

## **Submission to the Parliamentary Joint Committee on Corporations and Financial Services**

- *Inquiry into issues associated with recent financial product and services provider collapses such as Storm Financial, Opes Prime and other similar collapses.*

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Submitted by: RADOMIR (RON) JELICH

*May, 2009*

Attached:

***Letter from Colonial Geared Investments to Emmanuel Cassimatis, dated May 18, 2007, outlining contract obligations***

**Preamble**

My name is Radomir (Ron) Jelich.

I am a Director of Ron Jelich Professional Planning Pty Ltd (ACN 010 645 495).

I previously was a Director and Shareholder of Jelich Professional Planning Pty Ltd (ACN 121 590 010).

I am a party to a number of agreements with Storm Financial Pty Limited (ACN 064 804 691). These agreements include:

- A Share Purchase Agreement dated 15th March 2007;
- A Consultancy Agreement (undated but signed 15th March 2007);
- An Escrow Deed dated 15th march 2007; and
- An Executive Services Agreement.

By virtue of the Share Purchase Agreement referred to above I transferred my shares in Jelich Professional Planning Pty Ltd, financial planning business, to Storm in March 2007 with nil cash consideration, and the promise of \$8 million worth of shares in Storm when it floated to become a public company. I understand that this business was subsequently transferred to Storm.

I have lost between \$15-\$20 million in assets in the recent financial downturn and I am now in a position where I am left without a business or any consideration for that business that was transferred to Storm.

**Personal**

I am a board member of the Redcliffe Hospital Foundation.

I raised \$1 million for the Redcliffe Hospital Foundation when I walked from Cairns to Redcliffe in 2007. The walk took approximately two months and cost me approximately \$750,000.

I was awarded Business Person of the Year in Redcliffe around 2000.

I have been involved in a number of community projects in and around Redcliffe including the Junior Rugby League, PCYC, swimming club etc.

### **My relationship with Storm**

The founder of Storm Financial, Emmanuel Cassimatis, and I were industry colleagues – we both worked for MLC from the early 1980s.

When I first met Emmanuel he operated his MLC business in Townsville under the name I&R Planning and then Cassimatis & Associates, later Ozdaq Securities and then Storm. He operated probably the largest MLC agency in the country.

I recall at a conference in Boston in 1994, Emmanuel and I had informal discussions about working together. At this time Bob Jones and I were operating a business known as Jelich Jones. I subsequently held discussions with Emmanuel Cassimatis and in September/October 2003 my partner Bob Jones and I (Jelich Jones) were the first to change our licence over from MLC to Storm.

In addition to the above arrangement, I was appointed as a consultant of Storm with the role of growing the Storm business. Effectively I became their Business Development Manager. I was paid \$100,000 per annum for this role. In addition to this I was being paid a percentage of the turnover of the businesses that I brought over to the Storm dealer group.

My business at Redcliffe was very successful and had attracted a number of high-profile clients including John Buchanan (former Australian cricket coach) and Andrew Symonds (champion Australian cricket all-rounder).

Before the merger with Storm in 2007, I recruited the following offices:

- **Cairns** – this was run by Gus Dalle Cort who was an MLC agent. He had changed from MLC as a dealer to Storm and kept his own business name.

- **Mackay** – these people came from another dealer group in Mackay with a small client base and became known as Storm Mackay.
- **Rockhampton** – this was run by Bryan Royes. He changed from an MLC dealership to having Storm as the licensed dealer and kept his name as Royes & Associates.
- **Redcliffe** – this was my office with Bob Jones and Terry Webb. We kept our own business name.
- **Nundah** – this was operated by Trevor Benson. He also changed from MLC to Storm as the licensed dealer and kept his own name.
- **Gold Coast** – this was operated by Wally Fullerton-Smith. He changed from MLC to Storm.
- **Sydney** – this was a business known as Precise Solutions.
- **Werribee** – this was the Florence Financial Group and also changed over to having Storm as the licensed dealer.

All of the parties above retained ownership of their businesses but changed to having Storm as their licensed dealer group.

