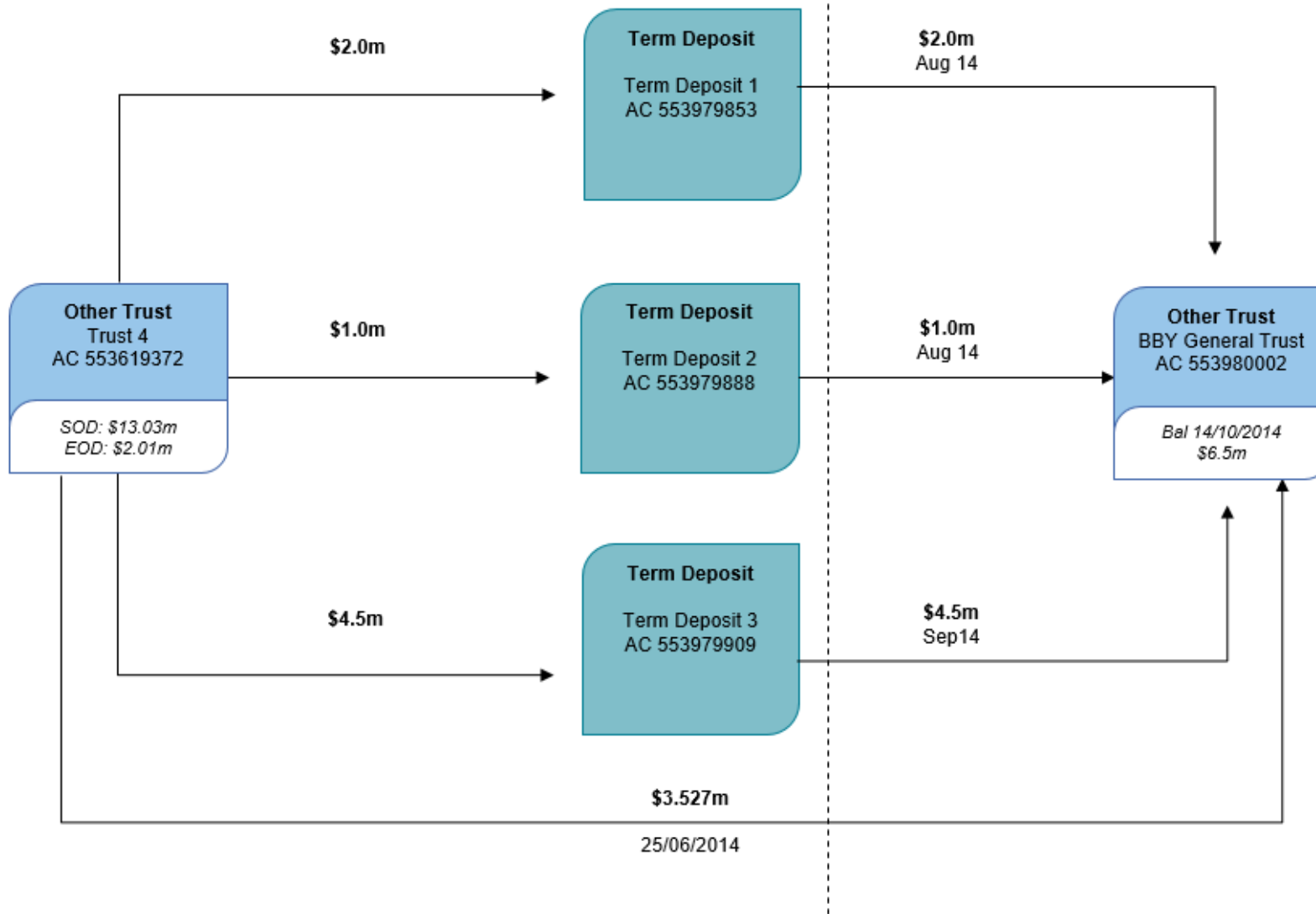
Tuesday 24 June 2014



6.8.15 Aquila Funds Flow Diagram – 25 June 2014 onwards

Wednesday 25 June 2014

Post Wednesday 25 June 2014



6.9 SAXO 1:1 funding arrangement

BBYL entered into trading agreements with SCMA in June 2012⁶⁴. An amendment was made to the Institutional Trading Agreement between BBYL and SCMA in December 2013⁶⁵, whereby BBYL was required to transfer all Saxo client monies to SCMA (instead of being held in BBYL trust accounts) by 1 December 2014. Under the terms of the funding agreement (referred to as the '1:1 funding agreement'), BBYL was required to meet the following milestones:

- 33.33%* of total BBYL Saxo client funds⁶⁶ to be held by SCMA by 1 April 2014;
- 66.67%* of total BBYL Saxo client funds to be held by SCMA by 1 September 2014; and
- 100%* of total BBYL Saxo client funds to be held by SCMA by 1 December 2014.

* With the exception of an agreed \$3 million buffer to help BBYL manage client redemptions.

6.9.1 Upload of client funds and \$20m hole in the Saxo CSA funds

The transfer, or 'upload', of Saxo client funds from BBYL to SCMA was reviewed as part of our investigations into the BBYL CSAs, given the high volume of CSA funds transfers during this time.

We identified a 'Saxo Update' paper which was prepared by April Yuen, Strategy Manager, in November 2014, which suggests that the upload payments to Saxo were made in two instalments of \$13.9 million, in respect of the first two milestones. However, we have not identified two payments of this value being made to SCMA from our review of the available bank statement data. A copy of the Saxo Update paper and the respective metadata showing the creation details, are included at Appendices 63 and 64 respectively.

From our review of the bank transactions and other relevant documentation and correspondence identified to date, it would appear that the payments made to SCMA were in a number of smaller instalments and that monies from a range of different sources were used by BBY to try and meet the requirements of the 1:1 funding agreement.

