22 November 2002

Ms Ruth Smith
Acting Manager
Market Integrity and Payments Unit
Financial Markets Division
The Treasury
Langton Crescent
CANBERRA ACT 2600

Dear Ruth

Compensation for loss in the financial services sector

Thank you for providing SEGC with the opportunity to make a preliminary submission in relation to the issues and options paper on compensation for loss in the financial services sector. SEGC's preliminary submission is enclosed.

I note that information about claims on SEGC is included in the issues and options paper. Earlier this week Jenni Mack of the Centre for Financial Services Consumer Policy asked me to provide her with further information about the number of claims on SEGC in the last five years and the outcome of those claims. I informed her that in the last five financial years there were 178 claims on SEGC. Of those claims 7 were allowed, 129 were settled by SEGC, 30 were disallowed, 4 were time-barred and 8 were withdrawn.

If you have any queries in relation to SEGC's preliminary submission please do not hesitate to contact me.

Yours sincerely

Sally Palmer
Manager, Legal Counsel
and Company Secretary

Enclosure

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED (SEGC)

PRELIMINARY SUBMISSION

ON THE

ISSUES AND OPTIONS PAPER ON

COMPENSATION FOR LOSS IN THE FINANCIAL SERVICES SECTOR

NOVEMBER 2002

Securities Exchanges Guarantee Corporation Limited
Level 9, 20 Bridge Street
Sydney NSW 2002

Executive Summary

SEGC is pleased to have the opportunity to make a preliminary submission in relation to the issues and options paper on compensation for loss in the financial services sector (Treasury Paper).

SEGC considers that there is justification for requiring, through legislation, compensation arrangements in the financial services sector. These arrangements should include a requirement that financial services licensees, as a condition of their licence, have professional indemnity insurance.

There should also be some form of scheme to compensate investors who suffer loss. It is difficult to provide a detailed submission as to the requirements for a compensation scheme without an understanding as to the type of compensation arrangements which are proposed. SEGC makes some preliminary comments in relation to compensation schemes in this submission and will provide a detailed submission once it has an indication as to the arrangements proposed.

SEGC considers that claims on any compensation scheme should be subject to monetary caps.

As to the funding of a scheme, SEGC opposes a proposal that funds currently held in the National Guarantee Fund (NGF) be used as initial funding for a broad scheme. This would not be consistent with the purposes for which the NGF is held on trust. SEGC considers that a broad scheme should be funded by the financial services licensees whose conduct is covered by the scheme. This can be achieved if the scheme is funded by interest on trust accounts and levies on financial services licensees. If there is an initial levy to establish a broad scheme, and the scheme is to cover liabilities presently covered by market compensation funds, it may be appropriate for the levy payable by market participants to be paid from the relevant market compensation fund.

Finally, SEGC supports the use of excess funds in a compensation scheme for financial industry development funding as this has benefits for the public, the financial industry and the clients of that industry.

These and other matters are discussed in more detail below.

Justification for requiring compensation arrangements

SEGC considers that there is justification for requiring, through legislation, compensation arrangements in the financial services sector. The reasons for this are as follows:

- Consumers may not be in a position to protect their interests when dealing with financial services licensees due to a lack of information or experience in relation to financial products and the financial services industry. As noted in the Treasury Paper, consumers may not make major investment decisions frequently, and hence may have little experience in relation to those decisions.

- Consumers may not be able to seek compensation from financial service licensees through legal action due to a lack of resources, or a lack of information and experience. Further, if a licensee is insolvent legal remedies may be of no use, particularly if there are insufficient funds to meet claims and/or trust funds have been misappropriated.

- Loss resulting from the insolvency and/or improper conduct of a financial services licensee may have a significant financial effect on the clients of that licensee. As noted in the Treasury Paper, clients may have all their investments managed by one licensee. Hence, the loss arising from insolvency and/or improper conduct of that licensee may result in financial ruin for the clients.

