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27 August 2009

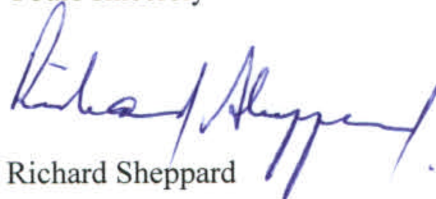
Dr Shona Batge
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100 Parliament House
Canberra ACT 2600

Dear Dr Batge

Macquarie Bank Limited (Macquarie) is pleased to accept the Parliamentary Joint Committee's invitation to provide a submission to the Parliamentary Inquiry into Financial Products and Services (Inquiry).

Our submission is attached.

Yours sincerely



Richard Sheppard

MACQUARIE BANK LIMITED
SUBMISSION TO THE PARLIAMENTARY INQUIRY INTO FINANCIAL PRODUCTS AND SERVICES

Overview

Macquarie Bank Limited (Macquarie) operated a Margin Lending Business (Macquarie Investment Lending ("MIL"), formerly Macquarie Margin Lending ("MML")) from 1998 until the sale of the majority of the margin loan portfolio to Leveraged Equities Ltd in January 2009.

MIL was a national business that mostly offered margin loan and protected lending products and services to clients via licensed intermediaries. When a financial adviser or client decided to open a margin loan, they would choose from a number of margin loan providers based on a range of factors including price and service. More than 94% of the MIL margin loan book was sourced via intermediaries, most of which were dealer groups. The balance was sourced from Macquarie staff, and from direct clients.

MIL offered a Margin Lending facility, which was an interest-only line of credit secured by approved financial assets pledged as collateral to the loan. Although MIL set the parameters and framework for the Margin Lending facility, the client generally operated the facility with the assistance of their financial adviser, as a tool to help meet the client's overall financial objectives.

In accordance with standard industry practice, and as declared in the facility documentation signed by each client, all clients had an obligation to monitor their Margin Lending facility, and to maintain it within the parameters set by MIL (such as keeping the facility's Loan to Value Ratio, or LVR, below a given value).

During the 11 years that Macquarie offered a margin lending product (including the period of significant market falls experienced in 2008), MIL had fewer than 10 clients with bad debts or non-performing margin loans. These totalled less than $6.5 million in value (or less than 0.2% of MIL's total margin loan portfolio).

Margin lending has been provided by firms in the Australian market since the 1980s with significant harmonisation of industry practices and product features in recent years. The basis on which the product is provided is the availability of the collateral and it has been recognised that the liquidity of the collateral ensures repayment of the loan and interest. Thus broader credit assessment is not generally undertaken within the industry, except for larger loans or less liquid collateral portfolios.

The primary effect of a margin loan is to apply leverage to a portfolio, and this leverage will magnify both gains and losses in the value of the portfolio. This is an inherent risk of a margin lending product.

<u>Macquarie Investment Lending's association with Storm Financial</u>

Storm Financial ("Storm") was a licensed Townsville-based dealer group, and one of the four largest dealer groups to which MIL provided margin loans (since 2001). MIL was one of a number of margin loan providers from which Storm advisers were able to choose based on which features met the needs of their clients. MIL's only lending interaction with Storm and its clients was as a margin lender. MIL was not authorised to provide financial advice to clients. MIL's margin loan approval processes were consistently applied for all Storm clients. Macquarie did not provide any other loans

directly to clients on the basis of referrals from Storm. Four Storm clients had mortgages with Macquarie. However these applications were not sourced from Storm. Macquarie also provided a corporate debt facility to Storm, which Storm elected to repay in full in October 2008.

In October 2008, sharp falls in the Australian share market resulted in numerous Margin Lending facilities (including Storm client facilities) moving into margin call. MIL acted in accordance with standard MIL and industry practice by notifying the affected clients' financial advisers (including Storm) of the need to satisfy these margin calls. In late October 2008, MIL commenced direct notification of margin calls to Storm clients. MIL continued to be in daily contact with Storm to notify them of client margin calls as well as directly notifying Storm clients. This response from MIL ensured that all affected clients were made aware of their margin call obligations, and were in a position to take action in a timely manner.