The funds movements that we have identified are summarised below:

- \$14.4 million of client funds were already held by SCMA as at 1 April 2014;
- \$21.6 million of funds appear to have been transferred into the Saxo Buffer AUD account, via two 'Other Trust' accounts, before being uploaded to SCMA between 1 April 2014 and 12 December 2014;
 - \$1.5 million from BBYL House accounts;
 - \$1 million from Equity/ETO, which appears to have been a deposit to an Other Trust account in respect of September 2014 commissions which would essentially make the funds BBYL House funds;
 - \$2.3 million from Equity/ETO, which appears to have been a return of daily funding previously provided to the 541 account from BBYL House, essentially making the original source of these funds BBYL House funds;
 - \$7.1 million of funds that were put on term deposit following completion of the Aquila transaction (as set out in section 6.8 above, the funds put on term deposit following the Aquila transaction contained \$1.8 million from Saxo funds, \$6.8 million from Futures funds).
 - \$0.5 million from the Saxo Omnibus account;
 - \$1 million from the FX Trust account;
 - \$3.3 million from a NAB account in the name of BBY Limited (confirmation of this bank account is pending);
 - \$3 million from Ficema Pty Ltd, a related party entity of Ken Rosewall (see section 6.10 in respect of this payment for which Ficema received convertible loan notes in Firestone Energy); and
 - \$1.9 million from GARF Pty Ltd, a related party of Glenn Rosewall (see section 6.10 in respect of this payment for which GARF received convertible loan notes in Firestone Energy).
- \$0.5 million NZD was transferred to SCMA, via the Saxo Buffer NZD account, as part of the upload payments, at the request of SCMA; and
- Approximately \$3 million of net client funds also appear to have built up through client trading during the period April to December 2014, which made up the balance of funds transferred to SCMA from the Saxo Buffer account.

⁶⁴ Institutional Trading Agreement dated 21 June 2012 (Appendix 22) and White Label Trading System Agreement dated 21 June 2012 (Appendix 23).

⁶⁵ Amendment to Institutional Trading Agreement dated 19 December 2013 (Confidential Exhibit 111)

⁶⁶ Calculated under clause 4.1 of the Institutional Trading Agreement dated 21 June 2012, between BBY and SCMA.

These funds flows are shown on the left hand side of our funds flow diagram set out at section 6.9.5. A schedule of payments that we have identified in respect of the upload of funds to SCMA from BBY's Saxo Buffer Account is also included at Appendix 65.

6.9.2 Termination of the trading agreement

In a letter to BBYL dated 1 December 2014⁶⁷, SCMA asserted that BBYL had not complied with requirements of the 1:1 funding agreement and terminated the White Label Relationship with effect from 1 February 2015. On 9 December 2014, the parties agreed to negotiate the commencement of an "introducing broker" relationship from 1 April 2015⁶⁸.

We understand from discussions with former BBYL staff members, that BBYL gave notice to its client base in February 2015 that all arrangements with SCMA would be terminated on 1 April 2015. From late February 2015, BBY's client base utilising SCMA was wound down and many clients moved to either SCMA directly or other brokers.

We understand, from our review of the 'Saxo Update' board paper⁶⁹, that the loss of the Saxo relationship caused significant concerns to BBYL regarding the loss of revenue and capital constraints, given BBYL's STG funding facility utilised by BBYL's clearing business was reviewed against the underlying Saxo deposits. The draft Board paper set out options for consideration, including the sale of the BBYL Saxo business to SCMA and migrating the client base to an alternative provider. The BBYL directors explored various options to raise funds including a short term standby credit facility of \$4 million from Ken and Glenn Rosewall and a \$5 million capital raising. The Board authorised preparation of an Information Memorandum to support a capital raising.

As the Saxo relationship was closed down, there was a significant volume of daily deposits from SCMA to BBYL, returning the Saxo funds that had been previously uploaded, back to BBYL for distribution back to clients. We have been told by former BBYL staff, that the Finance team was instructed by BBYL management to hold the client funds for 10 days before releasing the funds to clients, and that funds were only to be paid to those clients who requested their funds to be returned. We have not identified any written evidence of these instructions.

As at the date of our appointment, there were approximately \$32 million of unreconciled Saxo journal entries within the BBYL ledgers (see Appendix 29). We have therefore had to rely on the bank statement data to determine the flow of funds in respect of the Saxo termination. From our review of the bank transactions, the following funds flows appear to have occurred in relation to the return of funds from SCMA:

- \$44.7 million appears to have been transferred back from SCMA to BBYL during the period 10 February to 15 May 2015⁷⁰. The transactions we have identified in this regard are listed at Appendix 66;
 - \$38.9 million appears to have been returned to clients;
 - \$3.95 million appears to have been transferred to BBYL House accounts;
 - \$0.5 million appears to have been transferred to the Futures CSA account;
 - \$1.1 million appears to have been transferred to the FX Trust account; and
 - \$0.2 million appears to have been transferred to Halifax⁷¹, which we understand may relate to the Introducing Broker arrangement between SCMA and BBYL.

These funds flows are shown on the right hand side of our funds flow diagram set out in section 6.9.5.

6.9.3 Summary of our key observations

From our review of the Saxo upload and termination funds flows, we have made the following key observations:

- Approximately \$20 million of funds were transferred from sources outside of the Saxo CSAs to meet the 1:1 funding requirements, highlighting a \$20 million shortfall in the Saxo CSA funds as at 1 April 2014. Due to the limited time period of electronic bank statement data available to us to date, we have not been able to fully investigate how this shortfall arose, however we have made some preliminary observations from our review of historical hard copy bank statements that we have been able to obtain prior to the date of this report, which are set out under 'Review of historical bank statements' below.
- The funds which appear to have been transferred from sources outside of the Saxo CSAs, were transferred to the Saxo Buffer account via two 'Other Trust' accounts. We see only two reasons for the use of the Other Trust accounts in this manner:
 - to mask the true source of where the funds were actually being transferred from; and
 - to move funds gathered in from a number of sources in one lump sum transaction.

⁶⁷ SCMA Letter of Termination dated 1 December 2014 (Appendix 26)

⁶⁸ Appendix 27

⁶⁹ Appendix 63

⁷⁰ We have assumed that these transactions are represented by transaction description containing "LIM".

⁷¹ Confirmation was received from STG that \$200,000 was transferred from the Saxo Buffer account ending 356 to HALIFAX INVESTMENT SERVICES LTD by RTGS on 31.03.2015

- The funds taken from other product lines during the Saxo upload, do not appear to have been fully restored. The table below summarises the net position in respect of the other product lines (excluding Equity/ETO transfers, which appear to relate to commissions and have there been deemed House funds):

	Futures	FX
	\$ AUD	\$ AUD
Funds used for Saxo upload	(6.8m)*	(1.0m)
Funds returned during Saxo termination	1.0m	1.1m
Total surplus / (deficit) position	(5.8m)	0.1m

**this balance has been carried forward from the table in section 6.8 above and should not be double counted*

- The funds received back from SCMA but not returned to clients, being transferred to House, Futures, FX and external instead, represents the shortfall in Saxo client funds as at the date of our appointment.