- If there are no compensation arrangements in place consumers may lack confidence in the financial services industry and be unwilling to use the services provided by that industry. This would be detrimental to the financial services industry. It may also be detrimental to the economy as a whole if consumers are unwilling to participate in the securities markets and other forms of investment.

The Treasury Paper refers to concerns that consumers and financial services licensees will take less care because losses will be covered by compensation arrangements (referred to as "moral hazard"). In the case of clients, concerns about moral hazard can be addressed through the capping of claims. This is discussed in more detail below. In the case of financial services licensees, provided that the responsibility for making compensation arrangements is on the licensees (whose conduct cause the loss) any scope for moral hazard will be minimized. Further, it is reasonable to assume that most financial services licensees wish to remain solvent so that they can remain in business. Hence, compensation arrangements which apply when a licensee is insolvent are unlikely to result in a moral hazard.

Finally, requiring some form of compensation arrangements in the financial services sector is consistent with international practice. Each of the USA, Canada, the UK, the EU, Ireland, Singapore and Hong Kong have some form of investor compensation arrangements.

Professional indemnity insurance for financial services licensees

SEGC considers that financial services licensees should be required, as a condition of their licence, to have professional indemnity insurance.

Professional indemnity insurance provides funds to meet claims by consumers against financial service licensees. These funds can also be recovered by the operator of a compensation scheme (provided that there is a right of subrogation when a claim is paid). This reduces the cost of the scheme and the likelihood that the losses relating to one financial services licensee will be funded out of contributions from other licensees (cross-subsidization).

Further, the requirement that financial services licensees have professional indemnity insurance places responsibility for compensation directly on the licensee. As noted in the Treasury Paper this should be an incentive for the licensee to act properly, provided that the premium accurately reflects the risk involved in covering that licensee.

SEGC considers that professional indemnity insurance held by financial services licensees should cover negligence, breach of contract and statute and fraudulent acts by officers, employees or authorised representatives. The cover should extend to determinations of any external dispute resolution scheme of which the licensee is a member. More extensive cover, such as run-off cover and cover for legal defence costs may also be desirable as it would provide a greater level of protection for clients of financial services licensees. However, the cost and availability of this type of insurance would need to be taken into account.

The fact that certain licensees are regulated by APRA, have high financial requirements or high market capitalisation, or have the requisite connection with such a body may be relevant to whether the licensee is required to have professional indemnity insurance. It may be appropriate for such licensees to self-insure or make other compensation arrangements approved by ASIC in the place of professional indemnity insurance, provided that these arrangements ensure that funds are available to meet claims by clients.

The Treasury Paper asks whether membership of a market compensation scheme would, to some extent, satisfy the obligation on a financial services licensee to have compensation arrangements. As noted above, one of the benefits of requiring financial services licensees to have professional indemnity insurance is that it provides a source of funds which can be recovered by the operator of a compensation scheme pursuant to a right of subrogation, thereby reducing the cost of the scheme and the likelihood of cross-subsidization. It also encourages financial services licensees to act properly and take responsibility for their own conduct. For these reasons, SEGC does not consider that membership of a compensation scheme should satisfy, to some extent, the obligation on a financial services licensee to have compensation arrangements.

SEGC agrees with the preliminary view of Treasury that surety bonds (such as the $20,000 bond which securities dealers and advisers are required to lodge with ASIC under the existing system) do not provide adequate protection. SEGC considers that professional indemnity insurance is a more effective means of ensuring that funds are available to meet claims against licensees.

Compensation schemes

SEGC considers that there are strong arguments in support of having arrangements to compensate investors who suffer loss. These include the following:

- A compensation scheme can operate in conjunction with the requirement that financial services licensees have professional indemnity insurance.

- A scheme operator will be better placed than consumers to investigate claims, acquire documents and information and seek recovery from the licensee. Hence, the scheme will provide protection for clients who do not have the resources or expertise to pursue claims directly. Once a claim has been paid the scheme operator can then pursue the licensee or its insurer to recover the compensation paid out (provided that it is subrogated to the claimant's rights).