Storm Financial clients accounted for less than $300,000 in bad debts or non-performing MIL margin loans. We believe the low rate of bad debts and non-performing margin loans relative to the size of the total loan book highlights the robust and conservative risk management approach adopted by MIL in relation to the Margin Lending facility.

Many margin lending clients made significant gains on their investments during the strong markets that prevailed up to 2007. However, many margin lending clients suffered significant losses in the market downturn of 2008 and portfolio leverage would have magnified these losses to the client in a falling market. Macquarie understands that several clients are experiencing financial stress as a result of these investment losses as are many others who were invested in the sharemarket during this time.

Proposed reforms

Macquarie supports the principles behind the proposed legislation that includes margin lending in the same framework as other financial services in the Corporations Act. We would also support an investigation into whether certain prudential or credit related rules should be recommended or imposed for margin lending activities to reduce the risk of investor losses if such volatile markets were to occur again.

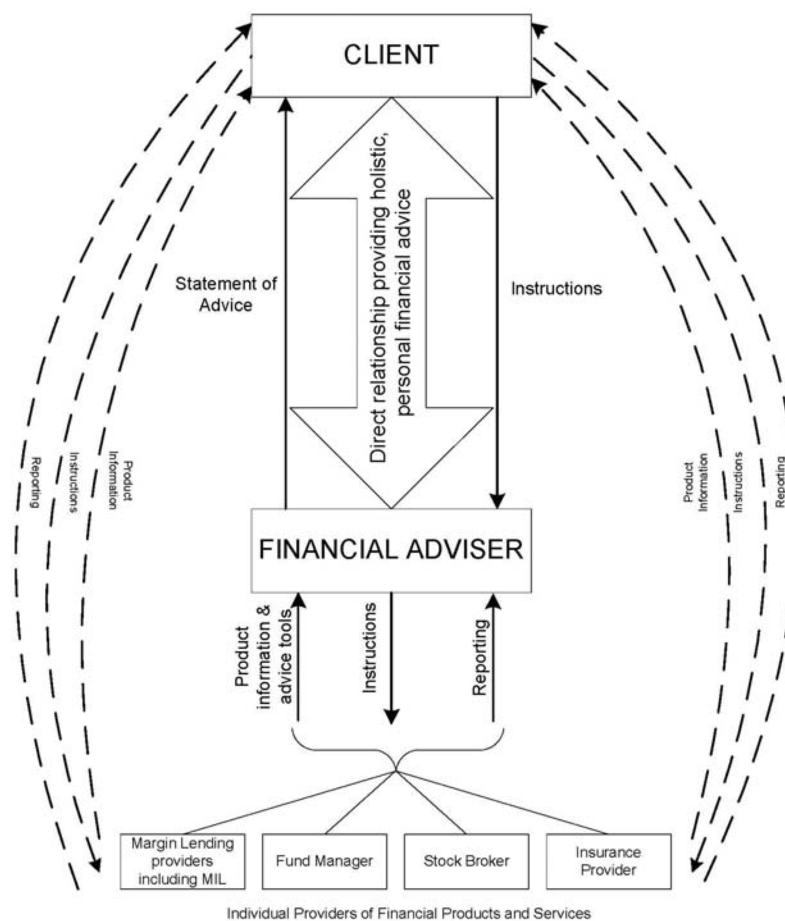
Please refer to the Appendices for further information on the following topics:

- Overview of the Macquarie Bank Limited (Macquarie) Margin Lending business;
- Overview of the Macquarie Bank Limited (Macquarie) Margin Lending product; and
- The use of collateral as security for the Margin Lending product

TERMS OF REFERENCE

THE ROLE OF FINANCIAL ADVISERS

This section outlines the role of financial advisers in relation to the Macquarie Investment Lending business (MIL). Macquarie began providing margin loans in 1998, following requests from licensed financial advisers who used other Macquarie products such as the Macquarie Cash Management Trust (CMT). In addition, Macquarie provided a capital protected loan product at the time and many of these capital protected loan clients sought a margin loan with the same provider. Provision of a margin lending service was seen by advisers as a key component in providing the most comprehensive financial advice possible to their clients.