6.9.4 Review of historical bank statements

We were able to obtain a copy of a small number of bank statements going back to 2011 in the week prior to completion of this report, in an attempt to provide some further information in respect of the deficit in Saxo client funds as at 1 April 2014, as identified above. From our review of these bank statements, we note the following:

- Saxo client funds appear to have been held in a NAB account called “Ebridge Buffer”, which was inherited by BBYL following the acquisition of Stonebridge in 2011. The balance of funds on this account as at 20 April 2011 was \$36.9 million (see Confidential Exhibit 102);
- \$30 million was transferred out of the Ebridge Buffer account to a high interest NAB account in the name of Smartrader Limited on 21 April 2011. This transfer was followed by further deposits of \$10 million from the Ebridge Buffer Account between 4 May 2011 and 25 November 2011, and payments back to the Ebridge Buffer Account of \$40.3 million between 5 August 2011 and 29 June 2012. These funds movements are shown on our funds flow diagram set out in section 6.9.6. A copy of the statements received in relation to this account are also included at Confidential Exhibit 103.
- We have identified a number of large withdrawals out of the Ebridge Buffer Account between 5 August 2011 and 12 April 2013 (excluding the aforementioned transfers to a high interest NAB account). These withdrawals can be seen on the bank statements at Confidential Exhibit 102. We received confirmation from NAB in respect of the recipients of these withdrawals shortly before finalising our report – this information is shown in the funds flow diagram at section 6.9.6.

From the information we have received from NAB in respect of the large withdrawals out of the Ebridge Buffer account between August 2011 and April 2013 totalling \$62.7 million, it appears the funds were transferred to 5 main recipients:

- \$16.5 million to SCMA (including Saxo Bank A/S);
- \$2 million to BBYL Saxo Buffer account ending 356 (STG);
- \$24 million international transfers (confirmation pending from NAB);
- \$8.2 million to BBYL Trust Account 4 ending 357 (NAB); and
- \$12 million to Equities Trust account ending 694 (NAB).

We identified email correspondence which appears to be relevant to the transfer of funds from the eBridge Buffer Account to Trust Account 4 on 29 June 2012 but does not provide an explanation for this transfer⁷². This email correspondence is attached at Confidential Exhibit 104.

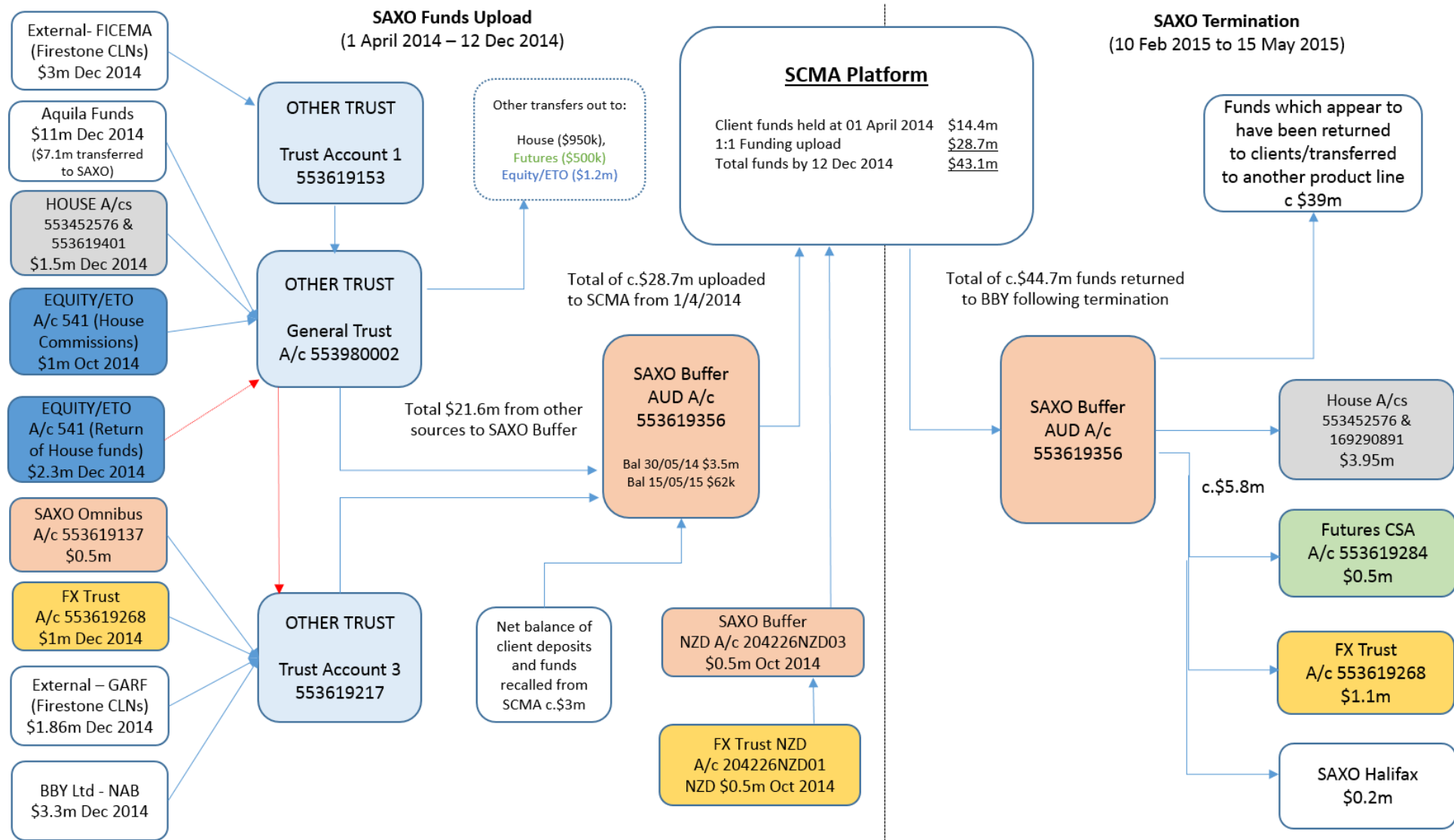
We have not identified any email correspondence in relation to the transfer of \$12 million of funds to the Equities Trust account 694 on 2 December 2011, however we have traced this deposit through to BBY’s bank movement’s records⁷³ which describe the deposit as “Transfer in from BBY Corp”. From this bank movement’s schedule, we note that the opening balance on the Equities Trust account 694 was nil prior to the deposit of \$12 million and that the following transaction appears to be a payment to the ASX of \$9.2 million in respect of ETO margin on the same day. An extract from the bank movements schedule showing these entries is included at Confidential Exhibit 105.

We were unable to investigate the use of the Saxo funds further within the timeframe prior to finalising our report, however the Liquidators intend to continue to investigate this matter.

