Terence John Brett
Karen Dale Stewart (Brett)

23rd July 2009

Committee Secretary
Parliamentary Joint Committee on
Corporations & Financial Services
Department of Senate
P O Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Please accept the following submission to the above named Senate Inquiry as we believe it contains information relevant to the "Terms of Reference" to be addressed.

We first invested through Cassimatis Securities Pty Ltd, in late 1998 and took advantage of the margin lending facility offered by the Colonial State Bank. These companies have since changed their names and hereafter will also be referred to as Storm Financial and Colonial Geared Investments respectively.

Attachments:-

1. Cover page, plus pages 20 & 21 of Cassimatis Securities Pty Ltd, Recommendation & Report. Under the heading **Margin Calls** it states ***"A margin call would be advised to you by the institution when your loan to valuation ratio exceeds the limit set."***
2. Page 41 of Colonial State Bank Margin Lending Facility Application Booklet. Under the heading **Margin Calls** it states ***"If the margin loan equals a certain percentage of the overall security value (see page 5) you will receive a margin call. You cannot just "wait out" any downturns in the market. You will have a limited time to deal with any margin call, by either repaying to us enough of your facility or giving us more securities on our list. If you fail to act within the time periods specified in the terms and conditions, then some of your securities may be sold so as to reduce the amount owing to an amount that does not exceed the base security value. We may at any time remove an investment from our list of securities. The consequences of doing so are set out on page 7."***
3. Page 2 of Colonial Geared Investments FAQ's section on CBA website. Under the heading **What happens if I do not respond within the time limits?** It states ***"Colonial Margin Lending will sell sufficient security to clear any overdue***

margin call, so that the Current Loan-to-Security Ratio is restored to the Base Loan-to-Security Ratio."

4. Complaint letter to Colonial Geared Investments dated 30th December 2008. Paragraphs (3) & (4) states ***"A "Margin Loan" and a "Margin Call" are by their own definition precisely that. Colonial boasts a 10% "Buffer", giving lender and client, breathing space to respond to one of three options. A client's lack of response within the "Time Limit" (in our case 5 days) should result in prompt action by the lender to liquidate secured assets to fully satisfy the loan."***
5. Response letter from Colonial Geared Investments re: Complaint. Paragraph (3) states ***"The Margin Loan agreement you have with us puts certain obligations on you. Particularly these obligations are monitoring your portfolio and determining when your loan is subject to a margin call and ensuring that a margin call does not occur by Clause 4.4. A Margin Call is not an obligation for us to liquidate a client's position, rather it triggers an obligation on behalf of the borrower (you) to remedy the situation."***

By leaving our security investments unsold until December 2008, it is obvious that Colonial Geared Investments were either arrogant enough to believe the ailing stock market would "bottom" and "recover" quickly, therefore saving their company substantial administration costs, or they were simply overwhelmed and ill-equipped to handle their obligations to their clients. Either way they have managed to create this "***Negative Equity***" never before heard of in the history of Margin Lending.

Colonial Geared Investments are either unable or unwilling to supply us with copies of daily updates, supposedly given to Storm Financial, with regard to our Loan to Security ratio. If Colonial Geared Investments aren't privy to this information, how could the borrower be expected to know when a Margin Call is triggered? We take issue with Colonial Geared Investments' contractual rules which cannot even be deciphered by their own staff, and yet they post their so called "***Plain English***" version on their website.

As to "Educating the Borrower", what part of the statements on attachments numbered 1, 2 and 3, did we not understand? We dealt with ASIC approved/registered companies. We were not aware that we had to have the intellect of a Philadelphia lawyer to obtain a margin loan.

We have been wronged by a branch of the most powerful bank in Australia and informed our "***Watchdog***" ASIC in January 2009 of this extremely serious matter. Perhaps "***fido***" should take his muzzle off, and bare his fangs at the big bad bank, instead of cowering in the corner with his tail 'tween his legs!

Terence John Brett   Karen Dale Stewart (Brett)

CASSIMATIS SECURITIES PTY LTD
A.C.N. 064 804 691
LICENCED SECURITIES DEALER
TOGETHER WE GROW

VALID FOR 60 DAYS

The Business

of

Making Money

RECOMMENDATION & REPORT PREPARED FOR:

TERRY & KAREN BRETT

ISSUE DATE **4th August, 1998**
EXPIRY DATE **4th October, 1998**

Disclosure
"The writer may have a relevant interest in, or a financial or other interest in the acquisition or disposal of, securities of the class mentioned above."