The above diagram shows a typical intermediated relationship between the client, their financial intermediary (such as a financial adviser), and the providers of financial products and services (such as MIL). The adviser provides personal financial advice and ongoing service to the client in relation to the client's overall investment strategy. This advice may include recommending one or more financial products or services to the client, in accordance with the terms of the Australian Financial

Services Licence held by the adviser or the dealer group under which they operate. The adviser is obliged to provide the client with a Statement of Advice (SOA) in relation to these recommendations. The product providers provide product information and reporting to both the adviser and the client, and act on client instructions (whether received directly from the client or via the client's adviser) in relation to the offered products and services.

MIL set up the framework and parameters of the Margin Lending facility which was controlled by the client, under advice from their financial adviser, in a manner consistent with other line of credit facilities. Clients could elect to delegate some transactional authority on their Margin Lending facility to their financial adviser, by signing and submitting an Adviser Transactional Authority form, or by granting a Power of Attorney to their adviser or other representative.

The role of the financial adviser in new business (sales)

The primary distribution channel for MIL Margin Lending facilities was through licensed financial advisers. Over 94% of the margin loan book came to MIL as a result of a recommendation from a client's financial adviser. The financial adviser could choose to recommend the use of the MIL Margin Lending facility to the client if the MIL Margin Lending facility was one of the margin lending options included on their dealer group's recommended product list.

Before the adviser could recommend the MIL Margin Lending facility, in most cases the product had to be approved by the adviser's dealer group. The dealer group's research team would usually conduct an extensive review of the features and the service standards of MIL's loan facility. A review would typically cover:

- Security and LVR list;
- Interest rates;
- Supplementary product features such as put and call options capability; and
- Overall customer service standards (covering service to both the financial adviser and the client)

MIL employed a national team of Business Development Managers (BDMs) to distribute the margin loans (and other products). The BDMs provided product training and service assistance to financial advisers so that they could reliably recommend a MIL Margin Lending facility if they were considering a margin loan as part of their client's investment strategy. The overall purpose was to generate new business based on a strong service model with broad product features.

MIL provided information to enable advisers to assess whether the Margin Lending facility was suitable for their clients. Under the *Corporations Act*, all investment strategy recommendations were required to be included in the Statement of Advice issued by the adviser to their client. This Statement of Advice was independently issued by the adviser with no input from the providers of loans or other financial products or services.

The role of the financial adviser in client service

MIL's approach to client service was two-fold, involving both the client and the financial adviser.

Following the receipt of signed loan agreement application forms and the approval of a Margin Lending facility, MIL's practice was to send clients direct communication via mail, to the address provided by the client. This included the following documents:

- A "Welcome Letter", detailing all basic facility information such as the agreed credit limit, interest rates, interest payment method, loan security, facility number, and MIL Account Manager contact details

- A "Macquarie Margin Loan User Guide", which set out features of the Margin Lending facility such as operation of the facility, and responding to margin calls

- A website user guide, which detailed how to access MIL's secure website, and how clients could use this website to monitor their Margin Lending facility

Separate letters were then mailed to the client containing the client's access code and password for the secure website.

MIL's standard practice was to subsequently send Margin Lending facility statements to the client on a quarterly basis.

On an ongoing basis, the client had access to the MIL Account Management team for over-the-phone support, and the secure client website for information on their Margin Lending facility.

It was MIL's practice to send a duplicate copy of the above documentation to the client's financial adviser.

MIL understood that a financial adviser's client service practices involved monitoring and managing the client's entire portfolio, taking into account all of the client's assets and loans and considering the client's overall gearing ratios. The Margin Lending facility was to be considered as a subset of this overall client position. Hence it was important for advisers that product providers (such as MIL) were able to provide them with access to their clients' positions. In relation to the Margin Lending facility, MIL provided this service to the financial adviser via a dedicated Account Management team, as well as providing access to the client's account details online via the secure website. As mentioned above, clients were also provided with separate access to this secure website. These measures enabled financial advisers to monitor their clients' Margin Lending facilities at any time, and also enabled clients to monitor their Margin Lending facilities separately from their financial advisers. In particular, these measures provided the financial adviser with the ability to manage margin calls and monitor the LVR of a client's Margin Lending facility without the need to contact MIL. Most financial advisers wanted to be the first point of contact for advising clients of a margin call, and they would normally provide assistance, in the form of instructions and advice, to clients to help them satisfy their obligations in relation to any margin calls.

