



# 2018

## glossary of terms

**ACCC** Australian Competition and Consumer Commission.

**APCS** Australian Paper Clearing System. Comprises members (which are providers of payment services) and other participants which have agreed to abide by APCA rules for the exchange, clearing and settlement of paper items, and is overseen by the APCS committee of management elected by those members.

**BECS** Bulk Electronic Clearing System. Constituted and operated in the same way as the APCS but currently for the exchange, clearing and settlement of direct entry transactions.

**BSB** A number used as a code to identify financial institutions in the clearing and exchange of items.

**CECS** Consumer Electronic Clearing System. A system, yet to be established, for various electronic payment systems used by consumers, such as ATMs and EFTPOS.

**CHESS** The Australian Stock Exchange's 'Clearing House Electronic Subregister System.'

**HVCS** High-Value Clearing System. A clearing system, for the electronic clearing and settlement of high-value payments.

**MICR** Magnetic Ink Character Recognition.

**RTGS** Real Time Gross Settlement. *Settlement* arrangement in real-time (i.e. settlement on a payment-by-payment basis using settlement balances held at the central bank).

**SPC** Special Purpose Committee. A committee created by the Board to bring a particular clearing system to the point of formal establishment under APCA rules; operating as the forerunner of a management committee for that clearing system.

**SSP** Special Services Provider. An industry body supervised by the Australian Financial Institutions Commission providing products and services to its member non-bank financial institutions.

**SWIFT PDS** SWIFT Payment Delivery System. The delivery system used to relay payments from one financial institution to another in the HVCS.



## APCA's mission

To achieve and maintain international best practice in the operation of the Australian payments clearing system.

## APCA's objectives

APCA's role is to manage and develop the Australian payments clearing system, so as to:

- ▲ preserve the integrity of the system;
- ▲ identify and control settlement risk;
- ▲ improve the effectiveness and efficiency of the system;
- ▲ ensure principles of equity and competitive neutrality are applied in determining participation in the system;
- ▲ facilitate the co-ordination of payments clearing arrangements among providers of payment services; and
- ▲ assist the community's understanding of the system and ensure that public debate is well informed.

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APCA's first five years or so was largely concentrated on establishing clearing systems. That work continued in 1997-98 in respect of the completion of the establishment of the high value clearing system and the ongoing effort to establish the consumer electronic clearing system. At the same time the focus of activity was more diversified than it had been previously. We also decided that it was timely to put in place processes to review APCA's future role, structure and membership.

## Clearing systems...

The establishment of the high value clearing system, using SWIFT's FIN-Copy service to deliver payments for settlement in real time, was completed on schedule in August 1997.

Not all clearing system matters went as well as this. Trade practices authorisation for APCA's consumer electronic clearing system was rejected in August 1997, pending APCA addressing a number of matters raised by the Australian Competition and Consumer Commission.

Considerable progress has been made in addressing the matters raised by the ACCC. We have kept the ACCC informed of our progress and expect to formally apply again for authorisation during 1998-99.

## Year 2000...

Year 2000 readiness is at the top of everyone's agenda. Because of its central position in the financial system, it is vital that payments clearing is Year 2000 ready. Our approach has been comprehensive. A testing strategy has been developed and project team put in place to manage and co-ordinate the implementation of this strategy across all APCA's clearing systems and streams.

## Initiatives and projects...

A public key infrastructure of undoubted integrity will need to be fashioned to support electronic commerce over the internet. Because of its central position in the management of payments clearing, we decided that APCA should become a certification authority for the payments industry. Organisations operating under this APCA umbrella will, in turn, be able to issue APCA-accredited certificates to their customers. The project is due for completion around the middle of 1999.

APCA also commenced work to test the feasibility of developing an Australian internet debit system and, in co-operation principally with the NSW Law Society, a set of arrangements to replace the current manual processes with electronic property conveyancing and settlement. Both projects are at an exploratory stage with further work scheduled before decisions are made on their future.

APCA has a number of projects underway to improve clearing processes. Among these the important project to shorten the cheque clearing cycle ran

largely to schedule during the year. Without underestimating the complexity of the project and the possibility of some slippage, we are continuing to work to bring in shorter clearing times on schedule in April 1999.

## Review of role and structure...

APCA began its life with a clear blueprint. The fundamental task was to establish clearing systems which were inclusive of all payments clearing organisations. At the time this encompassed banks, building societies and credit unions. Times have moved on.

APCA is now stretching the boundaries of its envisaged role. Technology has provided the wherewithal for an increasing range of organisations to provide particular payment services and functions. We have had the Wallis Inquiry with its payment-related recommendations; and, as one product of those recommendations, we have the Payments System Board with its regulatory powers.

APCA is responding in two ways to these developments. We are reviewing APCA's role and corporate structure and, separately, but in close concert, are involving a number of organisations which sit outside APCA in working with us to widen APCA's membership.

## Board matters...

A number of directors resigned from the Board during the year. Graeme Thompson, APCA's Chairman, left at the end of March 1998 as a result of his appointment as Chief Executive of APRA. John Morgan, who acted as Chairman following Graeme's departure, left at the beginning of May 1998, as a result of his appointment to a different position within the Commonwealth Bank group. Brian Whitbread left at the end of October 1997 due to his retirement from the Bank of South Australia. Neil Mackrell left at the end of January 1998 as a result of an overseas posting within the Reserve Bank. Richard Ham left at the end of June 1998 due to his retirement from the ANZ Bank. On behalf of the current Board, I would like to thank them all for their efforts and commitment during their tenure as directors.

I would like to welcome John Veale, Bruce Munro and Paul Inglis to the Board and welcome back Wes Hooper.

Finally I would like to thank all directors for their support during the year, and the members of APCA's committees, and also to thank Peter Smith and his staff for their ongoing commitment to APCA and its goals.



L E Martin  
**Acting Chairman**

## **APCS**

- ▲ Development of and agreement to migration plan for the implementation of electronic presentment and dishonour of cheques
- ▲ New accreditation arrangements introduced for MICR printing

## **BECS**

- ▲ Conduct of market research among consumers to help shape future changes to direct debit arrangements
- ▲ Detailed work, in conjunction with user organisations, on developing changes to direct debit arrangements

## **CECS**

- ▲ Substantial progress towards completion of the CECS Manual covering a number of standards for the operation of the national ATM and EFTPOS networks

## **HVCS**

- ▲ The SWIFT PDS became operational and high value payments began flowing over it
- ▲ ACCC authorisation granted for the HVCS
- ▲ Participation in the HVCS, by mid-1998, by all holders of Exchange Settlement Accounts wishing to participate

## **PKI**

- ▲ Decision by the Board that APCA should become involved in the provision of public key infrastructure by establishing itself as a certification authority for the payments industry

## **Y2K**

- ▲ Establishment of testing program under APCA's management for Y2K readiness of payment clearing streams

# payments system statistics

The table below provides updated payment statistics to 1998.

	Source	1994	1995	1996	1997	1998
<b>1. Number of payments transactions</b>						
<i>(Millions of items per day)</i>						
Cheques	APCA	3.7	3.9	3.7	3.7	3.7
Direct entry credits	APCA	1.6	1.9	1.6	1.8	1.9
Direct entry debits	APCA	0.3	0.4	0.4	0.4	0.6
<i>(Millions of items per month)</i>						
EFTPOS (a)	RBA	20.7	29.1	35.5	39.2	44.5
Credit card (a)	RBA	19.9	22.6	24.6	25.9	32.8
<b>2. Value of payments transactions</b>						
<i>(\$ billions per day)</i>						
Cheques	APCA	24.8	23.4	23.2	24.9	14.6
Direct entry credits	APCA	1.9	2.6	4.0	3.4	3.6
Direct entry debits	APCA	1.3	1.2	1.6	1.6	2.4
HVCS transactions (b)	APCA					64.1
<i>(\$ billions per month)</i>						
EFTPOS (a)	RBA	1.1	1.5	1.9	2.1	2.4
Credit card (a)	RBA	1.8	2.0	2.3	2.5	3.6
<b>3. ATM Transactions</b>						
<i>(Millions of items per month)</i>						
Number of withdrawals (c)	APCA	40.7	38.8	41.6	39.2	42.9
<i>(\$ billions per month)</i>						
Value of withdrawals (c)	APCA	4.4	4.9	5.6	5.4	6.2
<b>4. Number of accounts / cards</b>						
<i>(Millions)</i>						
Customer payment accounts	APCA	34.4	34.9	30.8	31.6	29.7
Debit cards	APCA	13.2	13.6	15.1	15.3	16.4
Credit & multifunction cards	APCA	9.1	9.9	9.8	9.7	10.3
<b>5. Number of ATM and EFTPOS terminals</b>						
ATMs	APCA	6,008	6,775	7,718	8,182	8,814
EFTPOS	APCA	43,950	85,234	136,645	164,199	218,330