Up until the merger in 2007 everything went very well – the company's customer base and revenue grew strongly during this period. The share market was experiencing very strong growth. Our relationship with Cassimatis and Storm was excellent and the service that Storm provided in their technology, advice and compliance was excellent.

Each of the independent offices had autonomy to run their regional business and to control their own revenue streams in any manner they saw fit. I and other regional business owners were passionate about retaining control of the decision-making processes at the grass-roots level.

As mentioned earlier in this submission, one of the big benefits to me personally in joining Storm was that Storm attended to all the compliance and regulatory work in their head office. This allowed me to concentrate on developing and growing my business and dealing with clients rather than attending to compliance work.

### **Public float of Storm/merger of businesses**

In approximately 2004 (not long after I started with Storm) I had some informal discussions with Emmanuel about his desire for the company to eventually go public and the possibility of merging the existing Storm businesses into the Storm entity to assist in the float.

Most Storm principals had mixed feelings about the float concept and there was a wide body of support for retaining ownership of the regional offices. The main concern was loss of control of our businesses and how we managed the personal relationships with our clients.

Despite our concerns, Emmanuel, a master salesman, gradually wore us down and we all agreed to merge our businesses with Storm in the lead-up to the proposed float.

Almost immediately after the agreements were signed in March 2007, the landscape of our relationship with Storm changed. Despite assurances to the contrary, my fears were confirmed and effectively all control over the Storm business was transferred to the Townsville Headquarters as a matter of policy.

The agents became simply satellites of the Townsville-based Storm mother ship and in my opinion were treated as subordinates.

We lost the close personal contact with clients that was such an important part of our businesses prior to joining with Storm.

While I was with MLC all documentation on behalf of clients would be prepared at my office and submitted to Colonial. As outlined earlier in this submission, we operated on a micro-level with the Colonial representatives in Brisbane. Storm however dealt with Colonial on a macro-level between the two head offices. This effectively bypassed the regional offices.

We had become part of a process that became known as "*Stormification*".

An example of the new arrangement was the “one size fits all” approach that was applied to all clients, regardless of regional input that sometimes conflicted with Head Office policy.

Reporting from Head Office, post-merger, was ad hoc at best. Numerous requests had to be made before a report was conveyed to regional offices of Storm. In many cases, Head Office recharges were excessive and difficult to justify.

This was the cause of much angst among regional affiliates.

I was also extremely upset over the amount of equity that was allocated to the business owners in the prospectus from the Share Purchase Agreement.

Whilst I do not have accurate figures I estimate roughly that the income contributed to Storm by the business owners post-merger would have been at least 50% of the whole of the income from Storm, whereas the equity in the shares that was being apportioned to us only represented approximately 8%. The total number of shares that were promised to each of the business owners in the Share Purchase Agreement is approximately \$35 million.

On page 3 of the prospectus the envisaged market capitalization upon listing showed a minimum of \$424 million. Our shares therefore represented 8% of the business whereas the income that our businesses had contributed to the business was more in the order of 50%.

I was livid and didn't talk to Emmanuel Cassimatis for a long time. I wanted to withdraw from Storm Financial and went through a period of disillusionment and despair about my decision to join Storm.

Despite continued assurances from Emmanuel Cassimatis that the float was “a done deal”, financial institutions deemed that the proposed float price was too high and the IPO subsequently failed.

My consultancy role as Storm's Business Development Manager continued and business continued as usual until October 2008 when the stock market crashed. The day before the prospectus closed, I and my business partner Bob Jones were in Townsville with Emmanuel. The main thrust of the meeting was for Bob to

facilitate a reconciliation between Emmanuel and me, given the problems that we had endured post-merger.

The meeting went relatively well and I recall when we were driving to the airport Emmanuel told us that the deal was done and that the company would be public tomorrow. He said that they had received unbelievable support from investors.

When we got off the aeroplane in Brisbane a few hours later, we received a text message from Emmanuel saying that the float was now off. The reason we were given that there was a lack of institutional support due to the credit crunch. We were obviously dismayed at that time given the previous representations made by Emmanuel.

It is still my opinion that the business was not worth the amount of money that they were trying to raise on the public float.

Again, in hindsight, it is probably a blessing that the float did not eventuate as the share price would now be substantially less than the original price at float.

