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MACQUARIE

25 September 2009

Mr Bernie Ripoll MP
Chairman
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra ACT 2600

Dear Mr Ripoll

Macquarie Bank Limited (Macquarie) would like to take the opportunity to respond to comments that were attributed to you as Chairman of the Parliamentary Joint Committee Inquiry into Financial Products and Services in Australia and which appeared in a newspaper report on Wednesday 23 September 2009. The report made claims that Macquarie omitted certain information from its submission to the Inquiry.

Macquarie's submission covered an overview of Macquarie Investment Lending (MIL)'s association with Storm Financial (Storm) as well as general information on our margin lending business and products.

Based on your comments reported in the newspaper article, we believe the following information on Loan to Value Ratios (LVRs), margin calls, and the terms of MIL's margin lending relationship with Storm may be useful to the Committee. Macquarie has always been happy to provide the Committee with further details based on any issues that arise during the Inquiry.

Loan to Value Ratios (LVRs)

Margin loan facility maximum LVRs were determined by Macquarie and varied between individual securities accepted by MIL as margin loan collateral. These maximum LVRs were based on Macquarie's assessment of factors such as liquidity, historical price volatility and investment mandate.

The Storm-branded managed funds offered by Colonial First State and Challenger each received a maximum LVR of 80%. These maximum LVRs were set in accordance with internal Macquarie policy, and were consistent with those applied to other securities of a similar nature, and irrespective of who the client's adviser was.

Once a client's LVR passed the maximum LVR their facility moved into "buffer". MIL's standard buffer was up to 5%. The purpose of the buffer was to avoid clients being forced into margin call by minor fluctuations in the market. A facility would move into margin call when its LVR exceeded the maximum LVR and the buffer. This approach was applied in the same way for Storm clients as for clients of other financial advisers.

Margin calls

A margin call occurs when the LVR of a margin loan facility moves above the maximum allowable LVR for that facility (plus the buffer, as described above). In accordance with standard industry practice, MIL issued notification of margin calls to clients' financial advisers each day. These notifications included details of all facilities which were in margin call.

MIL applied the same margin call notification process for Storm clients as it did for margin loans referred by other financial intermediaries. Accordingly, MIL issued notifications of margin calls to Storm each day in relation to their clients, as and when these margin calls occurred.

MIL expected that the advisers would pass on the notification of the margin call to the client or otherwise arrange for satisfaction of the margin call. In Storm's case, this expectation was reinforced by Storm's previous conduct in satisfactorily arranging the settlement of client margin calls prior to October 2008. As noted in Macquarie's prior submission, MIL commenced direct notification of margin calls to Storm clients in late October 2008. MIL continued to be in daily contact with Storm to notify them of client margin calls as well as directly notifying Storm clients.

Terms of business with Storm

The standard business terms of the MIL margin loan product were at times customised as a result of negotiation between MIL and individual dealer groups, in accordance with standard commercial practice. In all such cases, business terms were negotiated at arm's length and on a commercial basis. The principal business term variations from standard service features which applied with respect to Storm clients were:

1. The absence of ongoing adviser trailing commissions (the benefits of which were instead passed on to borrowers as a lower loan interest rate).
2. Additional volume-based interest rate discounts for clients.
3. A margin call satisfaction period of up to 10 days (which could be reduced to 24 hours if the facility LVR moved above 90% on any day).
4. The removal of the requirement for Storm clients with diversified portfolios to provide a Statement of Position for loans between $3 million and $10 million (applicable for margin loans opened between January 2007 and July 2008 only).

In making these variations, Macquarie considered factors such as the aggregate size of the Storm margin loan book with Macquarie and the nature of the primary loan collateral being diversified index tracking managed funds provided by reputable and established fund managers.

Business terms were varied in customised arrangements with other financial advisers. Our arrangements with Storm were consistent with Macquarie's risk management approach.

We trust the Committee finds this additional information helpful and would be happy to assist further if required.

Yours sincerely

Richard Sheppard