- Making a claim on a compensation scheme is a relatively simple process for a consumer and if the claim is made out they will receive compensation fairly quickly, thereby minimizing any financial hardship resulting from their loss.

- Depending on the extent of the insurance cover which financial services licensees are required to have in place a compensation fund may cover matters which are not covered by the licensee's insurance. This is an important protection for the consumer, particularly in circumstances where the licensee is insolvent.

It is difficult to provide a detailed submission as to the requirements for a compensation scheme without an understanding as to the type of compensation arrangements which are proposed. However, SEGC has the following preliminary comments.

Responsibility for making compensation arrangements should ultimately rest with the financial services licensee (whose conduct causes the loss). Hence, any compensation scheme should ensure that responsibility for compensation is placed directly on licensees.

If significant reforms to the current compensation arrangements are proposed, for example by way of the introduction of a broad statutory scheme, it will be necessary to proceed with caution. Any plan to reduce the level of protection currently available to clients under a compensation scheme should be assessed carefully to ensure that those clients will not be disadvantaged. Further, although responsibility for making compensation arrangements should rest with the financial services licensee there are benefits in representatives of market operators having some involvement in the scheme (or that aspect of it which relates to market participants) as they are aware of and have some influence over the activities of participants which may give rise to claims.

While a broad statutory scheme has benefits in theory there may be practical difficulties in implementing a scheme which covers the conduct of a broad range of financial services licensees. Hence, there would need to be detailed consideration and consultation as to how the scheme is to be implemented including consideration of how the scheme will provide compensation which is suitable for clients of all sectors of the financial services industry. It would also be important to take steps to ensure that the scheme does not result in some sectors of the financial services industry cross-subsidizing other sectors. Finally, if significant reforms are proposed it may be necessary to introduce those reforms in stages.

Alternatively, if the current market based compensation schemes are to be retained in some form then a number of issues in relation to those schemes would need to be addressed. These include:

- the overlap between compensation schemes which may give rise to forum shopping; and
- the lack of uniformity between the different schemes which means that the type and amount of compensation available may depend upon the market of which the financial services licensee who caused the loss is a participant.

SEGC looks forward to providing a detailed submission in relation to the requirements for a compensation scheme, including the matters referred to above, once it has an indication as to the type of compensation arrangements which are proposed.

Eligible claimants

SEGC considers that there should be a limit on the claims which can be made on any compensation scheme. This can be achieved by restricting access to the scheme to retail clients or by imposing a cap on claims, or both. As discussed below SEGC supports the capping of claims.

Operation and governance of a compensation scheme

SEGC agrees with the comment in the Treasury Paper that if a broad scheme is adopted, SEGC, as a wholly owned subsidiary of the ASX, would not be an appropriate body to operate the scheme. If SEGC's structure was modified so that it became independent of ASX it may be an appropriate body to operate the scheme. However, any such proposal would require further consideration and consultation once there is a better indication as to the nature of any broad scheme proposed.

As SEGC has submitted previously, there are difficulties with the proposal in the CASAC Paper[1] that an existing ASIC approved dispute resolution industry body be appointed as a scheme

[1] Consultation Paper – Retail Client Compensation in Financial Markets, Companies and Securities and Advisory Committee, September 2001

operator[2]. SEGC considers that it would be preferable for a scheme operator to be an independent entity whose powers, functions and responsibilities are set out in legislation.

Initial funding of a compensation scheme

As submitted previously, SEGC opposes any proposal, such as that in the CASAC Paper, that transitional arrangements deal with the transfer of funds currently held by the NGF to a new broad scheme[3]. The reasons for this are as follows:

1. There may be legal impediments preventing the implementation of the proposal for constitutional reasons relating to the acquisition of property on just terms. It may not be possible, for example, to appropriate funds from the NGF unless adequate compensation is paid for that appropriation. If this is the case, there seems little point in appropriating cash from the NGF if an equivalent amount of cash must then be paid as compensation for that appropriation.