At this time, I engaged law firm McCulloch Robertson to advise me on options regarding a possible strategy to withdraw my business from the Storm conglomerate for the reasons outlined above. I felt I had been betrayed by Emmanuel Cassimatis.

After the failed float in December 2007, Emmanuel Cassimatis still represented to us that their plans were to float at some time in the future. We were told that:

- The company had a strong balance sheet; and
- They were continuing to acquire other businesses and to grow the business.

In November, 2007, a meeting was held at the Storm office in Brisbane with Emmanuel Cassimatis. The essence of the meeting was to extend the IPO offer date in our Share Purchase Agreements from 30th June 2009 to 30th June 2010.

My consultancy role as a Business Development Manager continued after the failure of the float.

My relationship with Emmanuel was still not good until approximately August 2008 on the South African trip. On that trip we agreed to make peace and continue our relationship on a more formal, professional basis for the good of the business.

When I was with Storm, CBA (including Colonial) controlled a very large majority of the margin lending facilities with Storm.

While I was still with MLC, I was aware (as I had been told by Emmanuel Cassimatis) that Emmanuel Cassimatis had worked with Chris Cuffe from Colonial to develop the Storm-branded margin loan index funds.

To the best of my knowledge, the Storm business model and investment strategies were thoroughly examined and tested by Colonial and CBA as part of their due diligence before finalizing these Storm-branded index funds, as required under ASIC guidelines.

I am also aware that the CBA did extensive due diligence on the Storm systems and processes to ensure that everything was in order.

Given the volume of work and loans that were granted through the CBA I am convinced that the CBA was comfortable with the Storm investment strategies, systems and processes. The strength of that relationship underpinned a large number of my business decisions.

I would estimate that approximately 85% of the retail lending was with either the Commonwealth Bank or the Bank of Queensland.

When dealing with the banks, Storm headquarters in Townsville would control the valuation process and the application process to the banks to come up with the best deal. Clients would not see a bank officer at all. All dealings were done



purely between the bank and Storm headquarters. An example of this is my personal property at Margate. When the finance was attended to I did not see a bank officer at all. I understand that it may not be unusual for a client to not see a bank officer however this is one example of the strong relationship between Storm and the banks.

### **A cosy relationship**

Emmanuel Cassimatis and its lenders, particularly the CBA (specifically Colonial Geared Investments) enjoyed a seamless, very close relationship. The intimate relationship was very rewarding for both parties and in my belief led to a relaxation of prudential standards and “creative” handling of clients’ paperwork in relation to asset valuations and loan applications.

Here are examples of the intimate relationship between Storm and its lenders:

- ***Favourable contract terms***

I have attached a copy of a letter dated May 18, 2007, from Craig Geary, General Manager of CGI) to Emmanuel Cassimatis which clearly shows the intimate nature of the relationship between Storm and its lending partner.

You will note from the contract that CGI offered Storm significantly more favourable terms in relation to LVRs than those offered to other advisory companies. In Storm’s case, the LVR was set in excess of 80% with a 10% buffer (90+%) when the industry standard was 70% with a 10% buffer (80%).

The relationship between Storm and the banks was so strong that the margin call for Storm-branded products was 90%-95% as opposed to the standard 80% with other banks. While this provided Storm with a positive point of difference for investors, it proved to be a double-edged sword when the market turned south as it pushed investors to the edge of risk.

○ **Andrew Symonds**

The favourable treatment of one of my clients, Andrew Symonds, is a good example of the intimate relationship that existed between Storm and the CBA. I recall that my associate Andrew O'Brien was doing a refinance of Andrew Symonds's property from Suncorp to CBA.

The conventional lending requirement against residential property is an 80% LVR. When Amanda Holmes from CBA Townsville heard that it was Andrew Symonds she indicated that she would lend Andrew 90% LVR rather than the 80%.

Andrew O'Brien, my associate, suggested that if he obtained a signed cricket bat from Andrew Symonds, would CBA waive the mortgage insurance? This was agreed to and the loan went through at a 90% LVR with complimentary mortgage insurance.