## Notes to the figures

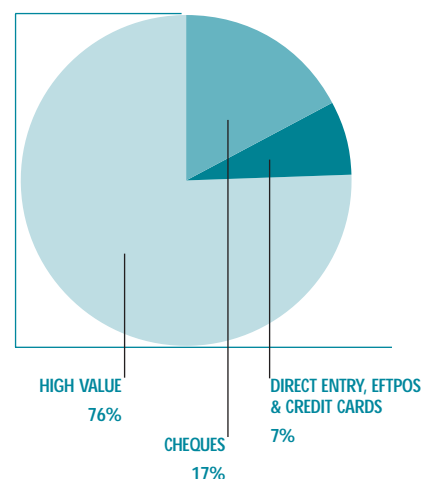
Figures for 1994 - 1996 in sections 1 and 2 are for November, in sections 3 and 4 they are for August, and in section 5 for December. Figures for 1997 and 1998 in sections 1, 2, 3 and 4 are for May, in section 5 they are for June.

- The Reserve Bank publishes in its Bulletin figures showing credit card and EFTPOS transactions acquired from merchants each month (see Table B.16 of the Bulletin).
- Payments transactions in the HVCS include a component reflecting the migration of payments previously made by warrants and through BITS to the high-value system. A full picture of high value transactions across the HVCS would need to be supplemented by Austraclear and RITS transactions which are not captured by APCA.
- The ATM withdrawals figures for 1995 may have been affected by devices that were out of service due to the security guards strike in August.

## payment trends

- ▲ Continuation of the trend for payment transactions to switch to electronic medium
- ▲ Substantial shift of all large value and time critical payments to the HVCS

## payment transactions by value\*



\* All Statistics collected in May 1998



### appointment of directors

Shareholders have the right to appoint directors. Rights of appointment attach according to shareholder class.

The ordinary shareholder class (comprising the Reserve Bank and the four nationally operating banks) has individual rights of appointment.

Each such shareholder may appoint one director.

The four redeemable preference shareholder classes ('A' – 'D'), have collective rights of appointment.

Each such class may, through the collective appointment by its members, appoint one director.

### Directors shown L-R:

#### Mr Brian Mecklem

Appointed by National Australia Bank Limited; Chairman of the Management Committee of BECS, Acting Chairman of SPC3

[Head of Payment Systems, National Australia Bank Limited]

#### Mr Bruce Munro

Appointed by the Commonwealth Bank of Australia; member of the Finance & Audit Committee, member of the Remuneration Committee (committee appointments commenced on 10 September 1998)

[Head of Institutional Banking Transaction Services, Institutional Banking, Commonwealth Bank of Australia]

#### Dr John Veale

Appointed by the Reserve Bank of Australia

[Head of Payments Policy Department, Reserve Bank of Australia]

#### Mr Paul Inglis\*

Appointed by Australia and New Zealand Banking Group Limited; Chairman of the Management Committee of the HVCS (from 10 September 1998, replacing Ms Leslie Martin)

[Head, Payments Policy & Industry Liaison, Operations & Technology Strategic Planning, Australia and New Zealand Banking Group Limited]

*\*Appointment commenced on 1 July 1998, replacing Mr Richard Ham*

#### Mr John Toms\*

Appointed by the 'C' class shareholders (building societies)

[Assistant Executive Director, Australian Association of Permanent Building Societies Incorporated]

*\* Not shown in photograph*



**Directors shown L-R:**

**Mr Wes Hooper**

Appointed by the 'A' class shareholders (state & regional banks); member of the Finance & Audit Committee, member of the Remuneration Committee  
[Manager, Payment Systems, Colonial State Bank]

**Chief Executive Officer**

**Dr Peter Smith**

Appointed by the Board, member of the Finance & Audit Committee, member of the Remuneration Committee

**Mr Reg Fowler**

Appointed by the 'D' class shareholders (credit unions); Chairman of the Finance & Audit Committee, member of the Remuneration Committee  
[General Manager, Subsidiary Operations and Third Party Relationships, Credit Union Services Corporation (Australia) Limited]

**Acting Chairman**

**Ms Leslie Martin**

Appointed by Westpac Banking Corporation; Acting Chairman of the Remuneration Committee  
[Chief Operations Officer, Global Transactions & Treasury Solutions, Institutional & International Banking Group, Westpac Banking Corporation]

**Mr Chris Moore**

Appointed by the 'B' class shareholders (other licensed banks)  
[Vice President, Financial Institutions Group, Citibank Limited]

## APCA has three categories of membership:

### share members

Share members are responsible, through the Board of directors, for the governance of APCA and the ultimate oversight/control of the clearing systems.

### participating members

Institutions which are engaged on a day to day operational basis in the activities covered by a clearing system, and which meet criteria for participation in the relevant clearing system, may be participating members of that clearing system. They have rights to appoint members of the committee of management for the clearing system. They may be, but are not obliged to be, share members.

### associate members

Associate members are not required to meet any participation criteria for associate membership. They can be people or organisations with an interest in payments who wish to keep abreast of developments.

## Structure

Payments clearing involves the exchange of individual payment instructions between institutions for the purpose of obtaining settlement. APCA manages and co-ordinates policies and procedures for payments clearing and settlement systems among its members. Management and ongoing development of payments clearing is undertaken within each of four clearing streams.

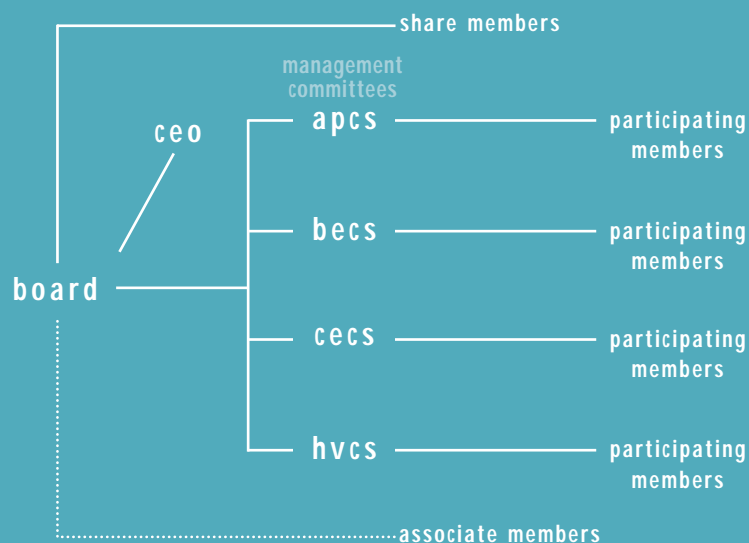
Each stream is managed as a system with its own membership, access criteria, rules for participation and technical requirements (with the exception of the consumer electronic stream which is not yet established as a system).

Management of payments clearing requires a high level of co-operation among participants. APCA operates on a participatory basis, calling on the expertise of its members. Separate committees of management, appointed by the members of each system respectively, oversee each clearing stream. Sub-committees and working groups are established from time to time to bring particular knowledge and expertise to bear for particular projects.

## Widening Membership

The payments environment has been changing to an increasing degree since APCA's establishment six years ago. Changes have occurred in the provision of payment services, both from the use of new technology and means of communication, and from the blurring of long-standing demarcations in the identity of service providers. As a consequence, decision-making within APCA can affect a wider range of parties than was originally envisioned.

APCA's Board has recognised that APCA needs to alter its membership arrangements to accommodate those wider interests. A project with the objective of widening APCA's membership has commenced, in consultation with parties with a significant role in the payments system which have an interest in being involved in APCA's decision-making. Following a seminar held in August 1998, a Taskforce has been established to progress the wider membership objective.





## australian paper clearing system

### Shortening the clearing cycle

The priority project for the APCS is to shorten and standardise the time it takes to clear cheques by facilitating the exchange of cheque presentment and dishonour information by electronic means.

The aim of the project is to provide information to collecting institutions to enable them to be in a position on the morning of business day three to know whether a cheque exchanged on business day one is paid or dishonoured or requires further action.

The bilateral nature of the APCS means that each of the 12 APCS Tier 1A members is required to commence exchanging electronic files bilaterally with each other Tier 1A member. In all, 123 separate implementations will be required.