2. There are important equity, cross subsidization and fairness issues which the CASAC proposal does not address.

   There seems to be an assumption underlying the suggestion that the NGF should fund a statutory scheme during a transitional period that the NGF is a public fund that can be used for a variety of purposes. This assumption is misplaced.

   SEGC holds the NGF as trustee pursuant to a statutory trust. The NGF has a range of "beneficiaries" who are "entitled" to claim on the Fund in a range of circumstances. Those beneficiaries and the circumstances in which they are "entitled" to the NGF's funds are not necessarily the same as the beneficiaries of a broad statutory scheme. CASAC's proposal could therefore potentially result in a payment being made from the NGF to persons who are not and could never be beneficiaries of the NGF. This would be inequitable.

   A payment out of the NGF to a new scheme operator is distinguishable from the FSR proposal to split the NGF. The latter proposal will result in a payment from the NGF to a body corporate in return for that body corporate assuming the "liabilities" currently undertaken by the NGF. The range of beneficiaries entitled to claim on these monies, before and after the split, would remain the same.

3. The proposal is inconsistent with the proposition, which is supported in both the CASAC Paper and the Treasury Paper, that the scheme should be industry funded. That is, the scheme should be funded by the financial services licensees whose conduct is covered by the scheme.

   As noted above, a broad statutory scheme will potentially apply to a wide variety of claims and licensees which are not presently covered by the NGF. Hence, the "industry" which will benefit as a result of the scheme is not the same industry that currently benefits from the NGF.

4. No adequate criteria was identified by CASAC to justify why the NGF should fund the scheme or how much funding would be required.

   The only criteria mentioned in the CASAC Paper is that a substantial transfer could benefit intermediaries (ie financial services licensees). In SEGC's submission that is an irrelevant

[2] Letter from SEGC to CASAC dated 19 October 2001 (CASAC Submission 2001), pages 6-7
[3] CASAC Submission 2001, page 4

consideration. It does not justify why the NGF (as opposed to licensees) should fund the scheme. Government funding of the scheme would also benefit licensees but that is not a reason why government funding should occur. SEGC considers that those who benefit from the scheme should fund it. On that basis there are no grounds to justify NGF funding the scheme. If the scheme is to be funded by industry then there should be no reason why the transition period should be treated any differently in this regard.

5. SEGC is not convinced that any payment from the NGF is necessary to ensure adequate funding of the scheme.

   As discussed below a broad statutory scheme should be funded from other sources such as interest on trust accounts and levies on financial services licensees.

In the event that market licensees no longer had to make compensation arrangements, the funds in the NGF should be used in a manner consistent with the purposes for which those funds are held by SEGC. That is:

- Providing compensation to investors in respect of their relationship with ASX Participating Organisations (the investor protection function).

- Supporting the integrity of ASX's markets and clearing and settlement systems and providing financial backing for ASX related clearing houses (the clearing guarantee function).

- To the extent of any "excess", providing funds for projects relating to the development of the financial industry (the FIDA function).

As noted above, in the event that the NGF is split, an appropriate amount should be paid out of the NGF to the body corporate providing a clearing and settlement guarantee, in return for that body corporate assuming the "liabilities" currently undertaken by the NGF. This use of funds is consistent with the clearing guarantee function.

Further, any projects for the development of the financial industry which have been approved by the Minister at the time when market operators are no longer required to make compensation arrangements should be funded out of the excess of the NGF. It is also appropriate for some funds to be set aside for future FIDA projects. This use of funds is consistent with the FIDA function.

Finally, if a broad statutory scheme is established which assumes some of the "liabilities" currently undertaken by the NGF it may be appropriate for SEGC to make an initial payment to that scheme in lieu of any initial levies which would otherwise have been payable by ASX Participating Organisations. This use of funds would be consistent with the investor protection function. It would also be consistent with the proposition that a broad scheme should be funded by the financial services licensees whose conduct is covered by the scheme. A similar contribution could be made by other market compensation schemes in lieu of any initial levies payable by participants of those markets.