My understanding is that Andrew Symonds did not know about this arrangement. Andrew O'Brien did however organize for him to sign the cricket bat and it was provided to the representatives from CBA.

Andrew Symonds subsequently invested that money and also monies from a margin loan through Colonial.

○ **Gala Ball in Italy**

During Storm clients' international trip to Europe in 2008, Colonial sponsored a Gala Ball in Italy. The event was sponsored by Colonial First State and Colonial Margin Lending. I have a copy of the invitation noting this sponsorship. I am not sure whether representatives from Colonial flew to Europe or not for the event. I do recall that at the end of this trip we were asked by Emmanuel Cassimatis to write to Colonial thanking them for their financial

contribution. This was further evidence of the intimate relationship between Storm and the CBA.

- **Loans to Storm employees**

I am aware that Storm employees, Ash Downie and Andrew O'Brien, obtained unsecured loans for \$100,000 to purchase shares in Storm when it was to float. The loans were interest-only over a period of five years. I've never heard of this type of generous loan arrangement before.

When the Storm float did not proceed I understand that the CBA indicated to both Ash and Andrew that they could use the money to invest in other investments.

These loans were organized through an ex-CBA employee who was then employed by Storm. His name is David McCulloch and he was based at the Townsville head office.

- **Ex-CBA employees**

Storm employed a number of ex-CBA employees at their headquarters in Townsville.

To my knowledge the following people were employed:

- ✓ **David McCulloch.** He was employed at a very high level within Storm and dealt with the banks at a very high level. I believe that he attended meetings with Emmanuel Cassimatis and at CBA shortly prior to CBA withdrawing their funding.

- ✓ **Carmella Richards.** She was employed and was responsible for running the back office systems and processes at Storm.
- ✓ **Kristy Devney.** She was employed also at Storm head office and conducted day-to-day liaison between the CBA and Storm.
- ✓ I also recall that **Matt Buchanan** from the Bank of Queensland was regularly in Storm headquarters collecting cheques, organizing loans and delivering loan documents.

- **Cheque dispersals**

I am aware of a number of internal memorandums linking Storm and CBA in relation to client borrowings. The bank would send fees directly to Storm rather than monies being paid to the client and then the client paying Storm.

Also CBA effectively lent the Storms fee on top of the loan to clients. The fee was then paid directly by the bank. By lending a higher amount it effectively increased the LVR, thus making clients more vulnerable.

- **VAS Computer Valuation System**

I recall in March 2008 a system was developed by the CBA and linked to Storm's computer systems to allow the bank to conduct remote valuations of all assets of joint clients of Storm and the CBA.

If the valuations showed that the clients had sufficient equity a recommendation would be made by Storm for them to borrow more money.

The sole aim of this process was to generate more loans meaning more fees for the bank and for Storm.

The two main people involved with CBA Townsville on the VAS project were **Amanda Holmes** and **Amanda Trott**. The bulk of the monies borrowed were put into margin loans for clients. I recall at the time that the Storm management were excited as the proposal was going to generate additional fees.

I recall one client in Charters Towers had a block of land revalued from \$50,000 to \$350,000 after getting the VAS treatment. (This is verified in a separate affidavit prepared by Yvette Daniel, former Storm adviser in Mackay).

- **Attendance at Functions by CBA Employees**

I recall that Gurmit Singh and Kamahl Arnout from the CBA attended numerous Storm functions and were enthusiastic in their support of Storm and its investment products.

I also recall that Storm would receive almost daily visits by Amanda Holmes from CBA Townsville.

### **A Frenzy of Activity**

I recall that from October 7, 2008, Storm started to make contingency plans for clients in the anticipation of a major share market crash. During October 7, 8 and 9, 2008, all Storm staff worked overtime to assist advising clients.

From October 2008 to Christmas 2008, I (along with all other staff of Storm, and probably most other people in the finance industry) endured relentless pressure from staff, clients, fund managers and the public in general. This was an extremely stressful period.

On December 8, the Commonwealth Bank started making direct calls to clients in relation to their loans. This, in my opinion, should not have occurred.