With substantial work also required to implement changes for the 37 appointor and 200 *plus* agency cheque issuer institutions, the project to shorten the cheque clearing cycle is very large and complex.

Monthly meetings of the project managers from the 12 Tier 1A members, CUSCAL and ASL are convened to help manage the project, which is directed and co-ordinated by the Director Project Management & Operations with the assistance of a full time implementation co-ordinator.

Industry testing has commenced using common test cases developed by APCA and endorsed by the project managers. The project is scheduled for completion in April 1999, with bilateral implementations between Tier 1A members commencing in September 1998.

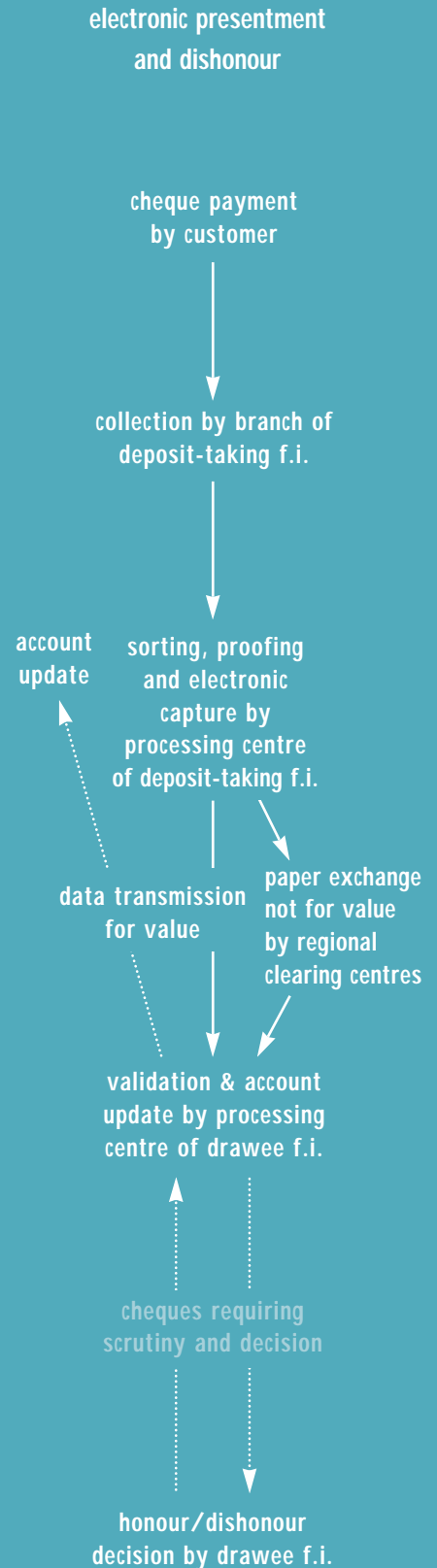
### Improving processing efficiency

To facilitate efficient cheque processing, APCA established a register of printing equipment which meets minimum standards for MICR encoding, and a register of printer identifiers. The registers are designed to assist in ensuring that cheque specifications and printing quality meet industry standards.

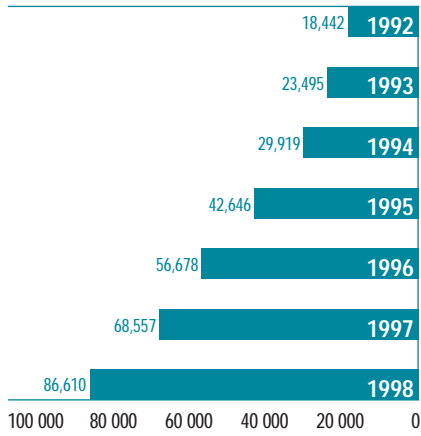
Also during the year a new edition was finalised of the APCA publication "Design Specifications for Cheques and Deposit Forms".



July 1998 meeting of the Electronic Presentment and Dishonour Project Managers from APCA member institutions.

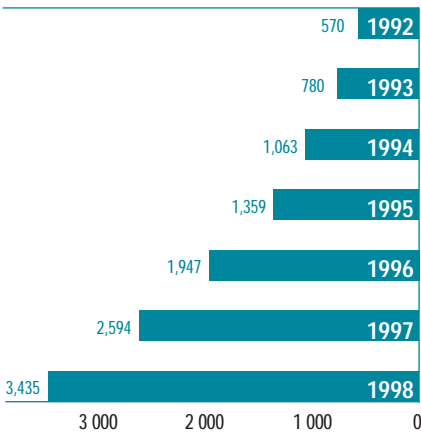


**number of direct entry credit users**  
(as at end July 1998)



Source: APCA

**number of direct entry debit users**  
(as at end July 1998)



Source: APCA



A Direct Debit logo has been adopted for use by debit users on documentation and promotional material marketing their direct debit services. The APCA logo will be introduced as part of the new arrangements in direct debit. It is intended that a user organisation's display of the logo will indicate that it is a debit user within the APCA system and is conducting its direct debit arrangements in accordance with APCA requirements.

## bulk electronic clearing system

BECS covers the conduct of the exchange and settlement of bulk electronic low value transactions.

The system allows approved organisations, known as user organisations and currently numbering over 90,000, to make arrangements with their financial institution to automatically debit and/or credit customer accounts on a regular basis. Organisations can be credit users in the system, making payments (direct credits), or debit users receiving payments (direct debits).

Credit users are commonly those businesses that credit their employees' accounts with the amount of their salaries. Debit users draw funds from their customers' accounts to receive payment for regular, periodic accounts such as insurance premiums, utility bills, and loan repayments.

### Direct Debit Requests

The use of direct debit as a payment mechanism is lower in Australia than in many other countries.

A major project has been underway throughout the year to develop new direct debit arrangements with the aim of encouraging increased use of this efficient form of payment. To this end, APCA has been working with financial institutions and representatives of user organisations, and has conducted market research among consumers, to help shape new direct debit arrangements.

At present, customers wishing to pay recurring amounts by direct debit can arrange to have the payments made automatically by signing a form, called the Form PD-C, authorising the amounts due to be debited directly to a nominated account at their financial institution.

As part of proposed updated arrangements for direct debiting, it is planned to replace the Form PD-C, which has been in place for more than two decades, with a Direct Debit Request (or DDR) providing greater flexibility, as well as improved efficiency at financial institutions.

Details of the new arrangements are being refined on the basis of feedback from user organisations. It is expected that the arrangements will be finalised and introduced over the course of 1998-99.



APCA has held a series of seminars in the State capital cities, with user organisations and financial institutions, to explore proposals for new direct debit arrangements.

## consumer electronic clearing system

In CECS the management of clearing will primarily involve setting minimum interchange standards to protect and enhance the security, integrity and efficiency of exchanges of consumer electronic payment messages. Initially, CECS will cover ATM interchanges and EFTPOS only. Providers of credit cards (ie. Visa, MasterCard and Bankcard) have set their own rules for participation in their respective schemes and for clearing where it arises.

### CECS Regulations and Manual

CECS rules in respect of EFTPOS and ATM interchanges were lodged with the ACCC in September 1996 with an attendant application for trade practices authorisation.

The ACCC issued its draft determination in August 1997 in which authorisation was denied. The ACCC noted, however, that sufficient public benefit would likely result from the arrangements, and that authorisation may be subsequently granted, if the CECS rules were further developed. A final determination would be delayed pending consideration of APCA's response to the draft determination.

The developments proposed by the ACCC include incorporation in the CECS rules of equipment and other standards for EFTPOS and ATM Acquirers (the draft rules lodged included only Issuer interchange standards). The ACCC also proposed the establishment of a consultative framework.

APCA is revising its application for authorisation in light of the draft determination. Large parts of this work are completed.

### Standards

The integrity and efficiency of CECS to a large extent depends on the adoption of common (minimum) standards in areas such as message transmission, transaction processing and the manufacture of equipment.

The work of APCA's Standards Committee, and its Technical Security and Technical Message Formats Working Groups, has continued throughout the year to this end. Work was completed during 1997-98 on a number of documents which will form part of the CECS Manual – EFTPOS Acquirer Standards, EFTPOS Interchange Operations Procedures, ATM Interchange Operations Procedures, and Standard Interchange Specifications (in draft only).

### Public key infrastructure (PKI)

APCA is to establish itself as a certification authority for organisations within the payments industry.

It is envisaged that certification by APCA will promote safe and secure payments over the internet.

Under the PKI project, APCA will put in place the necessary infrastructure to manage evaluation and accreditation of certification authorities. Organisations certified by APCA will in turn, operating under APCA's rules, be in position to issue APCA-accredited certificates to their customers. It is expected that these certificates would have wide application.