Ongoing funding of a compensation scheme

If a broad scheme is adopted it should be funded by the financial services licensees whose conduct is covered by the scheme. This can be achieved if the scheme is funded by interest on trust funds and levies on financial services licensees.

The payment of trust account interest to a compensation scheme has direct benefits for clients as it provides a source of funds so that the assets of the scheme can be increased. This contributes to the ongoing soundness of the scheme and allows the scheme to meet current and future claims. Clients also benefit indirectly from the payment of trust account interest to a compensation scheme if there are excess funds in the scheme which can be used for financial industry development funding. As discussed below, financial industry development funding has benefits for the public, the financial industry and the clients of that industry.

If interest on trust accounts is not paid to a compensation scheme then it is likely that this interest will be retained by the financial services licensees[4]. There is no reason why licensees should have this windfall gain which has no benefits to clients or the financial industry. If, instead, interest on trust accounts is paid to a compensation scheme then that interest would be used for the benefit of the clients whose funds are held on trust by funding a scheme for the protection of those clients.

The scheme operator should have the power to impose levies on the members of the scheme, and to take out insurance or to borrow funds as it considers appropriate. This gives the scheme operator some flexibility in funding the scheme, depending upon the amount of funds received from trust account interest and the claims experience. In imposing levies the scheme operator should have a discretion as to whether to levy transactions or licensees or a certain class of transactions or licensees, depending upon the circumstances giving rise to the need for a levy.

As noted above, if there is an initial levy to establish a broad scheme, and if the scheme is to cover liabilities presently covered by market compensation funds, it may be appropriate for the levy payable by market participants to be paid from the relevant market compensation fund. This would be a one off payment in consideration for the scheme taking over liabilities from the market compensation funds.

If the current compensation arrangements are retained, SEGC submits that NGF should continue to receive interest on the trust accounts held by Participating Organisations of ASX. As discussed above, the payment of trust account interest to a compensation scheme has direct and indirect benefits for clients and benefits for the financial industry as a whole. There is no reason why this interest should be retained by Participating Organisations of ASX.

SEGC will address these matters in more detail once it has an indication as to the type of compensation arrangements proposed.

Capping of claims

SEGC strongly supports the capping of claims on compensation schemes. If a broad statutory scheme is adopted SEGC submits that claims on that scheme should be capped. Alternatively, if the present market compensation schemes are retained SEGC submits that claims on the NGF should be capped (other schemes already being subject to caps).

Capping of claims generally

With any compensation scheme, it is necessary to consider the extent of claims coverage. While a scheme with no restrictions on claims would provide complete protection to clients and promote confidence in the financial services industry, ultimately such a scheme may act to clients' detriment.

[4] Under Corporations Regulation 7.8.02(7) a financial services licensee may retain interest on trust accounts provided that this is disclosed to clients.

This is because such an arrangement would create a moral hazard and allow clients to take unacceptable risks in the knowledge that the scheme would be available to protect an individual from all loss. The costs of such a scheme may be excessive and would ultimately be passed on to clients.

Claims on a scheme can be limited by either specifying eligibility criteria limiting the types of complainants that can access the scheme or by monetary caps on claims, or both. SEGC supports the use of monetary caps on claims as this is a simple and effective way of limiting claims on a scheme. As discussed above there may be further benefits in also restricting access to the scheme to retail clients.

SEGC's reasons for supporting a monetary cap on claims generally are as follows.

1. *Structural soundness*

   If there is no limit on claims the liability of a scheme is potentially unlimited. It is therefore theoretically possible for a single claim or a series of large claims to wipe out all funds held by the scheme.

   This is an unsatisfactory situation as it undermines the ongoing structural soundness of the scheme.

2. *Moral hazard*

   As noted above, if there are no limits on the amount that can be claimed this may encourage clients to take unacceptable risks in the knowledge that the scheme is available to protect them.