It appeared to MIL that clients would generally contact their financial advisers if they had questions in relation to their Margin Lending facility. Although MIL had more than 20,000 margin lending clients, the vast majority of phone calls into and from the Account Management team were made by or to financial advisers. As the financial adviser was the person who introduced the client to MIL, MIL worked closely with the financial adviser to ensure that the adviser had access to the Account Management team and to tools to help them manage their clients' margin loans.

THE ROLE PLAYED BY COMMISSION ARRANGEMENTS RELATING TO PRODUCT SALES AND ADVICE, INCLUDING THE POTENTIAL FOR CONFLICTS OF INTEREST, THE NEED FOR APPROPRIATE DISCLOSURE, AND REMUNERATION MODELS FOR FINANCIAL ADVISERS

Consistent with standard industry practice, the MIL Margin Lending facility was structured with flexible commission arrangements negotiated between the MIL BDM and dealer groups, or individually with financial advisers. MIL generally provided advisers with the choice of either being paid a commission, or passing on the commission amount as a rebate to the client, thereby reducing their loan interest rate. Storm elected to pass on the commission amount as a rebate to their clients' loan interest payments, and received neither upfront nor trailing commissions from MIL.

Any commissions that were paid by MIL would have been required by law to be disclosed in the Statement of Advice (SOA) given to the client by the financial adviser.

Financial advisers could qualify for a 'referrer discount' of 1% off the standard interest rate on their own margin loans. No other specific incentives were offered by MIL beyond access to technical support, and invitations to seminars. In some cases, MIL would provide sponsorship of a financial adviser's/dealer's event. Financial advisers are required to disclose these sponsorships.

THE ROLE PLAYED BY MARKETING AND ADVERTISING CAMPAIGNS

The marketing approach taken by MIL for the Margin Lending facility aimed to support MIL's distribution strategy by increasing brand and product awareness and by positioning MIL as a premium product and service provider.

The primary targets for marketing and advertising campaigns were financial advisers.

All advertising undertaken by MIL directed clients to contact their financial adviser or MIL to find out further information on the product or offer in question.

All advertising was accompanied by Macquarie disclosures explaining that the advertisements did not constitute financial advice and that consumers should speak to their financial adviser or to a MIL Account Manager for further information.

MIL placed advertisements in trade publications, financial newspapers and metropolitan newspapers. These included publications such as Asset Magazine, Smart Investor, The Australian Financial Review and The Australian. A small number of clients may have come to MIL as a result of direct advertising, but the majority were referred to MIL through the intermediary market.

MIL marketing communications were primarily aimed at informing financial advisers about the products and services available from MIL. This included a comprehensive range of tools and sales aids such as case studies, investment strategies and terms sheets that could be applied to specific client segments. MIL also provided access to its secure client website.

The marketing material and the Macquarie website featured a comprehensive overview of the Margin Lending facility, including:

- The product's features and benefits
- The risks involved
- General details of the loan
- Client support services and capabilities including the Account Management team's phone number
- Steps for access to the secure client section of the website, where clients could view their account details and portfolio information

An example of the printed marketing material provided directly to clients is the 'Macquarie Margin Loan User Guide'. It was MIL's practice to mail this document directly to all clients when their Margin Lending facility was approved. The document provided the client with additional product information, self-service details and MIL contact information. In addition to this guide and other printed material, other tools including portfolio simulation programs and calculators were available online.

MIL generally relied on the intermediary market to distribute the Margin Loan brochure and material to their clients as part of their investment advice strategy. However MIL's practice was to also send some documents directly to the client, such as the 'Macquarie Margin Loan User Guide', as previously discussed.

In some circumstances, MIL provided limited assistance to financial intermediaries who sought to run, design or create marketing campaigns. No assistance of this type was provided to Storm by MIL.