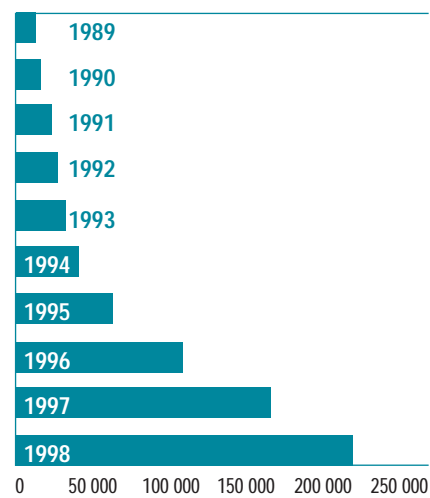
Input was provided to the Attorney-General in response to a report of the Electronic Commerce Expert Group entitled "Electronic Commerce: Building the Legal Framework".

APCA was a member of the National Infrastructure Public Key Working Group set up by the National Office for the Information Economy which examined issues in the establishment of a peak body to oversee development of a national framework for the authentication of users of on-line communications services. The Working Group's report was issued in April 1998.

### Internet debit

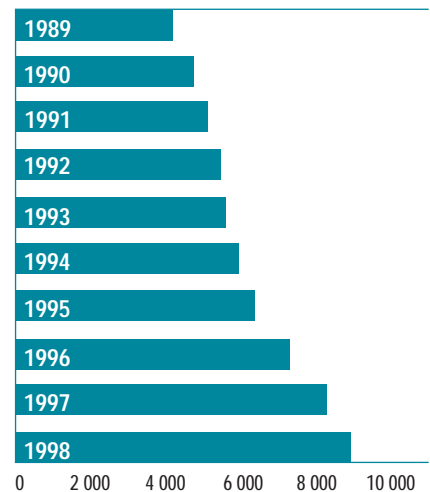
APCA has commenced a project investigating the establishment of an industry-wide system for debit transactions over the internet.

number of EFTPOS terminals  
(as at end June 1998)



Source: APCA

number of ATMs  
(as at end June 1998)

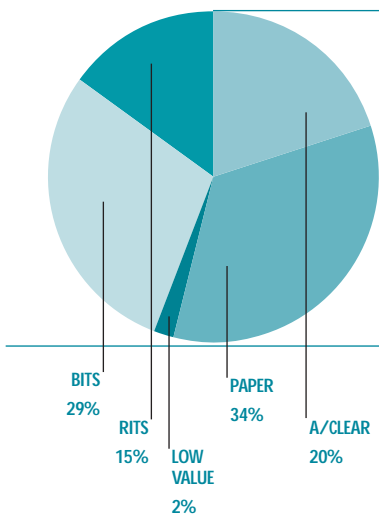


Source: APCA

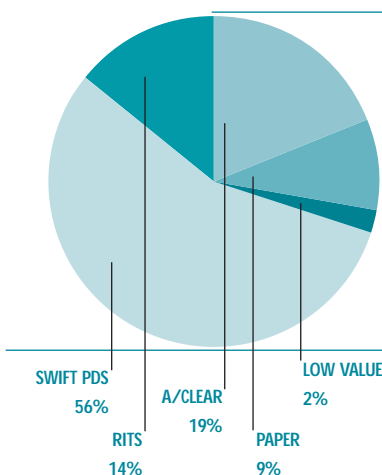
## milestones in the HVCS

- **1 August 1997**  
Establishment of HVCS
- **25 August 1997**  
First payments passed over the SWIFT PDS between 5 initial members
- **December 1997**  
80% of ESA holders exchanging payments over SWIFT PDS
- **March 1998**  
BITS migration to HVCS complete
- **23 April 1998**  
Final authorisation by ACCC
- **30 June 1998**  
46 participating members exchanging payments over SWIFT PDS
- **22 June 1998**  
Settlement on an RTGS basis

value of payments exchanged  
(mid 1997)



value of payments exchanged  
(mid 1998)



Source:  
National Collator at RBA

## high-value clearing system

The 1997-98 financial year was a significant one for high value payments in Australia. The HVCS was established, payments commenced being exchanged over the SWIFT PDS and, after an interim period of being settled on a net deferred basis, commenced being settled on an RTGS basis.

The project to develop the new system involved the banking, building society and credit union industries, the Reserve Bank and SWIFT working together within APCA's co-operative framework.

The implementation of the HVCS in August 1997 provided a best practice, efficient and highly secure electronic payments mechanism for the Australian finance industry. Further, settlement of payments on an RTGS basis since 22 June 1998 has substantially contributed to the reduction of settlement and systemic risk in the Australian payments system.

Participating members in the HVCS comprise all parties which hold exchange settlement accounts with the Reserve Bank, as well as the Reserve Bank. This covers all banks, and two Special Services Providers to the building society and credit union industries.

The mechanism for HVCS participating members exchanging payments with each other is the SWIFT PDS. Membership of the HVCS does not give automatic entitlement to exchange payments over the SWIFT PDS. A program of certification testing is undertaken first before a participating member can commence exchanging payments.

The SWIFT PDS uses SWIFT's FIN-Copy product (configured in Y mode) to exchange payment messages between its participating members. FIN-Copy is a service built on SWIFT's world-wide financial application network which allows financial institutions to exchange domestic payment messages in a closed user group.

When a participating member sends a payment to FIN-Copy, it is queued while a settlement request message is sent via the SWIFT network to the Reserve Bank's settlement platform – the Reserve Bank Information and Transfer System (RITS). RITS settles the payment and forwards a settlement response to FIN-Copy. FIN-Copy matches this settlement response it receives to the queued payment. It then forwards the completed payment to the participating member which is to receive the payment.

Large value payments and payments which are time critical have substantially shifted to the HVCS (other than those related to security transactions which continue to flow over RITS and Austraclear's FINTRACS).

In the month of June 1998 286,365 payments, for a total value of \$1,728 billion were exchanged. This represented an average of 13,636 payments per day, for an average value of just over \$6 million each.

## CHESS

Work was co-ordinated between the ASX's Securities Clearing House (ASTC) and APCA on behalf of those of its members which participate as payments providers in CHESS, to facilitate the inclusion of building societies and credit unions as payments providers.

The ACCC recently re-authorised CHESS arrangements on the basis that the requirements for a payments provider to maintain an ESA or equivalent with the Reserve Bank in its own name would not be further qualified according to institutional type.

A standing joint APCA/ASX sub-committee also reviewed and confirmed the appropriateness of CHESS settlement procedures under RTGS.

## cross-system projects

A number of special projects have been commenced in the past year which have application across APCA's clearing systems. Undertaking these important initiatives reflects the company's increasing expertise in project management, and in managing and co-ordinating a range of views into a single approach for moving forward and for implementation.

### Year 2000 Inter-Organisational Testing Program

APCA is overseeing a testing program designed to ensure that financial institutions' payments clearing processes are Year 2000 ready. Its co-ordination sits within a wider co-operative framework established between financial institutions. This is being led by a Year 2000 Interbank Working Group (IWG) comprising the four major banks and the Reserve Bank.

The testing program is a major project that will play an important part in maintaining government, industry and community confidence in the stability and integrity of the payments system. Testing covers all APCA payment clearing streams and will also include credit cards and BPAY. Testing will be undertaken directly by participants in these streams, as well as by other organisations which play a significant role in these streams.

The Y2K testing program is being led by a specially appointed APCA project director. A testing program plan has been developed by APCA. Testing programs have been rolled out for each clearing stream, involving testing scope, schedules and generic test cases. These are being co-ordinated by a testing program manager for each clearing stream. Target dates have been set for inter-organisation testing in each stream. Progress against schedules will be closely monitored, with regular reporting to the Board.

### Automating Residential Property Conveyancing

In conjunction with the Law Societies of various states, a feasibility study has been undertaken for automating residential property conveyancing. Implementation would mean that the manual arrangements involved in settlement of property transactions, both on the legal and documentary side, and on the payment side, would be replaced with electronic arrangements. Options for bringing the project to fruition are currently being reviewed.

## government submissions and enquiries

### application of FID to RTGS transactions

A submission jointly with the Reserve Bank was made to the NSW and Victorian Treasurers to exempt from the application of Financial Institutions Duty (FID) certain receipts recorded in financial institutions resulting from the introduction of RTGS.

Exemptions from FID were granted by the Victorian and NSW state governments in June 1998 for RTGS transactions arising from the SWIFT PDS (or from RITS or Austraclear) recorded in "scorekeeping" accounts kept by financial institutions to manage liquidity and credit exposure to customers.