(07) 4772 5377
PO Box 5066 MC Townsville Qld 4810
Cassimatis Building, 382-432 Sturt Street, Townsville, Q. 4810 (In The Cutting)

Borrowing's

Bank Loans

We have conducted investigations with various lending institutions and you will find their responses attached. Our recommendation is that you accept the Commonwealth Bank Offer.

Margin Loans

A Margin Loan is a loan that uses securities as assets, which can provide collateral. As these assets are liquid and are readily valued, the loan to valuation ratio can be monitored constantly.

This allows your lender to call in amounts of borrowing's when the "loan to valuation ratio" is exceeded. This is called **a margin call.**

Protection measures that are put in place and will allow you to use a margin loan are that it is only recommended when:

- The economy is in the phase of its cycle that is accompanied by a rising sharemarket so that the value of the assets underlying the securities is rising overall. Of course volatility will still mean that there will be downward movements in the market, however the general momentum is up;
- Your loan facility will include a buffer so that a margin call is made only when the fall in the asset valuation exceeds a certain amount. The recommended facility exceeds our minimum requirements for the amount of buffer of 5%. It has a buffer of 15%.
- Where practical and especially for larger amounts additional buffer should be included.
- We recommend you maintain cash reserves to meet contingencies such as higher interest rates, loss of income and margin calls.

Margin Calls

A margin call would be advised to you by the institution when your loan to valuation ratio exceeds the limit set.

Margin calls can also play an important part in signalling when asset prices have gone down and represent good buying.

We recommend that in the event of a margin call, funds be used to purchase more assets that can be used as collateral to bring the loan to valuation ratio back to within allowable limits rather than paying out some of the loan.

Equity / Liability Ratios

This means the ratio of liabilities to overall assets.

When reviewing your situation, there are certain optimum ranges, which will allow wealth creation to be maximised given the constraints imposed by managing debt. These ranges are set out below. They should not be considered as concrete indicators but as a guide. Actual liability ratios will

fluctuate according to age and the stage in the investment process.

Greater than 70%

- Managing this level of debt is very tiring and leaves no margin for error.
- Volatility can potentially cause negative equity to occur and the problems associated with it.
- We consider this range dangerous and to be avoided.

0-35%

- Most people are striving for a 0% liability ratio because of an irrational fear of any debt. It is consumer debt that should be at this level.
- Generally, debt at this level, even when it is used to purchase investment assets is too low to achieve anything substantial in a lifetime.
- We consider this range too low for good prospects but better than nothing.

40-60%

- This level of debt gives enough leverage into a growing asset to make an impact in the ability of fulfilling purposes.
- When this debt is used for asset acquisition it is a 'Clayton's Debt' in that it can be capped at any time.
- We consider this range prudent providing other measures such as quality of assets and reserve levels are satisfactory.

This statement must be read and signed by each person considering either borrowing from Colonial State Bank under Margin Lending Facilities or providing security for such a borrowing by somebody else. In the case of a company, the persons signing for the company must also sign.

1 RISKS OF INVESTMENT

Using a margin lending product to acquire an investment multiplies the effect of both rising and falling values. Therefore, in a falling market, losses on a portfolio invested in through one of our facilities are greater. Some markets can be very volatile.

Whatever happens to the market value of your securities you are still legally obliged to pay back the full amount you have borrowed from us and pay all interest charges on the loan.

2 MARGIN CALLS

If the margin loan equals or exceeds a certain percentage of the overall security value (see page 5) you will receive a margin call. You cannot just "wait out" any downturns in the market.

You will have a limited time to deal with any margin call, by either repaying to us enough of your facility or giving us more securities on our list. If you fail to act within the time periods specified in the terms and conditions, then some of your securities may be sold so as to reduce the amount owing to an amount that does not exceed the base security value.

We may at any time remove an investment from our list of securities. The consequences of doing so are set out on page 7.

3 INVESTMENT PORTFOLIO

Colonial State Bank has not advised and will make no promise to you as to the appropriateness or suitability of any investments you purchase. The identification of investments by us on our list of investments is not a recommendation to purchase them or a representation to you of our views as to the financial stability or projected income level of that investment.

Colonial State Bank does not guarantee the performance of any investment.

4 CASH FLOW AND TIMING RISKS

You should be aware that the timing of interest payments and margin obligations will almost certainly not be the same as the timing of receipt of any income or tax benefits you might receive from your investments. Consequently, you should have the capacity to meet interest and margin payments in full before taking into account any potential income.