At times, MIL also provided the following support to financial intermediaries for their clients:

- Presented at client seminars
- Input into marketing ideas for products
- Editorial content for financial adviser newsletters
- Provision of case studies
- Sponsorship for newsletters and advertising

THE APPROPRIATENESS OF INFORMATION AND ADVICE PROVIDED TO CONSUMERS CONSIDERING INVESTING IN THOSE PRODUCTS AND SERVICES, AND HOW THE INTERESTS OF CONSUMERS CAN BEST BE SERVED

MIL produced a detailed Margin Loan brochure for clients. This brochure contained the "Application for Finance" form, which was required to be signed by each margin loan applicant. By signing the application form, the applicant declared that they had read and understood the terms and conditions of the MIL Loan and Security Agreement and Risk Disclosure Declaration included in the brochure. The brochure also contained a description of gearing, the features of a margin loan, a case study describing how a margin loan can work, the risks involved in taking out a margin loan,

how to manage a margin call, interest rates and payment options, and fees. It was our expectation that the adviser would go through the information in the brochure with their client. Furthermore, by signing the application, the client acknowledged that they had read and understood the terms and conditions of the Loan and Security Agreement and the Risk Disclosure Declaration.

As previously outlined, once a Margin Lending facility was approved, it was MIL's practice to send additional communications directly to each client, and duplicate copies to the client's financial adviser.

THE INVOLVEMENT OF THE BANKING AND FINANCE INDUSTRY IN PROVIDING FINANCE FOR INVESTORS IN AND THROUGH STORM FINANCIAL, OPES PRIME AND OTHER SIMILAR BUSINESSES

Please refer to the "Macquarie Investment Lending's association with Storm Financial" section of this submission for an overview of the involvement of MIL in providing Margin Lending facilities to clients of Storm Financial.

THE PRACTICES OF BANKS AND OTHER FINANCIAL INSTITUTIONS IN RELATION TO MARGIN LENDING ASSOCIATED WITH THOSE BUSINESSES

Macquarie supports the proposal to include margin lending within the same framework as other financial services in the Corporations Act. We also support an investigation into whether certain prudential or credit related rules should be recommended or imposed for margin lending activities to reduce the risk of investor losses if we were to face such volatile markets again.

Appendix 1
Overview of the Macquarie Bank Limited (Macquarie) Margin Lending Business

Macquarie operated a margin lending business (Macquarie Investment Lending (MIL), formerly Macquarie Margin Lending (MML)), which offered margin lending products in the Australian market from 1998 until January 2009. On 8 January 2009, Macquarie announced the sale of the majority of the MIL margin loan portfolio to Leveraged Equities Ltd (a subsidiary of Bendigo and Adelaide Bank).

Following this sale, MIL retained a portion of the margin loan portfolio (which included loans made to Storm Financial clients), and advised all of these retained clients that Macquarie was exiting the margin lending business and closing all margin loans no later than 30 June 2009. Macquarie has therefore now ceased being in the business of providing margin loans. However Macquarie Private Wealth (Macquarie's retail stockbroking division) entered into a white label distribution agreement with Leveraged Equities Ltd to enable Macquarie to continue to provide Macquarie-branded margin loan products to its client base. In addition, Macquarie continues to provide a facility that allows clients to borrow against securities, Macquarie Prime. Macquarie Prime is a single, completely integrated online platform for both active traders and longer term investors that combines online trading, lending, risk management and cash.

Prior to the sale of the margin loan portfolio, MIL was a national business that generally offered margin loan and capital protected products and services to clients via licensed intermediaries rather than directly. MIL also offered distribution support, marketing support, and client services to advisers and their clients. Direct clients of MIL (ie those without a financial adviser) were encouraged to seek financial advice, but a small number of direct clients were granted margin loans.

In building its margin lending business, MIL positioned itself as a provider of a full suite of innovative, competitive and flexible products backed by the expertise provided by specialist sales and customer service teams. MIL sought to grow its business by building relationships with licensed financial advisers associated with licensed dealer groups, rather than by pursuing retail clients directly. The business strategy for MIL was not based on offering high LVRs, low interest rates or easy to obtain credit, but on premium client service and innovative product features. MIL took a conservative approach to risk management for all of its lending products, including the Margin Lending facility.