Prior to this date, some clients suffered losses when their shares were sold to meet margin loan commitments. This action was initiated by both Storm and Colonial on those occasions. However, the CBA decided to call Storm clients direct despite the contract clause on Page 3 of the Storm/CGI contract (attached) which states (inter alia):

*In the unlikely event of a margin call, Colonial Geared Investments and Storm Financial will work in partnership to clear the margin call . . . .*

On December 9, 2008, amid the mayhem surrounding those turbulent times, the bank again ignored its contract commitment relating to favourable LVRs to Storm clients and reverted to the industry standard of 80% (LVR of 70% plus 10% buffer) to Storm clients, catching them in no-man's land. Many clients found themselves in negative equity with no forewarning.

When the CBA reduced the buffer, it effectively lowered the equity position of a number of Storm clients, catching them unawares and creating enormous financial distress.

On December 10, 2008, the CBA shut down all Storm-badged products. This effectively meant that they stopped all investments, cashed them in and paid investments out to clients.

The following day – Thursday, December 11, 2009 – the front page of *The Townsville Bulletin* carried the headline: **CBA PULLS PLUG ON STORM.**

This sequence of events created irreparable brand damage to Storm and substantial losses to clients who had no opportunity to address their financial situation at the time.

Some clients received a cheque; others had their margin loans reduced with break fees applied if the interest rate was fixed. Those who were in negative equity were advised that they had lost their investment and in some cases, their homes.

There is no doubt in my mind that the bank panicked and did not have the human or technological resources to handle the meltdown in the frenetic period from early October to December. Prior to the meltdown, the monitoring of all CGI margin loans with Storm was handled by one staff member sitting at a computer screen in Sydney, to the best of my knowledge.

Storm clients had no way of accurately tracking their portfolios and were given no forewarning of the bank's decision to sell them out; nor were they given any opportunity to meet their commitments and to stay in the market if they so chose.

A forensic examination of the CGI simulator conducted by a financial analyst has shown that some of the algorithms embedded in the CGI computer simulator software were flawed and thus gave false readings when under stress.

The huge volumes of transactions being conducted at the time made it impossible to track individual clients' portfolios with any accuracy.

This made it impossible for investors and advisers to accurately monitor their fluctuating portfolios at this crucial time.

A report relating to the flaws in the CGI simulator is the subject of a separate submission to the Parliamentary Inquiry and to ASIC.

### **My Previous Dealings with the Commonwealth Bank and Colonial State Mutual**

I was dealing with Colonial well before 1997. The reason I refer to 1997 is that this was before the South-East Asian Economic Crisis. During that crisis I had a number of clients who were investing with Colonial and had received margin calls from Colonial on their investments.

At the time I was a financial adviser and MLC was my dealer. I had a strong relationship with Colonial and their State Manager Mark McIntosh.

I recall that clients of my financial planning business would have received margin calls from Colonial around the following times:

- 1997 – The South-East Asia Economic Crisis;
- 2000 – The Tech Wreck;
- 2001 – September 11; and
- 2003 – The Iraq War.

All of the margin calls referred to above were handled in an efficient and timely manner. Colonial were efficient and provided timely notices both in writing and by phone during these difficult periods.

Not one of my clients ended in a position where they had negative equity in their investments, or even close to negative equity.

One example of the strong relationship I had with Colonial was during the South-East Asian Economic Crisis. At that time Colonial waited until I returned from a wedding overseas before they called any margins and dealt with investments on behalf of my clients.

For some reason, these orderly procedures were not followed during the frantic days when the share market crashed in October, 2008, exposing Storm clients to crippling losses.

### **Where did the money go?**

I attended a hastily arranged meeting in November 2008 at the Storm office in Brisbane. The essence of the meeting was to extend the IPO offer date in our Share Purchase Agreements from June 30, 2009, to June 30, 2010.

Present at that meeting were:



- Emmanuel Cassimatis
- Julie Cassimatis
- Joint Chief Financial Officer's – Lauren Davies and Mark Barratt
- Bryan Royes
- Myself
- Trevor Benson
- Bob Jones
- Terry Webb
- Wally Fullerton-Smith
- Andrew O'Brien
- Gus Dalle Cort
- John Schluter and Yvette Daniel from the Mackay Office.