### security of the national information infrastructure

APCA participated on a consultative group formed by the Attorney-General's Department on "Protection of the National Information Infrastructure". The group was formed to address the potential for threats to the national network on which electronic information is stored, processed, and transported, and threats to the information itself.

### submissions to the Attorney-General's Department on draft legislation

*Cheques and Payment Orders Amendment Bill 1998* in connection with the proposed extension of cheque issuing rights to building societies, credit unions and their industry SSPs.

*Payment Systems and Netting Bill 1998* in connection with providing legal certainty for multilateral netting in the payment system and to overcome the effects of the 'zero hour' rule in relation to settlement systems approved by the Reserve Bank.

*Cheques and Payment Orders Amendments (Turnback of Cheques) Bill 1998* in connection with transferring the risk of insolvency of a participant in a payment system from the collecting institution to the failed institution, in the interests of the stability of the system.

The APCA office undertakes the work that supports Management Committee and Board decision-making, and ongoing development of clearing systems.

APCA's clearing systems are organised along the lines of operational divisions, based on the nature and type of payment instruction.

To ensure the most efficient use of staff resources, and co-ordination across clearing systems, APCA's management arrangements are organised on the basis of function.

### Project Management and Operations

undertakes the development and management of projects to improve the operation of clearing systems. It is also responsible for some clearing system related operations, such as statistical and direct entry database management, and publications support and maintenance.

**Industry Relations** manages and supports the Board and clearing system committees of management, the interface with APCA's members, and external relations, and the information needs of the company.

**Specialist Services** cover a number of areas:

Legal services provides drafting and legal interpretation of APCA's rules and commercial documentation, and review of legislation bearing on payments.

Financial services supports the finance and accounting requirements of the company, in accordance with policies set by the Finance & Audit Committee, as well as overseeing the company's information technology needs.

Administration and secretarial services provides secretarial assistance to staff, reception services, catering support for committees and supports the smooth running of the office.

### Response to Change

After six years of operations, APCA has reached a more mature stage in its development. Management arrangements have needed to accommodate changes in the emphasis of APCA's work.

Increasing preparedness by APCA's members to consider industry-based solutions to developments in the payments arena requires greater emphasis on a project management approach.

Additionally, as technological change drives innovation in the delivery of payment services, the range of parties playing a significant role in the payments industry is increasing. This change in the payments environment calls for a more focused approach on relations both within and external to the payments clearing industry.

### New Management Arrangements

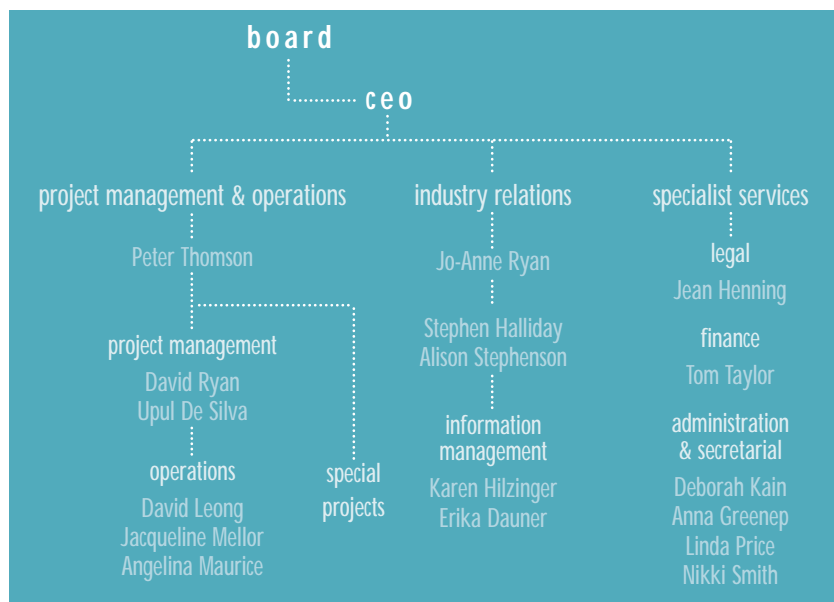
In response, APCA's management arrangements were restructured towards the end of the financial year to reflect these two points of focus. Staff numbers were increased only by one, with increased use of contractors to undertake specific projects.

The Project Management and Operations area has taken on a clearly focused, project management approach. The operations function was brought under this area. A new emphasis on monitoring developments within the industry, and focusing on potential new member arrangements and industry relations, has been developed under the Industry Relations area.

### Use of Technology

Technological changes are also influencing the way APCA works. Electronic communication within the office through voice mail systems and the wide use of e-mail has freed up staff resources. Staff manuals are viewed and updated over an intranet.

Staff recording of their work time for the purpose of allocating costs has been automated with new computer software. This will also enable accurate monitoring of planned against actual use of staff resources, leading to improved corporate planning processes.



## Communications

A participatory approach to clearing system management requires meetings of committees.

Use of telephone conferencing has increased for single-issue meetings, enabling more productive use of committee members' time. As its technology improves, video conferencing is under consideration as an additional medium for conducting meetings.

Access arrangements for an extranet are being finalised so that APCA's members can directly access clearing system rules, communications to management committee and clearing system members, and APCA's member contacts database.

Members receive regular reports of developments in clearing systems, and of clearing system and corporate issues being considered by the Board. A quarterly report, the *Payments Monitor*, is made available to members and other organisations with an interest in payments clearing matters. An internet site has been established providing publicly available information about APCA.

## Corporate Governance

A Finance & Audit Committee is responsible for oversight of financial practices, and advice to the Board on the adequacy of accounting procedures, systems, controls and financial reporting. It comprises three non-executive directors and the Chief Executive Officer. Its chairman is a non-executive director.

The Remuneration Committee comprises members of the Finance & Audit Committee and is chaired by the company's Chairman. It meets bi-annually and advises the Board on corporate remuneration policies and the remuneration of the Chief Executive Officer.

The Board monitors its own performance and effectiveness through bi-annual self assessment by the directors. It also monitors performance of management through a process of bi-annual assessment.

A risk assessment of the company and its clearing systems was undertaken in 1998 by WBK International. Risk assessment provides important information for assessing the adequacy of the company's risk management practices and insurance requirements.

Company policies on employment-related matters have been made available to staff on-line. These include policies on harassment, equal employment opportunity and discrimination, employee performance counselling and occupational health and safety.

Operational plans for each clearing system, based on the company's strategic objectives, are established each financial year. Progress against plans is reviewed quarterly by the respective management committee, and in December and at financial year end by the Board.



project management and operations



industry relations



specialist services

## Qualification for membership of each shareholding class

### Ordinary shareholders

- limited to the Reserve Bank and the four nationally operating banks

Four classes of redeemable preference shareholders:

#### 'A' class

- state and regional banks

#### 'B' class

- other licensed banks

#### 'C' class

- building societies' SSPs, and building societies not affiliated with a share member SSP

#### 'D' class

- credit unions' SSPs, and credit unions not affiliated with a share member SSP

## Associate Members (as at 30 June 1998)

American Express International Inc  
 Ausdata Pty Limited  
 Australia Post  
 Australian Financial Markets Association  
 Australian Financial Review  
 BancTec (Australia) Pty Ltd  
 Cashcard Australia Limited  
 Diners Club International  
 ETC Electronic Trading Concepts Pty Limited  
 Gas & Fuel Corp  
 International Banks & Securities Association  
 Knight Strategic Advisory Services Pty Ltd  
 Leigh-Mardon Security Products  
 MasterCard Australia Limited  
 Mayne Nickless Express  
 Media Technology (Australia) Pty Ltd  
 Permanent Trustee Company Limited  
 Price Waterhouse Urwick  
 Prisma Systems Australasia Pty Ltd  
 Recall Total Information Management  
 Retailers Council of Australia  
 R F Spring

## share members (as at 30 June 1998)

### Ordinary share members

Australia and New Zealand Banking Group Limited  
 Commonwealth Bank of Australia  
 National Australia Bank Limited  
 Reserve Bank of Australia  
 Westpac Banking Corporation

### 'A' class voting redeemable preference share members

Adelaide Bank Limited  
 Bank of Queensland Limited  
 Bank of Western Australia Limited  
 Bendigo Bank Limited  
 Colonial State Bank Limited  
 St. George Bank Limited  
 Suncorp - Metway Limited  
 Trust Bank