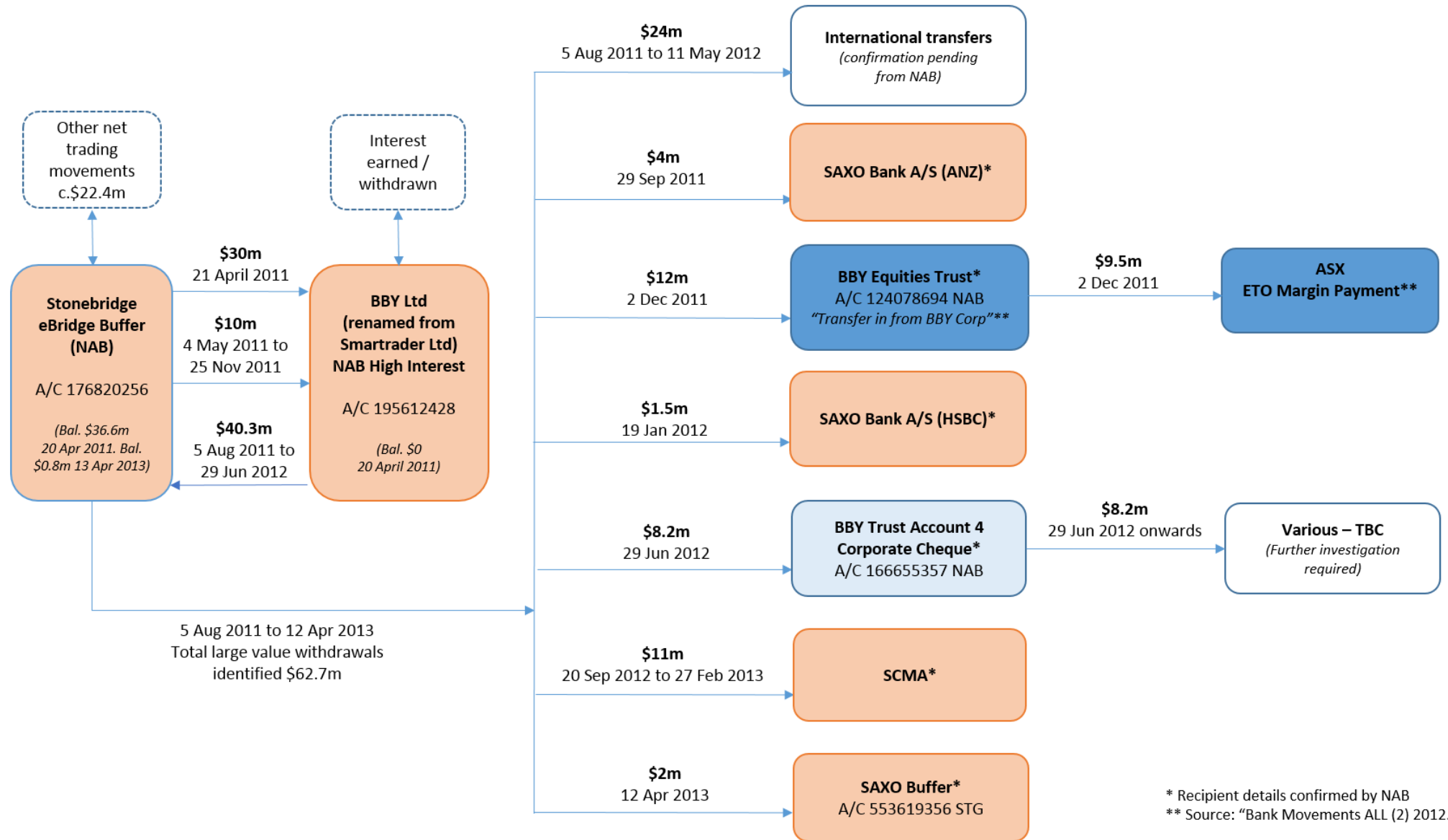
⁷² We note that the email correspondence dated 29 June 2012 requests the transfer of \$6,229,694.94, however the value transferred on 29 June 2012 is \$8,229,694.94. This may be due to a processing error or the difference may be due to an additional transfer request on the same date.

⁷³ BBY bank movements schedule “Bank Movements ALL (2) 2012.xlsx”

6.9.5 SAXO Upload and termination funds flow diagram



6.9.6 SAXO funds movements Aug 2011 to April 2013



* Recipient details confirmed by NAB
 ** Source: "Bank Movements ALL (2) 2012.xlsx"

6.10 Other matters arising from our investigations

During our investigations, we became aware of a number of matters which may be relevant in relation to the shortfall in client funds, or wider operational / funding issues of the business. We have had limited time to investigate each of these matters to date, however we have included an overview of each of the matters below, as far as possible, based on currently available information.

6.10.1 Potential legacy reconciliation differences from Stonebridge

It was suggested during our discussions with former BBY staff that reconciliation differences between funds on hand and client entitlements existed at the time BBY purchased Stonebridge in June 2011. This would mean that part of the shortfalls identified as at the date of our appointment could possibly relate to legacy reconciliation issues back to 2011.

Due to the lack of historical comprehensive product reconciliations available to us, and the historical nature of this matter, we have been unable to confirm to date if reconciliation differences existed in 2011. We were advised that external audit reports and due diligence reports were available in relation to the sale of Stonebridge in 2011, which we have requested, however we have not yet received a copy of any of this documentation.

6.10.2 Currency conversion issues

The Liquidators were advised of some potential currency conversion issues that may have contributed to reconciliation differences across the products as at the date of our appointment, during interviews with former BBY staff. We have not been able to investigate these matters in detail prior to completion of our report, however these matters have been included to provide transparency on matters reported to us and which may be relevant to our investigations.

Firstly, there were two types of FX conversion rates: at spot rates, if the client had sufficient funds in their account to facilitate the trade immediately, or forward rates, if dealers had to wait for client deposits to facilitate the trade. We understand from our discussions with former BBY employees, that FX trades may have been booked by the dealers at spot rates, despite their clients having insufficient funds in their accounts and prior to their clients depositing funds into BBYL's accounts. These clients effectively became "debtors" to BBYL, making deposits after their trades had been made. We were advised that, not only was this process against BBYL's internal policies of ensuring clients' had sufficient funds on hand before initiating trades, but that BBYL's process of recovering debts was highly ineffective. We were further advised that, consequently, the FX CSAs were constantly drawn down and depleted to cover these trades before funds had been deposited by clients.