3. *Consistency with external dispute resolution schemes*

   ASIC's policy on external dispute resolution schemes provides for monetary limits on claims. For example, the Financial Industry Complaints Service (FICS) has a limit of $100,000 on complaints involving securities. If a compensation scheme is to some way operate in conjunction with external dispute resolution schemes it is appropriate that the scheme also has monetary limits on claims.

4. *International comparison*

   All international compensation schemes in the financial services industry of which SEGC is aware impose limits on the scope of compensation, either by the capping of claims or eligibility criteria restricting the types of claimants, or both.

   For example, monetary caps on claims are imposed by investor compensation schemes in the USA, Canada, Hong Kong, Singapore, the UK and Ireland. Note that schemes in Hong Kong, Singapore, the UK and Ireland also have eligibility criteria for claimants.

Capping of claims on the NGF

If the present market based compensation schemes are retained, SEGC submits that claims on the NGF should be capped.

At present, with the exception of claims for property entrusted to a broker that subsequently becomes insolvent, there is no cap on claims on the NGF. Further, the NGF has no eligibility criteria restricting the category of claimants to, for example, retail clients.

The reasons for capping claims generally which are set out above apply to the NGF. Further, the following reasons for capping claims relate specifically to the NGF.

1. *Comparison to other domestic compensation arrangements*

   In contrast to the open ended liability of the NGF other domestic compensation arrangements (many of which overlap with NGF coverage) recognise the importance of capping.

   Claims under the current fidelity fund arrangements of the old Part 7.9 claims on fidelity funds are capped at $500,000 per member firm. Further, as noted above, external dispute resolution schemes have a monetary claims limit prescribing the maximum monetary amount that may be claimed, with FICS having a limit of $100,000 in the case of complaints involving securities.

   It is incongruous that schemes potentially covering the same loss impose different compensation limits. If, for example, a person suffers pecuniary loss as a result of a broker who is a participant of both ASX and NSX fraudulently transferring their securities, that person has a number of options available to them to obtain compensation. They could make a claim on FICS, they could make a claim on the NSX fidelity fund or they could make a claim on the NGF.

   Of the three sources of compensation, only the NGF has an unlimited exposure. Why should the NGF have unlimited liability in this instance but the NSX fidelity fund or FICS have only limited liability? The existence of unlimited liability may make it more attractive to a claimant to pursue a claim on the NGF rather than any of the other compensation schemes. There is no compelling reason why only the NGF should be "singled" out in this way. This is particularly so given that if the NGF exercised its right of subrogation and pursued claims on the fidelity fund or FICS it would be bound by those limits. In this way, the Fund would be diminished (by paying out the claim) with no satisfactory means for full replenishment.

   The imposition of caps on the NGF would, apart from the other benefits identified in this submission, go some way towards discouraging claimants from engaging in possible forum shopping amongst the various compensation arrangements.

2. *No reduction in investor protection*

   As discussed below, SEGC considers that a cap of $500,000 may be appropriate. A cap of this amount would not result in any substantial reduction in investor protection by the NGF. The NGF's claims history reveals that the vast majority of claims that have been paid by the NGF would have fallen within the proposed cap.

   In the period 1994-2002 no claim would have exceeded the proposed cap. The largest amount paid to a claimant in this period was only $127,524.

   Since its inception, the NGF has only paid compensation in excess of $500,000 on four occasions:

Amount of claim $	Claims division
561,250	Division 6 (selling client claim)
583,714	Division 6 (selling client claim)
603,686	Division 8 (property entrusted)
642,850	Division 6 (selling client claim)

The following observations can be made about this claims history:

- All of the claims related to an insolvent broker.
- One of the four claims was made under Division 8 (property entrusted/insolvency) and would therefore already be subject to the cap of 14% of the minimum amount.
- If a cap of $500,000 applied then in the remaining three claims, the claimants would have been compensated for 89%, 86% and 78% of their loss respectively.
- Only one of the four claims (that for $603,686) was made by an individual retail client. The other three claims were made by institutional investors. If, therefore, in addition to imposing a cap on claims, eligibility criteria excluded non retail clients from making claims, these claims would all fall outside the scope of coverage.