To the best of my recollection, the meeting was held on 7th November 2008.

At the meeting Emmanuel Cassimatis indicated to us that he needed our support and that there was a technical financial issue.

Mark Barratt explained to us that there was a technical accounting issue that they could not explain to us; however to conform with accounting standards they needed to extend the existing "current" liabilities for monies that were outstanding to us under the Share Purchase Agreement from June 30, 2009, to June 30, 2010, so that they were no longer showing on the balance sheet as "current" liabilities.

The reason that they indicated this needed to occur was that:

- Storm was currently paying approximately \$300,000-\$400,000 per month to support clients who were in need as a result of the recent financial disaster. I should say at this point that little or no money of a preferential funding nature was made to clients outside Townsville. This is speculation only and I do not have any hard evidence however it is something that I feel should be investigated.
- By extending the liability date it would strengthen the company's position to obtain a \$20 million finance package from CBA.

- Mark Barratt explained to us that there was \$17-18 million in the bank at that time and that was enough to keep the business solvent operating for a further 18 months as the monthly overheads were approximately \$1 million per month. The company will remain a strong and viable company without any further revenue for at least 18 months given its cash position.

Mr Barratt's statement relating to cash reserves played a crucial role in my subsequent decisions relating to margin loan liabilities. Those decisions were made on the strength of Mr Barratt's unequivocal assurances on Storm's cash position at the time.

We were all advised that the document needed to be signed at that meeting. Everyone at that meeting signed the document relying on the representations that were made.

I also recall that at a weekend meeting in December sometime before Christmas (I am not certain of the date and it may have been after Christmas) I was at the Cassimatises' house in Brisbane. I recall distinctly that we were in the kitchen of their house and Emmanuel, Julie and I were discussing the question as to whether the company should continue and whether it was solvent. I recall at that time that Julie stated that there was \$3 million in the bank.

This was a great surprise to me as we had been told only a month earlier that we were told there was \$17-18million in the bank that would account for all of the overheads of the business for an 18-month period.

I was very surprised to learn now that \$14-15 million had been paid from the account in such a short period of time.

### **What happened to the Code of Banking Practice?**

I note that the CBA is a signatory to the Australian Bankers Association's Code of Banking Practice (most recently modified in 2004).

Given my experience with the events leading up to the collapse of Storm Financial and the losses incurred by my clients and myself, I read the document with great interest.

Given all the circumstances, I fail to see how the bank adhered to the general thrust of the document, more specifically in relation to the following obligations (paraphrased) agreed to by the CBA:

- ☑ *We will promote better informed decisions about our banking services by providing effective disclosure of information.*

**COMMENT: Many Storm clients have had great difficulty in accessing records of their transactions with the various banks.**

- ☑ *We will act fairly and reasonably towards you in a consistent and ethical manner.*

**COMMENT: The banks (particularly the CBA) acted with undue haste and without warning when closing down Storm index funds, leaving clients in no-man's land. Subsequent attempts by the banks to recover outstanding loan monies have generally been ham-fisted and callous, particularly in the weeks and months immediately following the collapse of Storm. Demands made on already stressed borrowers created enormous anxiety and stress.**

- ☑ *We will comply with all relevant laws . . . including those concerning . . . privacy and discrimination.*

**COMMENT: Dozens of Storm clients received documents relating to other bank clients – a flagrant breach of privacy.**

- ☑ *In addition to your rights under this Code, you retain any rights you may have under Federal laws, especially under the Trade Practices Act 1974, the Australian Securities and Investments Commission Act 2001 and Chapter 7 of the Corporations Act 2001, and under State and Territory laws, especially the Consumer Credit Code and Fair Trading acts.*

**COMMENT: Those rights are being actively pursued.**

- ☑ *We will ensure our staff can competently and efficiently discharge their functions and have an adequate knowledge of the provisions of this Code.*

**COMMENT: CGI staff resources were grossly inadequate to discharge their duties in a “competent and efficient” manner in their dealings with Storm Financial and its clients.**