If you do not choose to prepay interest, the interest rate may also change over time. Based on current interest rates and estimated dividend yields, a geared investment could well result in a net cash outflow during the investment period prior to the date the investments are finally sold.

5 EARLY PAYOUT

If a facility is paid out prior to normal maturity, there may be additional costs payable to us for the early termination of the funding arrangements. These costs may reduce any profit you make upon the sale of any securities.

6 GUARANTEE OBLIGATIONS

Where a person guarantees the obligations of a borrower, we may (if there is a default) call on the guarantor (either instead of the borrower or as well as the borrower) to pay amounts that are owing. Thus, the giving of a guarantee involves risks, including the risk of losing any property that has been given as security for the loan.

A guarantor is also exposed to the actions of the borrower, who may increase or reduce a guarantor's risks (such as by borrowing more) without reference to the guarantor. A guarantor may not terminate its obligations to us prior to the borrower repaying all moneys owing.

7 INVESTMENT AND FINANCIAL ADVICE

Colonial State Bank does not advise as to the legal, financial and taxation implications of entering into a margin lending facility. These depend on your own individual circumstances.

The investment decisions are up to you, and the risks of those decisions will be borne by you. Only investors who fully understand the risks of negatively gearing into investments should apply for a facility. We strongly recommend that you seek independent legal, financial and taxation advice with respect to:

- the complete terms of the product and its suitability for you;
- the desirability and suitability of investing in your chosen investments; and
- your obligations under the legal documentation.

THIS STATEMENT IS NOT AN EXHAUSTIVE LIST OF ALL THE OBLIGATIONS AND RISKS ASSOCIATED WITH USING A GEARING PRODUCT TO INVEST.

I/We, the undersigned, acknowledge that I/we have read and understood this statement about the risks associated with Colonial State Bank Margin Lending products and that I/we signed this statement prior to signing the Application Form.

Signed

Signed

Signed / /

Signed / /

top of page

Am I able to split my loan between a fixed interest rate and a variable interest rate?
Yes, you can split your loan balance with a portion at a fixed interest rate and the remaining portion at the variable interest rate.

top of page

Can I convert my loan from a fixed interest rate to a variable interest rate?
Yes, however a fee may be payable if the fixed portion of your loan is terminated before the fixed term has expired.

top of page

How do I transfer existing managed funds to Colonial Margin Lending?
If you wish to add an existing managed fund investment to your Colonial Margin Lending portfolio you must complete a standard transfer form, statutory declaration, and in some cases an application form for your managed fund with all the holding details completed.

top of page

Can shares and managed funds be held in the name of a third party be provided?
Colonial Margin Lending can accept security from a guarantor or third party mortgagor. Completed documentation to establish the guarantor or third party mortgagor will be required before acceptance of the security. Please contact your financial adviser for further details on how to lodge your security.

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What is a margin call?
A margin call occurs when your security falls in value and the Current Loan-to-Security Ratio equals or exceeds the Margin Call Loan-to-Security Ratio.

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What is a margin call buffer?
Colonial Margin Lending will allow your loan to exceed its Base Loan to Security Ratio by up to 10% before triggering a margin call. This 10% allowance is referred to as the buffer. The buffer is designed to give you an allowance for fluctuations in the market value of your security portfolio. You are not permitted to utilise this buffer to make investments.

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What are the options available to me when I am in margin call?

- Reduce your loan balance by depositing cash
- Reduce your loan balance by selling investments
- Lodge additional managed funds, shares or cash as security

Please note the amount required for each option will differ.

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What happens if I do not respond within the time limits?
Colonial Margin Lending will sell sufficient security to clear any overdue margin call, so that the Current Loan-to-Security Ratio is restored to the Base Loan-to-Security Ratio

top of page

Terence John Brett
Karen Dale Stewart (Brett)

Tuesday 30 December 2008

Mr John Clothier
Colonial Geared Investments
Locked Bag 34
Australia Square
SYDNEY NSW 1214

Re: Colonial Margin Loan – Facility Number 7686
"COMPLAINT"

Dear Sir,

Further to our letter dated 18 December 2008, we feel it necessary to lodge an official complaint against the actions (or inactions) of Colonial Margin Lending regarding our 10 year old, above named account.