### 'B' class voting redeemable preference share members

ABN AMRO Finance (Aust.) Limited  
 Arab Bank Australia Limited  
 Bank of America National Trust & Savings Association  
 Bank of China  
 Bank of Tokyo-Mitsubishi (Australia) Limited  
 Bankers Trust Australia Limited  
 Banque Nationale de Paris  
 Barclays Bank PLC  
 Citibank Limited  
 Deutsche Bank AG  
 HongkongBank of Australia Limited  
 IBJ Australia Bank Limited  
 ING Mercantile Mutual Bank Limited  
 Macquarie Bank Limited  
 Midland Bank plc  
 Morgan Guaranty Trust Company of New York  
 NatWest Markets Australia Limited  
 NM Rothschild & Sons (Australia) Limited  
 Oversea-Chinese Banking Corporation Limited  
 Overseas Union Bank Limited  
 Queensland Industry Development Corporation  
 Royal Bank of Canada  
 Standard Chartered Bank Australia Limited  
 State Street Bank & Trust Company  
 The Asahi Bank, Ltd.  
 The Chase Manhattan Bank  
 The Dai-Ichi Kangyo Bank, Ltd.  
 The First National Bank of Chicago  
 United Overseas Bank Ltd

### 'C' class voting redeemable preference share members

Australian Association of Permanent Building Societies Incorporated

### 'D' class voting redeemable preference share members

Credit Union Services Corporation Australia Limited  
 Credit Union Settlement Services Limited



# financial statements contents

australian payments clearing association limited a.c.n. 055 136 519

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# directors report

for the year ended 30 June 1998

The names of the directors in office at the 30 June 1998 are set out below, together with particulars of their qualifications, experience and special responsibilities.

## **Ms L E Martin** AB, MBA

*Deputy Chairman*

(Non-executive director)

Chief Operations Officer, Global Transactions and Treasury Solutions, Institutional and International Banking Group, Westpac Banking Corporation. Over 16 years' experience in banking in the U.S., Hong Kong and Australia. Director of Austraclear Limited. Appointed as a director in March 1995. *Member of the Finance and Audit Committee and the Remuneration Committee; Chairman, Management Committee of the High-Value Clearing System (CS4)*

## **Mr R J Fowler** Grad. Cert. of Management

(Non-executive director)

General Manager - Subsidiary Operations and Third Party Relationships, Credit Union Services Corporation (Australia) Limited. Over twenty five years' experience with the credit union movement. Fellow of the Institute of Company Directors. Member of the National Institute of Accountants. Member of the Australian Institute of Management. Executive Chairman of Questor Financial Services Group Pty Limited and its subsidiary companies. Chairman of CU Insurance Pty Ltd, CU Commercial IT Pty Ltd, CU Leasing Pty Ltd, Direct Insurance Network Pty Ltd, Integris Securitisation Services Pty Ltd, NCUIS Insurance Brokers Pty Ltd, NCUIS Underwriting (Agencies) Pty Ltd. Inaugural director. *Chairman of the Finance and Audit Committee and member of the Remuneration Committee.*

## **Mr R B Ham** B.Comm

(Non-executive director)

General Manager, Payments and Strategy, Australian Operations & Payments Division, Australia and New Zealand Banking Group Limited. Associate of the Australian Society of Certified Practising Accountants and the Australian Institute of Bankers. Over thirty years' banking experience in Australia, New Zealand and the United Kingdom. Director of Austraclear Limited. Director of Tradegate Australia Limited. Alternate director of Mondex Australia Pty Limited and of Mondex Australasia Pty Limited. Inaugural director. *Chairman, Management Committee of the Australian Paper Clearing System (CS1).* (Resigned as a director on 30 June 1998)

## **Mr W J Hooper**

(Non-executive director)

Manager, Payments and Clearing, Colonial State Bank. Over thirty years' banking experience, mostly in areas of information technology, computer auditing, electronic banking & payments systems. Certified information systems auditor. *Member of the Finance and Audit Committee and the Remuneration Committee.* Appointed as a director in October 1997.

## **Mr B J Mecklem**

(Non-executive director)

Head of Payment Systems, National Australia Bank Limited. Over thirty years' experience in the Australian banking industry gained in a wide spectrum of appointments up to general management level. Director Mondex Australia Pty Limited. Director Charge Card Services Pty Limited. Director BPAY Pty Limited. Director Cardlink Services Limited. Alternate director Mondex Australasia Pty Limited. Appointed as a director in October 1993. *Chairman, Management Committee of the Bulk Electronic Clearing System (CS2), Acting Chairman, Special Purpose Committee 3.*

## **Mr C S Moore**

(Non-executive director)

Vice President, Financial Institutions Group, Citibank Limited. Over twenty years' experience in the banking industry in Australia. Appointed as a director in March 1997.

## **Mr B F Munro** B.Bus

(Non-executive director)

Head of Institutional Banking Transaction Services, Institutional Banking, Commonwealth Bank of Australia. Fellow of the Australian Institute of Bankers. Over twenty years' experience in banking, particularly in financial and capital markets, including appointments in Papua New Guinea and various Australian states. Appointed as a director in May 1998.

## **Dr P R Smith** B.Ec(Hons), PhD

*Chief Executive Officer*

(Executive director)

Eleven years' experience in the banking industry, two years in government service in Papua New Guinea, and academic appointments in the Universities of Western Australia and Adelaide. Appointed as Chief Executive Officer since commencement of the company and as executive director in April 1992. *Member of the Finance and Audit Committee and the Remuneration Committee.*

### **Mr J N Toms** B. Comm

(Non-executive director)

Assistant Executive Director, Australian Association of Permanent Building Societies Incorporated and Chief Executive Officer, AAPBS Settlements Limited. Over fourteen years' experience in areas of industry policy, particularly payments systems. Director of National Custodian Limited. Appointed as a director in December 1992.

### **Dr J M Veale** Dip Ed., BA (Hons), M.Ec, PhD

(Non-executive director)

Head of Payments Policy Department, Reserve Bank of Australia. Ten years in academic positions in Australia and the United Kingdom, and over ten years' experience in Australian central banking. Appointed as a director in January 1998.

### **Alternate Directors**

Mr P A Apolony

Mr J Hall

Mr J D McFadden

Ms M Bullock

Mr P A Inglis

Mr P J C Smith

Mr D J Dunne

Mr D A Magin

Mr B Thorsby

### **Principal Activities**

The principal activities of the company are the development and implementation of policies, regulations and procedures to manage the Australian payments clearing system.

### **Results**

The operating profit after income tax for the year ended 30 June 1998 was \$28,813 (1997 profit \$45,059).

### **Dividends**

No dividends were proposed or paid in respect of the period since incorporation to 30 June 1998.

### **Review of operations**

A migration plan for the implementation of electronic dishonour and presentment of cheques in the Australian Paper Clearing System was finalised. New accreditation arrangements were introduced for MICR printing on 1 January 1998.

Procedures for new direct debit arrangements were drafted preparatory to the introduction of proposed changes to the Bulk Electronic Clearing System.

The CECS Manual, covering a number of standards for the operation of the national ATM and EFTPOS networks, was drafted to an advanced stage.

The High Value Clearing System was established. The SWIFT PDS became operational and high value payments began flowing over it on 25 August 1997. Final authorisation for the HVCS was granted by the ACCC on 23 April 1998. Full RTGS was introduced on 22 June 1998 by the RBA.

A testing program for Year 2000 readiness of payments clearing streams was established under APCA's management.

Work is being undertaken preparatory to the establishment of the company as a certification authority for the payments industry in the provision of a public key infrastructure.

### **Significant changes in the state of affairs**

There have been no significant changes in the company's state of affairs during the past year.

### **Likely developments and expected results of operations**

APCA's Consumer Electronic Clearing System (CS3) is expected to be established during 1998 - 1999. Further progress will be made towards enhancing clearing system operations, including:

- ▲ full implementation of electronic dishonours and presentment
- ▲ establishment of the company as a certification authority
- ▲ oversight of a testing program designed to ensure that financial institutions' payments clearing processes are Year 2000 ready

It is intended that the company will earn sufficient revenue primarily through charges on its members to cover operating expenses.

### **Matters subsequent to the end of the financial year**

Since 30 June 1998, no matters or circumstances have arisen that have significantly affected or may significantly affect:

1. the operations in the financial year ended 30 June 1998; or
2. the results of those operations; or
3. the state of affairs as at 30 June 1998.