☒ *At your request, we will give you a copy of the following documents . . .*

- *A contract (including terms and conditions, standard fees and charges and interest rates);*
- *Any mortgage or other security document;*
- *A statement of account;*
- *A notice previously given to you relevant to us exercising our rights.*

**COMMENT: The banks have been tardy in providing documents. Often they have had large sections blacked out by bank officials and references made to incorrect account numbers. In some cases, other clients’ documents have been included wrongly.**

☒ *We will notify you of other variations to the terms and conditions (including a variation of standard fees and charges or of an interest rate) in relation to a banking service . . . in writing to you, no later than the day on which the variation takes effect . . .*

**COMMENT: The CGI’s contract with Storm Financial (see attached document dated May 18, 2007) was varied without notice (see body of submission for details).**

☒ *We acknowledge that, in addition to our duties under the Privacy Act 1988, we have a general duty of confidentiality towards you . . .*

**COMMENT: See above.**

☒ *Before we offer or give you a credit facility (or increase an existing credit facility), we will exercise the care and skill of a diligent and prudent banker in selecting and applying our credit assessment methods and in forming our opinion about your ability to repay it.*

**COMMENT: Many Storm clients, particularly retirees, were granted loans**

**far beyond their capacity to repay them. This aspect of the Code was flagrantly and regularly flouted due to the seamless nature of the Storm/CBA relationship.**

### **Lessons learned**

With the benefit of hindsight, I offer the following observations:

- When my business (Jelich Jones) became part of Storm Financial, I lost the intimate relationship that I had previously enjoyed with my clients. Despite my protests and those of other regional advisers, clients became nameless cogs in a giant money-making machine. I can see now that Storm and the banks saw the client base as a resource that could be tapped for more and more money. In essence, the best interests of the clients were subjugated to the best interests of Storm and the banks. I am now ashamed that I did not take a stronger stand with Storm Head Office on behalf of my clients. I am now shattered to think that I was part of that process and will carry those sentiments to my grave.
- Due process was put aside in the heady days of the soaring stock market over the period from 2003-08. The seamless and mutually rewarding relationship that had developed between Storm and its lenders during this period led to a relaxation of prudential standards. I am now aware that paperwork relating to loans was often subject to “creative” manipulation, particularly in relation to income and assets. This

### **What now?**

Some questions that I feel need to be answered include:

- What was the real cash position of the business leading up to administration?

- Were any representations that were made to us in relation to the cash position at that time (November 2008) false?
- How did the business go from being in a strong financial position to administration in the space of two months?
- Why was the Storm Financial Professional Indemnity Insurance so inadequate?
- Why didn't CGI/CBA insist on appropriate levels of professional indemnity insurance for its dealer group, Storm Financial? I feel this is an important issue, given the size of the margin lending book and the inexplicable ratios it had agreed to lend at, as per the May 2007 agreement.
- What discussions took place on the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> of December 2008, between CBA/CGI and Storm's owners? I believe these discussions led to a bitter and extremely acrimonious "divorce" to the fatal detriment of thousands CBA/Storm customers.
- Why was there no PLAN B in place between CBA/Storm in the event of such a cataclysmic market downturn as experienced in October 08?

### **Summary**

It is my express wish that this document assists in some way to achieving the following goals:

- Firstly, to assist in finding the culpability of the guilty parties with the view that thousands of innocent ordinary Australians can seek and receive compensation for the losses incurred during the last three months of 2008. I do not refer to market losses which I believe clients are ready to accept, but losses caused by systemic failure, lack of resources, relaxation of prudential guidelines, acts of negligence or other issues that this enquiry determines.

- Secondly, I hope this document assists in the introduction of legislation to ensure to the extent possible, this type of catastrophe is never again inflicted on the Australian public.
- I have witnessed first-hand and am living daily the total horror, emotional despair and psychological terror this collapse has had on the thousands of loyal, innocent, trusting, decent Storm clients whose lives have been shattered, in many instances, beyond repair.

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**Radomir (Ron) Jelic**



GEARED  
INVESTMENTS

18 May 2007

Mr Emmanuel Cassimatis  
Storm Financial Pty Ltd  
Storm Financial Building  
382-432 Sturt Street  
Townsville QLD 4810

**Attention: Mr Emmanuel Cassimatis**

Dear Emmanuel

**Re: Margin Lending for clients of Storm Financial**

Following your discussions with Colonial Geared Investments we are pleased to provide the following terms for Margin Lending facilities for your clients.