Secondly, we understand from discussions with former BBL staff, that the BBY Strategy team often put funds on high interest term deposits in order to generate interest income. We were advised that foreign currency funds may have been converted into AUD and pooled together with other client funds already in AUD in order to put the funds on term deposit, however the ledger balances were still being reported in currency with no hedging in place, creating an FX exposure risk and FX differences between the cash balance and the ledger balance. Our review of email correspondence identified a number of occasions, mostly during 2015, where it would appear that BBYL had insufficient currency to meet a client withdrawal request, despite the client's account showing a positive balance. This appears to be in line with the assertion that currency was converted without the ledger balances being updated.

As we have not been able to investigate these matters in detail we are unable to provide an estimate of the potential value impact that these matters may have had on the reconciliations of the product lines as at the date of our appointment.

6.10.3 SAXO Unrecovered Debtors

The Liquidators are aware that the removal of the Swiss Franc (CHF) Currency Cap in early 2015 also contributed to the shortfall in the Saxo Buffer CSA, in respect of unrecovered client losses. The cap against the Euro was originally introduced by Switzerland's central bank in 2011 to prevent the Swiss Franc from inflating in value against the Euro. On 15 January 2015, the Swiss National Bank announced the removal of the cap of 1.2 Swiss Franc to the Euro. The FX rate had fallen to 0.98 by 16 January 2015.

This resulted in a significant loss incurred on open CHF positions, particularly those held by two of BBYL's Saxo clients, of approximately \$2 million. As discussed in section 6.9, at this time SCMA held all client monies, following upload of the client funds from BBYL to SCMA during 2014. We understand that the client monies held in trust at SCMA for these two clients was insufficient to cover the losses incurred in relation to their positions. With the structure of the SCMA accounts with BBYL held as an omnibus, all BBYL client funds held by SCMA are viewed collectively as one BBYL account, rather than distinguishing between individual client funds. The funds used by SCMA to cover the loss therefore consisted of monies held on behalf of other Saxo clients, until the loss was covered by the clients, via BBYL.

We understand from correspondence identified that BBYL had been attempting to recover the funds from the clients and made numerous attempts to contact the clients' solicitors (see Confidential Exhibit 106). BBYL also issued Letters of Demand to these clients on 3 February 2015 (see Confidential Exhibit 107), however the debts do not appear to have been recovered as at the date of our appointment. The Letters of Demand request outstanding balances of \$1.48 million and \$0.44 million between the two clients.

This matter therefore appears to account for approximately \$2 million of the shortfall in Saxo client funds as at the date of our appointment.

6.10.4 Sweeping of inactive SAXO accounts

We understand from discussions with former BBY employees that the BBY Strategy team undertook a project, named 'Project Saxo', in 2014 to identify any Saxo client accounts with balances below \$10,000 on which there had been no trading activity for the prior two years. We were advised that these accounts were then instructed to be journaled and transferred out of the client's individual account (held in the individual client's name) on the Saxo online platform, and into the BBYL "house account" on the Saxo online platform (held in BBYL's name). This transfer from the client's name into that of BBYL's, effectively increased BBY's assets.

We were advised that the bulk transfer of the inactive accounts occurred on three occasions - late August 2014, late December 2014 and mid May 2015 and that the total value of 'swept' funds was approximately \$2 million. During our investigations, we identified documentation titled 'Project Saxo – combined spreadsheet – Inactive Register.xlsx' created in March 2014. The first tab of this spreadsheet appears to be a schedule of inactive account balances and amounts withdrawal in August 2014 (see Confidential Exhibit 108). The second tab of this spreadsheet appears to show the total value of "cash to move out of Saxo platform (2 years inactive)" summarised by advisor name (see Confidential Exhibit 109).

We were advised during discussions with former BBY staff that clients' funds were only returned to their accounts in the event that the client complained to BBYL about the withdrawal. If the holder of these dormant accounts wanted to trade or request their funds back, BBYL would then transfer the funds from the "house account" back to the client's account on the online platform. However, the funds in these "house accounts" were not held on trust for the clients individually. Rather, they were pooled together to potentially fund any margin calls that were under pressure.

We have identified email correspondence in relation to a client complaint about the balance of funds being withdrawn from their account in February 2015 (see Confidential Exhibit 110). In this email correspondence, the Head of Compliance advised BBY staff that the withdrawal from the client's account was processed as part of the restructuring of BBY's agreement with SCMA in 2014, and that it was in line with the hedge counterparty risk provisions outlined in the BBYL Online Trade PDS.

6.10.5 Staffing issues / loss of key staff

During our discussions with former BBY staff members as part of our investigation, we were advised that BBY experienced some staffing issues which may have contributed to the CSA reconciliation issues.

We were advised anecdotally, during interviews, of errors being made by back office staff, reductions in back office staff headcount by management, a lack of staff with appropriate time and/or expertise to complete regular product reconciliations, and issues with access to appropriate information to complete the required reconciliations. We also understand that the CEO resigned in late 2014, leaving the company on 20 March 2015, followed shortly after by another key member of staff, the Strategy Manager, at the end of March 2015.

6.10.6 Firestone Convertible Loan Notes

As outlined in section 2.3, a number of BBY Companies were contractually obliged to invest in Firestone (FSE) convertible loan notes following a failed capital raising initiative underwritten by BBYL in 2009. Given the apparent significant shortfall in Saxo client funds outlined in section 6.9, we carried out some preliminary investigations into how the Firestone convertible loan notes were funded by the BBY Companies.

From the information we have been able to obtain to date⁷⁴, we understand that the registered note holders as at October 2011 were:

Entity	Initial consideration	Redeemed 2010/11	Balance Oct 2011
Jaguar Funds Management Pty Limited			
A/C Jaguar Australian Leaders Long Short Unit Trust	\$15m	-	\$15m
BBY Nominees Pty Limited	\$10m	(\$3.7m)	\$6.3m
Total	\$25m	(\$3.7m)	\$21.3m

The information we have obtained suggests that the consideration of \$25 million was paid in 23 instalments between October 2009 and October 2011. We do not yet have access to bank statements covering this time period in order to confirm these payments and how they were funded.