A cap of $500,000 would not therefore reduce the scope of investor protection in any significant way. Note that the ASX 2000 Share Ownership Study shows that the average share portfolio of retail investors is $28,000 and the average dollar value of share parcels traded is $5,500. In the vast majority of cases, the cap would simply have no adverse impact on claimants.

Appropriate form of capping

SEGC considers that a cap of $500,000 may be appropriate for claims on the NGF. There are two main reasons for selecting this amount:

1. *This amount can be linked to an objective standard - the sophisticated investor test under the Corporations Act.*

   The rationale underpinning the sophisticated investor test in the context of the disclosure rules, namely that certain investors are seen to be financially sophisticated and are therefore able to protect their own investment interests without regulatory interference, would appear to be equally applicable in the context of selecting a ceiling on the amount of compensation payable by the NGF.

   The Board of SEGC recognises that any ceiling on claims will need to be reviewed from time to time and, if necessary, increased. By linking the capped amount to the sophisticated investor test, it would follow that any increase in that test would automatically result in an increase to the capped amount. An alternative may be to leave it to the discretion of the Board of SEGC to review (and increase) the appropriateness of the capped amount in much the same way as it assesses the adequacy of the "minimum amount".

2. *A figure of $500,000 would mean that the vast majority of claims made on the NGF to date would continue to fall within it.*

   As discussed above, most claims on the NGF to date have been for less than $500,000.

Further, a cap of $500,000 is generous in comparison with most other compensation scheme as demonstrated below:

Scheme	Level of cap	Approximate A$ equivalent
USA	$500,000 per customer except that claims for cash are limited to $100,000 per customer.	$920,000 (cash claims of $184,000)
Canada	up to $1m per a customer's general account.	$1.17m
UK	100% of the first £30,000 and 90% of the next £20,000 up to a maximum payment of £48,000.	$138,000 maximum payment
European Union	The lesser of €20,000 or 90% of the net loss, whichever is the lesser.	$36,000
Hong Kong	A per claimant limit of $150,000.	$35,000
Singapore	$2m in respect of each member and $50,000 for each claimant.	$2.06m (per member) $51,000 (per claimant)
FICS	$100,000	$100,000
Old Part 7.9	$500,000 per member	$500,000 per member

The matters set out above also support the view that a cap of $500,000 may be appropriate for a broad statutory scheme.

Financial Industry Development Funding

SEGC considers that if a broad scheme is adopted excess funds from that scheme should be available for financial industry development purposes.

As discussed above, one function of the NGF is, to the extent of any "excess", to provide funds for projects relating to the development of the financial industry that are conducted for the public benefit (referred to as FIDA funding). Previously, funds were provided for the development of the securities industry (referred to as SIDA funding).

SIDA funding has been used for a variety of projects relating to the development of the securities industry in Australia. For example, SIDA funding has been used:

- To provide infrastructure support for the Securities Industry Research Centre of Asia Pacific.

- To develop a securities teaching laboratory at the Australian Graduate School of Management.

- To assist the Securities Institute of Australia.

- To fund a variety of investor education projects.

FIDA funding can be used for projects for the development of the financial industry which are for the public benefit. These include:

- Public education activities.

- Research into future product or service needs.

- Research and consulting services intended to improve the international performance of Australian financial markets.

- Improvement of Australia's role as a financial centre[5]

SIDA funding has been extremely beneficial to the securities industry. Financial industry development funding will be equally beneficial to the financial industry in the future. This results in benefits for the public, and in particular, for consumers who use the services provided by the financial industry. Hence, the use of excess funds in a compensation scheme for financial industry development funding is in the best interests of the public, the financial industry and the clients of that industry.

[5] Note to Corporations Regulation 7.5.88.