Subject to the expectations set out below, we will allocate a global LVR of 80% for those of your clients who invest in the following funds:

Chgr Australian Broadmarket Indexed Trust	HOW0021AU
Chgr Australian Industrials Indexed Trust	HOW0022AU
Chgr Australian Resources Indexed Trust	HOW0023AU
Chgr Australian Technology Indexed Trust	HOW0024AU
CFS SFA Sharemarket Index Fund	FSF0160AU
CFS SFA Industrials Index Fund	FSF0161AU
CFS SFA Resources Index Fund	FSF0162AU
CFS SFA Technology Index Fund	CMIO1112AU
MLC-Vanguard Australian Share Index Fund	MLC0014AU
Barclays Australian Equity Index Fund	BGL0034AU

The expectations are:

- Storm Financial continues to use the funds listed to develop diversified investments that are expected to mimic the returns obtained through investment in the overall ASX 300 accumulation index. Funds invested on behalf of clients are apportioned amongst the funds in an attempt to produce an overall return that both outperforms and exhibits lower earnings volatility when compared with the reference index.

*M Cassimatis*  
26-07-07

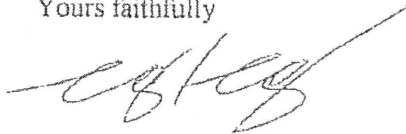


- In that connection, a client's weighting in the Resources sector is not to exceed the greater of 130% of the weighting of Resources, as defined by Storm's Australian Broadmarket Index, or the current overall Storm portfolio technology weighting.
- For example, if the appropriate market weighting is 22%, then the maximum client portfolio weighting is to be set at 28.6%
- Also, a client's weighting in the Technology sector is not to exceed the greater of 300% of the weighting of Technology, as defined by Storm's Australian Broadmarket Index, or the current overall Storm portfolio technology weighting. For example if the appropriate market weighting is 2%, then the maximum client portfolio weighting is to be set at 6%.
- As each fund may attract a different LVR on a stand alone basis from Colonial Geared Investments, Storm Financial must convey these individual LVR's to the client and advise the client that a departure from Storm's advised strategy will lead to a rebalancing of their facilities with Colonial Geared Investments (proper legal name)
- Additionally, other Storm recommended investment funds from time to time may be given the same maximum LVR and buffer for client, subject to prior approval by Colonial Geared Investments.
- We would also require that Storm Financial and Colonial Geared Investments meet monthly to ensure that the agreed approach, including observance of expectations is being maintained, and to facilitate any agreed changes which may be required in response to changing conditions. Naturally an extraordinary meeting can be called at any time by either party. Details of these meetings will be settled by both parties. We would further require that Storm Financial provide to Colonial Geared Investments before these meetings, acceptable reporting that confirms observance of these expectations. We will include a periodic update on trends in market volatility compared with our methodology.
- Colonial Geared Investments will maintain the 80% LVR and 10% buffer for existing business retained or newly written in respect of specific clients provided these expectations are met and Colonial assessment of the appropriateness of these loan conditions persist.
- Despite our allocation of a global LVR of 80% to your clients on the basis of our expectations being met, as set out above, nothing in this letter modifies or varies the obligation of any client borrower under clause 3.2 of the margin loan to pay us the amount owing under the margin loan if that client borrower is either in default or we send that client borrower a 5 day notice requiring payment of the amount owing.
- Storm Financial will not gear a client above 65%. Should a client find themselves at LVR of 65% or above, then any additional gearing will only occur if the client's buffer increases.

*M. Cammatti*  
26-07-07

- In the unlikely event of a margin call, Colonial Geared Investments and Storm Financial will work in partnership to clear the margin call. Note however that Colonial Geared Investments reserves its rights under its Margin Lending Terms and Conditions.
- Acceptable cash securities to have an LVR of 100%.

Yours faithfully



Craig Keary  
General Manager  
Geared Investments

*M. J. Keary*  
26-07-07