As part of our email review, we identified a number of transfer forms, transferring FSE convertible notes from BBYN to related parties, as follows:

⁷⁴ BBY schedule titled Firestone Energy Ltd Register of Noteholders "09-10-02 Conv Note Register.xlsx"

Transferee	AUD \$	Date of Transfer	Date of Payment / Loan
GARF P/L as Trustee for GA Rosewall Private Superannuation Fund	1,868,600	05/12/2014	05/12/2014
FICEMA P/L as Trustee for Ficema Trust (Ken Rosewall)	4,000,000	12/12/2014	01/12/2014 & 11/12/2014
GARF P/L as Trustee for GA Rosewall Family Trust	92,900	16/12/2014	16/12/2014
GARF P/L as Trustee for GA Rosewall Private Superannuation Fund	376,300	16/12/2014	16/12/2014
GARF P/L as Trustee for GA Rosewall Family Trust	2,180,000	01/01/2015	<i>Unconfirmed</i>
FICEMA P/L as Trustee for Ficema Trust (Ken Rosewall)	3,000,000	01/01/2015	<i>Unconfirmed</i>
Total	\$11,517,800		

The FSE convertible notes appear to have been transferred at a face value of \$1 per note in return for payment or the forgiveness of Director loans previously paid to the BBY Group. As our access to historical bank statements is limited, we have not yet been able to confirm that the full value of payments.

6.10.7 Potential manipulation of the facilitation account funding

During our meetings with BBY staff and preliminary investigations during our appointment as Administrators, we were advised that deceptive documentation had been provided by BBYL to STG in order to obtain additional funding from the bank.

As part of the day-to-day operation of the clearing house, BBYL was required to fund clearing obligations with the ASX as principal, regardless of whether the equivalent funds had been collected from clients. STG provided credit to BBYL, via BBYL's STG House Facilitation account, which was used by BBYL to manage the client settlement obligations. STG required BBYL to provide supporting documentation to evidence daily funding requirements in respect of this facility, being details of open Contract Notes.

We were advised by a former BBY staff member that during the period late June 2014 through to May 2015, false information overstating the level of BBYL's open Contract Notes by approximately \$3 million was provided to STG in order to obtain additional funding, initially under the instruction of the CEO. We were advised that a number of the BBY management team were aware of this practice, which continued following the CEO's departure. Upon becoming aware of this matter, we conducted a series of interviews and obtained evidence to ascertain further details. This matter was also reported to STG, the ASX and ASIC.

Although this matter does not appear to directly impact the CSAs, it suggests that the business was under significant financial strain since June 2014 and that a number of the BBY management team were potentially complicit in this activity.

Despite the apparent financial strain of the company, we note that a solvency statement dated 8 December 2014 appears to have been signed off by Glenn Rosewall, on behalf of the Board. A copy of this statement is included at Appendix 67.

7. Summary of findings

7.1 Summary of findings to date in respect of each product line

As set out in section 4, the information that we have obtained to date shows an overall shortfall in client monies, as at the date of our appointment, of \$17.0 million.

From our review of the bank transactions for 12 months prior to the date of our appointment, we identified a significant volume of transfers between CSAs across product lines and between CSAs and BBYL House accounts. Due to the volume of transactions identified, it has not been practical to review every transaction and therefore we investigated these transactions on a sample basis.

Our investigations to date in respect of the client monies indicate a number of potential reasons for the shortfall:

- Uncorrected transfers of funds between product lines;
- Unrestored transfers of funds from CSAs to BBYL House accounts to cover House obligations and/or operating expenses of the business;
- The poor state of the financial records as at the date of our appointment, including a lack of comprehensive product reconciliations; and
- Unrecovered client debts.

7.1.1 Summary of findings in respect of Equity/ETO

From our review of available information in respect of the Equity/ETO product, we have calculated a surplus of \$1.0 million of funds held in the Equity/ETO accounts (including funds held with the relevant counterparties) against the client entitlements, as at the date of our appointment.⁷⁵

Our investigation procedures identified high value daily funding movements between Equity/ETO accounts and also between Equity/ETO and BBYL House accounts, which appear to be BAU transactions in respect of the daily Equity/ETO trust obligations. In relation to transactions of interest, we identified instances of CSA funds being withdrawn and transferred to House in order to facilitate a House funding obligation, before the funds were returned to the product CSAs.⁷⁶

We also identified one instance where funds were withdrawn from five different product CSA accounts on the same day (16 December 2014), and deposited into an Other Trust account, together with funds deposited from accounts related to Glenn Rosewall. These funds, totalling \$1.9 million, appear to have been combined with other funds to make up a larger transfer to the Equity/ETO 541 account on the same day. We have not identified transfers which evidence these funds being returned in full to BBYL House by Equity/ETO, or returned by BBYL House back to the product CSAs. Our review of all movements identified between the General Trust account 002 and the Equity/ETO 541 account identified net funds of \$516k transferred into Equity/ETO 541 account and not restored between June 2014 and December 2014.⁷⁷

We also identified an instance where it appears that \$250,000 was transferred out of Equity/ETO in order to provide funding for a payment to an FX client⁷⁸. We have not identified a transaction which shows that Equity/ETO was reimbursed by FX in this regard.

Lastly, our funds tracing in relation to the Saxo upload and termination event identified funds transfers totalling \$3.3 million out of Equity/ETO into an Other Trust account⁷⁹, however BBYL's internal records suggest that these amounts related to commissions and the return of funding previously provided by House and therefore it is possible that these were essentially House funds that were used to contribute to the Saxo fund upload.

7.1.2 Summary of findings in respect of Futures

From our review of available information in respect of the Futures product, we have calculated a shortfall of \$9.4 million of funds held in the Futures accounts (including funds held with the relevant counterparties) against the client entitlement, as the date of our appointment.⁸⁰

From our investigation procedures carried out to date, we identified a withdrawal of \$6.8 million from the Futures CSA on 13 June 2014 which was used by BBYL to fund margin requirements in respect of the Aquila transaction. Following completion of the Aquila

⁷⁵ Refer section 4.3

⁷⁶ Refer section 6.6.2.

⁷⁷ Refer section 6.6.3.

⁷⁸ Refer section 6.6.3.

⁷⁹ Refer section 6.9.

⁸⁰ Refer section 4.3

transaction, these funds were put into a high interest term deposit account and then appear to have been used to fund the upload of Saxo funds to SCMA towards the end of 2014. Given the balance on the Futures bank accounts from June 2014 through to the date of our appointment, it is clear that these client funds were never restored back to the Futures CSAs.⁸¹

A number of other transactions of interest were identified during our investigations which suggest that Futures CSA funds were intermingled with CSA funds of other product lines and BBY House funds, either for House funding requirements or to facilitate a client payment from a product line with insufficient funds. One high value transfer out of Futures that appears to have been used for House funding purposes and not restored, is a \$757,000 withdrawal from the Futures CSA on 16 December 2014⁸². This withdrawal together with other examples set out in section 6, appears to have contributed to the shortfall in Futures client monies as at 17 May 2015.

Further, we were advised by former BBY staff members that the FX and Futures product funds were essentially treated as one pool internally within BBYL, which may have caused significant reconciliation differences between these two products.