Contrary to our agreement, you failed to inform us of our options when our buffer was first breached, which we now believe could have been as early as July 2008. Our first contact from Colonial was a phone call on 9 December 2008, some 4 months later.

A "Margin Loan" and a "Margin Call" are by their own definition precisely that. Colonial boasts a 10% "Buffer", giving lender and client, breathing space to respond to one of three options. A client's lack of response within the "Time Limit" (in our case 5 days) should result in prompt action by the lender to liquidate secured assets to fully satisfy the loan.

By allowing this to go on for months has resulted in this astronomical deficit of $350k plus months of capitalised interest.

Sadly, we believe you have breached your code of ethics and failed in your duty of care to us as clients.

It seems ironic that you managed to perform a successful margin call on another account of Karen's (#317782) within the "Time Limit" without incurring any extra costs.

We would appreciate an early response to aid us in the resolution of this very serious issue.

Yours sincerely

Terence John Brett	Karen Dale Stewart (Brett)
....	....

cc: ASIC.

9 January, 2008

Colonial. GEARED INVESTMENTS

Mr Terence Brett &
Mrs Karen Brett

Colonial Geared Investments

Locked Bag 34
Australia Square
Sydney NSW 1214

Telephone 1800 252 351
Facsimile 02 8292 5252

www.colonialgearedinvestments.com.au

Dear Mr & Mrs Brett,

RE: Margin Loan –7686

Thank you for your letter dated 30 December 2008. I am writing to offer some clarity on the points you have raised. By way of background to the workings of the relationship between Colonial Geared Investments, Storm Financial and you, I provide the following information.

You appointed Storm Financial as your financial advisor. We assume that you did so pursuant to a Storm Financial Statement of Advice (which will likely form whole or part of the contractual arrangement between you and Storm Financial). We also assume that Storm Financial made certain recommendations to you. To carry out those recommendations, we offered a Margin Loan product to you, which you accepted. In signing the Margin Loan client agreement with us, you appointed Storm Financial as your advisor. You authorised Storm Financial to provide instructions to us on your behalf by Clause 3 of the Margin Loan Application. You authorised us to provide certain notices to Storm Financial (rather than to you directly) by Clause 4.3(a) of the Margin Loan Terms and Conditions.

The Margin Loan agreement you have with us puts certain obligations on you. Particularly these obligations are monitoring your portfolio and determining when your loan is subject to a margin call and ensuring that a margin call does not occur by Clause 4.4. A Margin Call is not an obligation for us to liquidate a client's position, rather it triggers an obligation on behalf of the borrower (you) to remedy the situation.

Because you appointed Storm Financial as your financial advisor, we provided to Storm Financial, at the end of each day, the most complete information we could on your Margin Loan. Further, we provided to Storm Financial specific Margin Call updates daily (including when your account was in the buffer zone) and provided access to details of your loan at any stage via our Advisor Website.

Pursuant to the authority you provided in our Margin Loan Application and Margin Loan Terms and Conditions, we provided notice of your Margin Loan going outside acceptable limits as early as the 14th of October 2008 to Storm Financial.

Storm Financial provided instructions directly to Challenger and Colonial First State on the 16th of October 2008 to partially redeem your portfolio. This instruction was then revised by Storm Financial on the 21st of October with the Challenger redemption being cancelled. Colonial Geared Investments received $97,311.84 on the 28th of October from Colonial First State which was transferred to your linked Accelerator Cash Account. After the 21st of

October 2008, no additional instructions were provided by you (directly or through your financial advisor).

Accordingly, on 20th November 2008 pursuant to clause 4.5(a) of the Margin Loan Terms and Conditions, we instructed the fund managers to sell the underlying assets securing your loan. Colonial Geared Investments also executed the sale of your shares on the 4th of December 2008. Currently your loan has a deficit of $341,408.10 which continues to accrue interest at 7.65%. As at the date of this letter, the unsecured amount owed is $343,414.37 including interest accrued.

I appreciate that this is a difficult situation and we are happy to discuss a plan to assist you in meeting your obligations. If you wish to seek independent financial advice regarding your situation we recommend you call the Financial Planners Association (FPA) on 1800 337 301. The FPA will arrange a phone conference or meeting with an independent financial planner in your local area. This initial consultation is offered free of charge to you, Colonial Geared Investments will cover these costs.

Please don't hesitate to contact Colonial Geared Investments on 1800 252 351 should you require further clarification.

Yours sincerely

John Clothier
Colonial Geared Investments