# directors report

for the year ended 30 june 1998

continued

## Directors' meetings

Eleven directors' meetings were held during the financial year. The number of directors' meetings attended by each director and the number of meetings held while that director held office during the financial year were:

Directors (Other than Alternate Directors)	Directors' meetings		Finance and audit committee meetings		Remuneration committee meetings	
	No of Meetings Attended	No of Meetings held*	No of Meetings Attended	No of Meetings held*	No of Meetings Attended	No of Meetings held*
R J Fowler	8	11(a)	7	8	2	2
R B Ham	10	11(a)				
W J Hooper	6	8(b)	1	1		
N C Mackrell	5	5				
L E Martin	10	11(a)	8	8	2	2
B J Mecklem	8	11(c)				
C S Moore	11	11				
J E Morgan	7	8(a)	6	7	2	2
B F Munro	3	3				
P R Smith	11	11	8	8	2	2
G J Thompson	7	7			2	2
J N Toms	11	11				
J M Veale	6	6				
B R Whitbread	3	3				

### Notes:

\* Reflects the number of meetings held while the director held office during the financial year.

(a) One meeting which the director did not attend was attended instead by the alternate director appointed under Article 14.5

(b) Two meetings which the director did not attend were attended instead by the alternate director appointed under Article 14.5

(c) Three meetings which the director did not attend were attended instead by the alternate director appointed under Article 14.5

## Directors' Benefits

Since the date of incorporation no director of the company has received, or has become entitled to receive, a benefit other than:

1. normal benefits as a full-time employee of the company included in notes 15 and 16 of the financial statements, and
2. the benefit of the indemnity described below.

## Directors' and Officers' Indemnity

The Corporations Law prohibits a company from indemnifying directors, secretaries, executive officers and auditors from liability except for liability to a party, other than the company or a related body corporate, where the liability does not arise out of conduct involving a lack of good faith and except for liability for costs and expenses incurred in defending proceedings in which the officer or auditor is successful. An indemnity for officers or employees, who are not directors, secretaries or executive officers, is not expressly restricted by the Corporations Law.

Article 23.1 provides that to the maximum extent permitted by law every officer (as defined in the Corporations Law) every Auditor and Agent of the Company is indemnified by the Company against any liabilities and expenses incurred by that person in certain specific circumstances relating to that person's position with the Company.

The directors of the Company and alternate directors named earlier have the benefit of the indemnity in Article 23.1, as do the executive officers of the company. Those executive officers are General Counsel and Company Secretary, Ms J E Henning; Director, Industry Relations, Ms J C Ryan; Director Project Management and Operations, Mr P Thomson; and Financial Controller, Mr T J Taylor.

## Insurance

During the financial year the company paid a premium under a contract insuring each of the directors and alternate directors of the company named earlier and each of the executive officers to whom an indemnity has been provided referred to above. Disclosure of the nature of the liability insured against and the amount of the premium is prohibited by the confidentiality clause of the insurance policy, in accordance with common commercial practice.

This report is made in accordance with a resolution of the directors.



L E Martin  
Deputy Chairman



P R Smith  
Chief Executive Officer

# independent audit report to the members

## Scope

We have audited the financial statements of Australian Payments Clearing Association Limited for the financial year ended 30 June 1998 as set out on pages 20 to 32. The company's directors are responsible for the financial statements. We have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

## Audit Opinion

In our opinion, the financial statements of Australian Payments Clearing Association Limited are properly drawn up:

- (a) so as to give a true and fair view of:
  - (i) the state of affairs as at 30 June 1998 and the profit and cash flows for the financial year ended on that date; and
  - (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

**PriceWaterhouseCoopers**  
**Chartered Accountants**



**Mark Haberlin**  
**Partner**

Sydney, 15th September 1998

## directors' statement

In the opinion of the directors:

- (a) the financial statements set out on pages 21 to 32 are drawn up in accordance with Divisions 4 and 4B of Part 3.6 of the Corporations Law and so as to give a true and fair view of:
- (i) the state of affairs as at 30 June 1998 and the profit for the financial year ended on that date of the company; and
  - (ii) the other matters with which they deal;
- (b) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The financial statements are drawn up in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

This statement is made in accordance with a resolution of the directors.



L E Martin  
**Director**



P R Smith  
**Director**

Signed at Sydney this 15th day of September 1998

# profit and loss account

for the year ended 30 june 1998

	Notes	1998 \$	1997 \$
Operating profit before abnormal items and income tax	3(a)	97,681	80,346
Abnormal items before income tax	3(b)	(16,999)	(22,726)
<b>Operating profit before income tax</b>		<b>80,682</b>	<b>57,620</b>
Income tax attributable to operating profit	4	31,325	12,561
<b>Operating profit after income tax</b>		<b>49,357</b>	<b>45,059</b>
Retained profits at the beginning of the financial year		161,398	116,339
<b>Retained profits at the end of the financial year</b>		<b>210,755</b>	<b>161,398</b>

The above profit and loss account should be read in conjunction with the accompanying notes as set out on pages 24 to 32

# balance sheet

as at 30 june 1998

	Notes	1998 \$	1997 \$
<b>Current Assets</b>			
Cash	5	300	300
Receivables	6	428,765	808,731
Inventories	7	3,717	2,068
Other	8	90,368	81,367
<b>Total Current Assets</b>		<b>523,150</b>	<b>892,466</b>
<b>Non-Current Assets</b>			
Office equipment	9	256,909	287,417
Other	10	50,753	19,689
<b>Total Non-Current Assets</b>		<b>307,662</b>	<b>307,106</b>
<b>Total Assets</b>		<b>830,812</b>	<b>1,199,572</b>
<b>Current Liabilities</b>			
Creditors and borrowings	11	398,512	840,255
Provisions	12	133,794	153,603
<b>Total Current Liabilities</b>		<b>532,306</b>	<b>993,858</b>
<b>Non-Current Liabilities</b>			
Provisions	13	86,886	43,446
<b>Total Non-Current Liabilities</b>		<b>86,886</b>	<b>43,446</b>
<b>Total Liabilities</b>		<b>619,192</b>	<b>1,037,304</b>
<b>Net Assets</b>		<b>211,620</b>	<b>162,268</b>
<b>Shareholders' Equity</b>			
Share capital	14	865	870
Retained profits		210,755	161,398
<b>Shareholders' Equity</b>		<b>211,620</b>	<b>162,268</b>

The above balance sheet should be read in conjunction with the accompanying notes as set out on pages 24 to 32



# statement of cash flows

for the year ended 30 June 1998

	Notes	1998	1997
		\$	\$
		Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>			
Contributions towards expenses by members		3,478,864	2,521,365
Other operating income		221,148	129,516
Payments to suppliers and employees		(3,459,286)	(2,157,891)
Interest and other costs of finance paid		(4,757)	(30,849)
Income tax paid		(73,626)	(31,035)
<b>Net cash inflow from operating activities</b>	<b>22</b>	<b>162,343</b>	<b>431,106</b>
<b>Cash flows from investing activities</b>			
Payments for office equipment		(70,135)	(140,302)
Proceeds from sale of inventories		7,231	1,595
<b>Net cash outflow from investing activities</b>		<b>(62,904)</b>	<b>(138,707)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		13	-
Payments for redemption of shares		(18)	(4)
Repayment of borrowings		(50,000)	(50,000)
Repayment of finance lease liabilities		(12,890)	(16,661)
<b>Net cash outflow from financing activities</b>		<b>(62,895)</b>	<b>(66,665)</b>
<b>Net increase in cash held</b>		<b>36,544</b>	<b>225,734</b>
Cash at the beginning of the financial year		(192,224)	(417,958)
<b>Cash at the end of the financial year</b>	<b>5</b>	<b>(155,680)</b>	<b>(192,224)</b>

The above statement of cash flows should be read in conjunction with the accompanying notes as set out on pages 24 to 32

## **1 Summary of significant accounting policies**

The general purpose financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Law.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation.

The accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

### **(a) Income tax**

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit after allowing for permanent differences. Income tax on net cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The current tax rates have been used for this purpose.

### **(b) Depreciation**

Depreciation is calculated on a reducing balance basis so as to write off the net cost of each item of office equipment over its expected useful life of the company. Estimates of remaining useful lives are made on a regular basis for all assets.