7.1.3 Summary of findings in respect of FX

From our review of available information in respect of the FX product, we have calculated a shortfall of \$0.6 million of funds held in the FX accounts (including funds held with the relevant counterparties) against the client entitlements, as the date of our appointment.⁸³

A number of other transactions of interest were identified during our investigations which suggest that FX CSA funds were intermingled with CSA funds of other product lines and BBYL House funds, either for House funding requirements or to facilitate a client payment from a product line with insufficient funds. For example, we identified a withdrawal of \$870,000 from the FX Trust account on 16 December 2014 which appears to have been used for House funding purposes⁸⁴. We also identified instances where the FX CSAs appeared to have insufficient funds to make payments to clients who requested a withdrawal of their funds. On these occasions, funds appear to have been transferred from other product lines to facilitate the FX client payment. For example, we identified a transfer of \$500,000 from Saxo to FX on 12 January 2015 to facilitate a payment to an FX client⁸⁵.

Our funds tracing in relation to the upload of client funds to SCMA in the second half of 2014 also identified a withdrawal of \$1 million from the FX AUD Trust account, and NZD \$0.5 million from the FX NZD Trust account, which appear to have been used to meet the SCMA funding requirements. Following the termination of BBYL's agreement with SCMA in early 2015, \$1.1 million was transferred back to the FX AUD Trust account but not funds appear to have been restored to the FX NZD Trust account.⁸⁶

Further, we were advised by former BBYL staff members that the FX and Futures product funds were essentially treated as one pool internally within BBYL, which may have caused significant reconciliation differences between these two products.

7.1.4 Summary of findings in respect of Saxo

From our review of available information in respect of the Saxo product, we have calculated a shortfall of \$7.1 million of funds held in the Saxo accounts (including funds held with the relevant counterparties) against the client entitlements, as the date of our appointment.⁸⁷

From our investigation procedures carried out to date, we identified a withdrawal of \$1.8 million from a Saxo CSA on 13 June 2014 which was used by BBYL to fund margin requirements in respect of the Aquila transaction. Following completion of the Aquila transaction, these funds were put into a high interest term deposit account and then appear to have been used to fund the upload of Saxo funds to SCMA towards the end of 2014.⁸⁸

Our funds flow review in respect of the upload of funds to SCMA in the second half of 2014, identified a significant shortfall of Saxo client monies of approximately \$20 million as at 1 April 2014⁸⁹. It therefore appears that the Saxo funds acquired at the time BBYL purchased Stonebridge, have been used for other purposes between August 2011 and April 2014. As we do not currently have access to electronic bank statement data prior to 2014, we have been unable to investigate the use of these funds in detail during this time period. However, confirmation from NAB in respect of a number of withdrawals out of the EBridge Buffer account between August 2011 and April 2013 identified funds being transferred to Other Trust and Equity/ETO, which require further investigation.⁹⁰ It appears that, following the termination of BBY's trading agreement with SCMA in early 2015, funds returned to Saxo clients during the close out were funds taken from other sources during the Saxo upload.⁹¹

⁸¹ Refer section 6.8

⁸² Refer section 6.6.3

⁸³ Refer section 4.3

⁸⁴ Refer section 6.6.3

⁸⁵ Refer section 6.5.3

⁸⁶ Refer section 6.9

⁸⁷ Refer section 4.3

⁸⁸ Refer section 6.8

⁸⁹ Refer section 6.9

⁹⁰ Refer section 6.9.4

⁹¹ Refer section 6.8

Another matter brought to our attention during our investigations, which is likely to have contributed to the shortfall in Saxo client funds, is an unrecovered client debt of approximately \$2 million that we understand arose from client losses incurred when the cap on the CHF was removed in January 2015.⁹²

7.1.5 Summary of findings in respect of IB

From our review of available information in respect of the IB product, there are a number of potential scenarios in respect of the surplus or shortfall position against client entitlements, depending on whether both cash and stock held are taken into account.⁹³

During our investigations we identified transactions of interest which suggest that IB CSA funds were intermingled with CSA funds of other product lines and BBYL House funds. For example, we identified a withdrawal of \$554,000 from the IB bank account on 16 December 2014 which appears to have been used for House funding purposes and does not appear to have been restored to the IB account.⁹⁴

7.1.6 Summary of findings in respect of Carbon Trading

From our review of available information in respect of the Carbon Trading product, we have calculated a shortfall of \$0.02 million of funds held in the Carbon Trading accounts against the client entitlements, as the date of our appointment.⁹⁵

During our review of the Carbon Trading bank statements, we identified a withdrawal of the majority of the balance in the account on 16 December 2014. This withdrawal was part of a number of withdrawals from product CSAs on this date. These funds appear to have been used for House funding provided to the Equity/ETO 541 account. We have not identified any restoration of these funds back to the Carbon Trading CSA.⁹⁶

⁹² Refer section 6.10.3

⁹³ Refer section 4.2.5

⁹⁴ Refer section 6.6.3

⁹⁵ Refer section 4.3

⁹⁶ Refer section 6.6.3

8. Disclaimers and limitations

8.1 Disclaimers

This report has been prepared for the purpose set out in section 1.4, drawing on a variety of sources including: the BBY Companies' bank statement data, books and records, electronic server and mailbox data and our discussions with former BBY staff, the Receivers, and counterparties. In many cases, the records of the BBY Companies are unreconciled, incomplete and in a poor state and it is not possible to independently verify all financial data.

Notwithstanding these circumstances, we have strived for factual accuracy and precise analysis. The tight reporting timeframes, which seek a timely resolution of the matters, mean that professional judgement must be exercised to balance speed and cost of reporting and the extent and nature of our investigations.

The statements and findings included in this report are given in good faith, and in the belief that such statements and findings are not false or misleading.

All values are reported in AUD unless explicitly stated otherwise.

8.2 Limitations of client monies analysis

Our investigations were limited in a number of respects as discussed below. However, we are satisfied with the conclusions we have reached in this report.