Prior to its sale, the MIL margin loan book represented approximately 12% of the total Australian margin lending market. As at December 2008, over 94% of the loan facilities were sourced via approximately 3,200 licensed financial advisers. The balance was sourced from Macquarie staff, and from direct clients.

Appendix 2
Overview of the Macquarie Bank Limited (Macquarie) Margin Lending Product

The MIL Margin Lending facility was a line of credit offered by MIL to a borrower, with the maximum size of the line of credit based on the collateral that was pledged by the borrower. Where large loan applications were received MIL also conducted specific credit assessment. This collateral-secured line of credit functioned as an interest-only loan and could remain in perpetuity unless (i) the terms of the borrower agreement were breached (ii) the borrower repaid the full amount of the loan; or (iii) the lender terminated the loan. This is different to other common types of loans such as a traditional residential mortgage over property, where the borrower agrees to pay off the loan principal plus interest over a period of time.

The Margin Lending facility was therefore not an investment in its own right, but a tool available for each client and their financial adviser to use to meet that client's overall financial objectives. It was an investor-directed product that was operated, managed and controlled by the client, as assisted by their financial adviser. The financial adviser provided licensed financial advice to the client regarding the management of their investments and the use of products such as the Margin Lending facility, and MIL acted as the provider of these products.

As the provider of the Margin Lending product, MIL set up the framework and parameters of the client's Margin Lending facility, and acted on instructions received from the client or their adviser in relation to the operation of the facility (such as drawing down or repaying the loan, or pledging or selling the loan collateral).

MIL took instructions in relation to the operation of the Margin Lending facility from the client (or their nominated representative), who was in turn free to operate the Margin Lending facility within the parameters set by MIL. These boundaries were outlined in the Margin Loan brochure and Margin Loan application form, with the primary restriction being the LVRs set by MIL in relation to the assets pledged by the client as collateral for the loan. Please refer to Appendix 3 for a more detailed description of the use of collateral to secure margin loans.

MIL was able to take remedial action on the Margin Lending facility if these boundaries were breached, such as when the facility LVR moved in excess of the maximum amount set by MIL. The purpose of the facility LVR (and any resulting margin calls) was to manage the risk to MIL of the borrower defaulting on their loan. The facility LVR was not a stop-loss mechanism to limit client losses, and there was no obligation or agreement between MIL and the client to limit client losses in the event of a LVR being exceeded.

The maximum size of a Margin Lending facility was generally determined by the type and amount of collateral the borrower chose to pledge to MIL as security for the loan, and the amount that MIL was willing to lend against each type of pledged collateral. Each type of collateral had a LVR assigned to it, which set out the maximum amount the client could borrow against that piece of collateral.

If the client's LVR exceeded this amount by more than a buffer (generally 5%), the client would be in a margin call requiring them to take action to restore the facility LVR to within these limits within a specified timeframe. This timeframe was generally three days, but could be varied or extended at MIL's discretion (as disclosed in the Loan and Security Agreement). It was the obligation of the client to monitor their facility and to take action to maintain the facility LVR within these limits. Otherwise, under the terms of the Loan and Security Agreement signed by the client, an event of

default would be considered to have occurred, and MIL could take action on behalf of the client to satisfy the margin call and restore the LVR. The most common margin call satisfaction methods were to increase the amount of collateral (such as pledging more collateral), or reducing the loan amount (by paying down the loan with cash, or by selling collateral or other assets to do so).

It is important to note that a margin call is caused by market movements affecting the value of the underlying loan collateral. MIL may, at its discretion, notify the client and/or their financial adviser or nominated representative of the margin call, but the margin call is not caused by, or dependent on, this communication. Clients were able to act at any time to manage their margin loan facility. The primary methods of margin call communication used by MIL were:

- Direct telephone contact with the client's financial adviser
- Direct telephone contact with the client if the adviser could not be contacted
- MIL's secure website, which allowed continual monitoring of facility and portfolio information by both the client and their financial adviser, including LVRs and margin calls

As stated previously, margin loans are secured against pledged collateral which is the primary source of security for the lender, rather than the income of the borrower. As a result, information about the client's overall financial position, or of the source of the pledged collateral, was not generally required by MIL for the provision of a margin loan.