These limitations included:

- Our initial investigations onsite at the BBYL offices in Sydney and Melbourne involved holding discussions with a number of former BBY employees to gain an understanding of the nature, processes, systems and reconciliation processes for each of the major products offered by BBYL. We have also held interviews with a number of key BBY employees to further broaden our understanding of BBYL operations and products. We have, where possible, verified statements made by these employees, through forensically imaged documentation and our review of email correspondence, to ascertain their veracity. We have indicated separately in this report the instances in which we have relied upon what was said in these interviews and discussions. Apart from those specific instances, this report is based on our analysis of the business records kept by the BBY Group.
- More specifically, these discussions revealed that the company's financial records were in an incomplete and poor state, with unreconciled trust accounts and a reconciliation process that did not appropriately capture the correct client trust entitlements. Our discussions with BBY employees ascertained which reports should be used in our investigations to account for the client claims, as the finance reconciliations could not be utilised. Our client monies analysis is highly dependent on our use of these reports. We have compared a sample of client trust entitlement details on these reports utilised to client distributed statements to verify the accuracy of these system generated reports. However, due to the large volume of entitlements across all the products and reports, we have been unable to verify the accuracy of all the trust entitlements.
- Our review of these client trust entitlement reports have identified a number of trust obligations relating to BBYL House accounts. These have been identified based on irregular account numbers and names, which we further corroborated through discussions with BBY employees. These "House" obligations have been clearly identified as a separate component in our client monies analysis.
- These client trust entitlement reports also identified a number of clients with negative balances, effectively establishing them as "debtors" to BBYL as at our appointment date. These debtor positions have been created as unfavourable trades were entered previous to our appointment as administrators. In the normal course of business, these debtors would have been required to make margin calls to facilitate any further trading. However, as all accounts were frozen upon our appointment, these clients who are established as "debtors" have not fulfilled their obligations to BBYL. Our client monies analysis has taken these negative positions and applied a contra relationship for individual clients (i.e. clients with negative and positive positions have been net off on an individual client by client basis, to establish a net client trust obligation). Any clients with a purely negative trading balance and still remain a debtor to BBYL have been netted off against our reported client trust entitlement figures. Where possible, we have also reported in section 4.2 client trust claims figures excluding these debtor positions.
- Our client monies analysis has also taken into consideration post appointment transactions and whether or not these transactions can be classified as erroneous. As the Receivers were ultimately in control of the accounts, they have provided us with their workings and data, which classified these post appointment transactions. Some of the categories included 'debtor transactions' and 'margin calls made in error'. Our analysis is dependent on these categorisations the Receivers have provided and will affect the distribution of post appointment inflows of cash, and our pooling scenario analysis.

- We have sent confirmation requests to all BBYL counterparties and have received responses from the majority of these third parties quantifying the client monies currently being held. These confirmations of monies held by the counterparties have been included in our client monies analysis and have been applied in various pooling scenarios. Some of these counterparties also hold open stock, options and futures positions. However, the final value of funds received by the Liquidators may vary from those reported in our analysis due to market fluctuations of the open positions and any costs to close out.

8.3 Limitations of investigations

The key limitations applicable to our analysis and observations to date are summarised below:

- As outlined in our 439A report, and in section 3, the BBY books and records are incomplete and unreliable, presenting a significant limitation to our funds movement analysis and confirmation of client liabilities. We have relied on information provided and available to date, for the purposes of this analysis.
- The NAB and STG online banking facilities only provide a limited history of transactions in electronic format and do not include closed accounts. Hard copy bank statements were obtained from the respective banks in relation to closed bank accounts, as advised by the respective banks, and for accounts for which we required data prior to the data available via the online portal. Hard copy statements were also obtained for any term deposits that we became aware of.
- The Liquidators were still coming across additional bank accounts that we had not previously been made aware of, in the weeks leading up to the date of our report. Some hard copy bank statement information was therefore received after the majority of our analysis had been completed and could not be incorporated into our funds flow matrix prior to the date of our report. Some hard copy bank statement information was also still outstanding from the relevant financial institutions as at the date of our report. The majority of these bank accounts were historic accounts that had been closed during the period 2011 to 2013, and are therefore prior to the date of our review.
- BBYL bank accounts may have existed and closed prior to our appointment that the Liquidators have not been made aware of. Bank accounts may also exist, or have existed, with other financial institutions that we have not been made aware of. However, we have made reasonable endeavours to identify all bank accounts relevant to the period of our review and considered the likelihood of the existence of additional bank accounts to be low.
- The transfer of hard copy bank statements into electronic format is an extremely time consuming and labour intensive process. The banks also charge up to \$7.50 per statement page for historical statements in either hard copy or PDF format, adding to the cost of the review of historical bank transactions and increasing the timeframe of obtaining the statements, due to the added payment and administration process.
- The electronic transaction data obtained from the online banking facilities of NAB and STG does not include transaction time stamps. The data therefore does not allow for the identification of the order in which transactions occurred on any given day, requiring corroboration from other sources to determine timing of specific transactions, where possible.
- The standard turnaround time in relation to the provision of hard copy bank statements, confirmation of payer/payees, and further information on specific transactions from the banks varied by financial institutions and in some situations could take up to one to two weeks.
- A 2% tolerance of difference is introduced in relation to the conversion of currency values to AUD and therefore the exact match quality of currency transaction values is significantly reduced.
- The Liquidators identified Microsoft Excel schedules titled "Bank Movements..." within the electronic BBYL books and records, providing descriptions of daily movements in and out of certain bank accounts, but only for the four Equity/ETO accounts and three House accounts (STG Facilitation account 106, STG General account 576 and NAB Equities General account 643). The schedule also includes the BNZ Equities account ending 023, however this is out of scope for our review. We do not have similar bank movements' information for the other product CSAs.
- As outlined under 'Method C' above, we do not currently have full access to all the underlying data in relation to BBYL's client ledgers via the respective systems for each product line (such as GBST, Saxo platform, GMI etc.) and therefore have not been able to use client transaction data to identify legitimate client transactions.
- In respect of 'corrected' transactions, being funds transfers that are later restored / returned in full, the Liquidators are only able to identify if funds transfers have been corrected in the event that the exact same funds value (or greater where the restore of funds can be identified) is transferred back to the account that originally transferred the funds. If any balances are netted off, resulting in the value of the returned funds being different to the original funds value, we lose the trail of the funds and can only make assumptions, without comprehensive records detailing all netted values.
- Given the significant volume of both electronic server data (10+ terabytes of data), and hard copy books and records (over 2,500 boxes of records), it has not been practical or cost effective to review every document contained within the BBYL books and records. We have therefore had to rely on the results of key word searches carried out across the data to identify relevant documentation.

- A copy of the BBYL server data was provided to us by the Receivers, and was not extracted by the Liquidators directly. The Receivers advised the Liquidators that the Receivers were unable to retrieve an independently verifiable forensic image of the server due to restrictions on being able to obtain physical access to the server data. We understand that the Receivers downloaded the contents of the server via an internet connection – being the best available option to obtain the data in the circumstances. The Liquidators have therefore had to make the assumption that the data copied by the Receivers is representative of the complete data set held on the BBYL servers.