Appendix 3
Use of collateral as security for the Margin Lending facility

Margin lending uses the value of financial assets pledged by the borrower, such as cash, shares or managed funds, to secure a line of credit. In accordance with standard industry practice, MIL applied a LVR to each form of collateral that was approved to be pledged by clients as security for their Margin Lending facility. The LVR denotes the maximum size of the loan that can be secured against that asset, expressed as a percentage of the asset's value. MIL used a list of approved securities to communicate the assets that could be pledged as Margin Lending facility collateral (and their LVRs). Each borrower's total borrowing capacity was therefore dependent on both the value, and the assigned LVR, of each of the securities that the borrower had pledged to secure their loan. All collateral pledged as security for a MIL margin loan was registered in the client's own name. Any exception to this position only occurred for administrative reasons.

The Approved Securities List and the associated LVRs were determined in accordance with collateral and credit risk policies agreed between securities risk analysts in MIL, and the Macquarie Risk Management Group.

The key risk for a margin lender is the risk that the value of the collateral drops to a level below that of the loan it is securing. If this happens, the loan amount will be greater than the value of the loan security. This difference is known as 'negative equity'. Another associated risk is that the collateral may not be readily disposable, and the value of the loan security therefore cannot be realised in a timely manner. This is known as 'liquidity risk'. Accordingly, the purpose of these collateral risk management policies was to mitigate both these risks by identifying collateral that was relatively unlikely to suffer large, sudden drops in value, and which was also readily disposable.

If the value of the pledged collateral fell (for example, due to market movements) such that the Margin Lending facility's total LVR was above the limit set by MIL, the facility would be in margin call. It was the responsibility of the client to satisfy the margin call by taking action to return their facility to within these parameters, as described in Appendix 2.

LVR Example: *A client decides to pledge the following assets as security for a Margin Lending facility:*

- *A $100,000 portfolio of various blue-chip Australian shares (LVR = 75% each)*
- *$25,000 in cash, via the Macquarie CMT (LVR = 100%)*

The maximum size of the margin loan that could be secured by this collateral is therefore $100,000 ($100,000 x 75% + $25,000 x 100%), or a maximum LVR of 80%. The client chooses to draw down a margin loan of $75,000 against this pledged collateral. Adverse market movement subsequently causes the value of the client's share portfolio to fall in value to $50,000. The maximum value of the loan that can now be secured by this collateral is $62,500 ($50,000 x 75% + $25,000 x 100%), which is less than the client's outstanding loan of $75,000. The client is therefore now in margin call to the value of this difference ($12,500).

The two main asset classes used as collateral for MIL Margin Lending facilities were listed equities (shares) and managed funds (including cash management trusts).

For equities used as collateral, shares were generally assessed based on their inclusion in major indices or by market capitalisation level, and by the level of historical share price volatility.

For managed funds used as collateral, the funds were generally assessed based on factors such as the underlying fund investments, redemption timeframes, pricing frequency, fund manager history, level of internal fund gearing, fund size, and the ability of the fund manager to acknowledge MIL's mortgage over any units used as collateral by the client.

Cash could also be used as collateral for the Margin Lending facility (such as via Cash Management Trust deposits), and this was awarded a LVR of 100%.

The following collateral breakdown (as at 12 September 2008) is representative of the general historical composition of collateral for the Margin Lending Product*:*

- Cash (2.9%)
- Australian Shares (70.7%)
- Units in Managed Funds (23.3%)
- Other securities, such as income notes, hybrid securities, warrants, options, international shares and residential property (3.1%)

The primary form of margin loan collateral used by Storm clients was the Storm-branded managed funds offered by Colonial First State and Challenger. In October 2008, the breakdown of Storm client collateral was as follows:

- Storm-branded Colonial First State managed funds (12.9%)
- Storm-branded Challenger managed funds (78.0%)
- Other collateral (primarily cash) (9.1%)