### **(c) Employee entitlements**

#### *(i) Wages and salaries and Annual Leave*

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

#### *(ii) Long Service Leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided to employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

### **(d) Cash**

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

	1998	1997
	\$	\$
<b>2 Operating revenue</b>		
Contributions towards expenses by members	3,112,364	2,728,805
Other revenue		
Membership fees	34,950	28,300
Representation change fees	163,300	96,400
Sundry	2,201	6,822
Proceeds from sale of publications and gauges	7,231	17,480
	<b>3,320,046</b>	<b>2,877,807</b>
<b>3 Operating profit</b>		
(a) Operating profit before income tax is arrived at after charging the following specific items:		
Office equipment depreciation	76,495	84,431
Interest paid/payable	4,757	28,020
Leasing costs	362	2,829
Employee entitlement provisions	193,775	137,243
Rental expense relating to operating leases	328,047	349,102
(b) Operating profit after income tax is also arrived at after crediting and charging the following abnormal items:		
<b>Charge</b>		
Loss on writedown and disposals of fixed assets	16,999	22,726
<b>Credit</b>		
Applicable income tax credit on abnormal charge	6,120	8,181
Abnormal items after income tax	10,879	14,545
<b>4 Income tax</b>		
Operating profit before income tax	80,682	57,620
Income tax calculated @ 36%	29,046	20,743
Under/(over) provision in prior period	-	(9,782)
Tax effect of permanent differences:		
Entertainment expenditure	2,279	1,600
<b>Income tax attributable to operating profit</b>	<b>31,325</b>	<b>12,561</b>

# notes to and forming part of the financial statements

for the year ended 30 June 1998

continued

	1998	1997
	\$	\$
<b>5 Current assets - cash</b>		
Cash on hand	300	300
<p>The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:</p>		
Balance as above	300	300
Less: Bank overdraft (note 11)	(155,980)	(192,524)
<b>Balance per statement of cashflows</b>	<b>(155,680)</b>	<b>(192,224)</b>
<b>6 Current assets - receivables</b>		
Contributions receivable from shareholders	425,965	792,465
Sundry debtors	2,800	16,266
	<b>428,765</b>	<b>808,731</b>
<b>7 Current assets - inventories</b>		
Publications and gauge stocks	3,717	2,068
<b>8 Current assets - other</b>		
Prepayments	90,368	81,367
<b>9 Non-current assets - office equipment</b>		
Office equipment - at cost	506,886	505,439
Less: Accumulated depreciation	249,977	230,912
	<b>256,909</b>	<b>274,527</b>
Office equipment under finance lease	-	46,053
Less: Accumulated amortisation	-	33,163
	-	<b>12,890</b>
<b>Total office equipment</b>	<b>256,909</b>	<b>287,417</b>

	1998	1997
	\$	\$
<b>10 Non-current assets - other</b>		
Future income tax benefit	50,753	19,689
	.....	.....
<b>11 Current liabilities - creditors &amp; borrowings</b>		
Unsecured bank loans	-	50,000
Bank overdraft	155,980	192,524
Other creditors and accruals	242,532	584,923
Lease liabilities	-	12,808
	.....	.....
	<b>398,512</b>	<b>840,255</b>
	.....	.....
<b>12 Current liabilities - provisions</b>		
Taxation - current year	25,879	37,116
Employee entitlements	107,915	116,487
	.....	.....
	<b>133,794</b>	<b>153,603</b>
	.....	.....
<b>13 Non-current liabilities - provisions</b>		
Long service leave	86,886	43,446
	.....	.....

# notes to and forming part of the financial statements

for the year ended 30 June 1998

continued

	1998	1997
	\$	\$
<b>14 Share capital</b>		
<b>Issued and paid up</b>		
5 Ordinary shares of \$100 each (1997: 5)	500	500
40 "A" class voting redeemable preference shares of \$1 each (1997: 31)	40	31
127 "B" class voting redeemable preference shares of \$1 each (1997: 145)	127	145
100 "C" class voting redeemable preference shares of \$1 each (1997: 100)	100	100
98 "D" class voting redeemable preference shares of \$1 each (1997: 94)	98	94
	<b>865</b>	<b>870</b>

- (i) Unclassified shares may be divided into one or more classes and such classes will have the rights and obligations determined by the Articles of Association.
- (ii) "A", "B", "C", and "D" class voting redeemable preference shares may be redeemed by the company by notice in writing if the holder no longer satisfies the eligibility criteria as specified in the Articles of Association. The balance payable on redemption is the amount paid up with respect to the preference shares.
- (iii) The preference shares on issue at 30 June 1998 do not carry a fixed rate of dividend.
- (iv) During the year the company issued a further 9 "A" class redeemable preference shares and 4 "D" class redeemable preference shares in accordance with Article 3.1 of the Articles of Association. The purpose of the issue was to provide new and existing shareholders equity in the company. All shares were issued at their par value.
- (v) During the year the company redeemed 18 "B" class redeemable preference shares in accordance with Article 3.6 of the Articles of Association. The purpose of the redemption was to cancel all shares on issue to shareholders who have ceased to be members of the company. Loss of members have resulted from take overs and trade operations ceasing of particular interests.
- (vi) The company is limited by shares and guarantee.

	1998	1997
	\$	\$

## 15 Remuneration of directors

### Income received, or due and receivable by directors

from the company and related bodies	211,266	167,100
-------------------------------------	---------	---------

The number of directors whose income from the company or related bodies corporate was within the specified bands are as follows:

\$		
Nil	13	14
220,000 - 229,999	1	1

## 16 Remuneration of executives

### Income received, or due and receivable by executives from the

company and related bodies which was at least \$100,000	269,605	266,388
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The number of executives whose income from the company or related bodies corporate was within the specified bands are as follows:

\$		
130,000 - \$139,999	2	2

## 17 Retirement benefits

### Amounts payable to the superannuation fund in connection

with the retirement of the Chief Executive Officer	17,234	57,115
--	--------	--------

## 18 Remuneration of auditors

Amounts received, or due and receivable by the auditors for:

Audit of accounts of the company	11,350	9,950
Other services	19,773	14,646
	31,123	24,596

## 19 Contingent liabilities

A bank guarantee exists for \$117,960 (1997: \$117,960) in respect of the lease arrangements for the office premises.

This guarantee is repayable on demand by the bank and has not been utilised during the period.

Bank guarantees totalling \$90,000 (1997: \$90,000) which are necessary for payroll and direct debit payments are held with the bank.

These guarantees, if utilised, are repayable on demand. The guarantees have not been utilised during the period.

# notes to and forming part of the financial statements

for the year ended 30 June 1998

continued

	1998	1997
	\$	\$
<b>20 Commitments for expenditure</b>		
<b>Lease Commitments</b>		
Total lease expenditure contracted for at balance date but not provided for in the accounts payable:		
Not later than one year	238,797	288,550
Later than one year but not later than 2 years	238,797	-
Later than 2 years but not later than 5 years	457,694	-
Later than 5 years	-	-
	<b>935,288</b>	<b>288,550</b>
Representing:		
<b>Non-cancellable operating leases</b>	<b>935,288</b>	<b>288,550</b>

## 21 Related parties

### Directors

The names of persons who were directors of Australian Payments Clearing Association Limited at any time during the financial year are as follows: G J Thompson, J E Morgan, P R Smith, R J Fowler, R B Ham, N C Mackrell, L E Martin, B J Mecklem, C S Moore, J N Toms, B R Whitbread, J M Veale, B F Munro and W J Hooper; and alternate directors P Apolony, M Bullock, D J Dunne, J Hall, P A Inglis, D Magin, J D McFadden, P J C Smith, B Thorsby.

The company shareholders are both the creditors and debtors of the company. During the financial year the company sold assets to the shareholders totalling \$7,231 (1997: \$6,660). All transactions have been performed on an arm's length basis.

## 22 Segment information

The company operates predominantly in the financial services industry. The company operates predominantly in one geographical area, being Australia.



	1998	1997
	\$	\$
<b>23 Reconciliation of net cash inflow from operating activities to operating profit after income tax</b>		
Net cash inflow from operating activities	162,343	431,106
Depreciation	(76,495)	(84,431)
Loss on sale of assets	(16,999)	(22,726)
Change in operating assets and liabilities (Decrease)/increase in debtors	(379,966)	216,106
Increase/(decrease) in inventories	1,649	(2,075)
Increase/(decrease) in prepayments	9,001	(343)
(Increase)/decrease in other creditors	342,391	(447,151)
Decrease/(increase) in provision for income taxes payable	11,237	(14,518)
Increase/(decrease) in provision for deferred income tax	-	13,304
Increase in provision for future income tax benefit	31,064	19,689
Increase in other provisions	(34,868)	(63,902)
<b>Operating profit after income tax</b>	<b>49,357</b>	<b>45,059</b>

# notes to and forming part of the financial statements

for the year ended 30 June 1998

continued

## 24 Financial instruments

### (a) Credit Risk Exposure

The credit risk on financial assets of the economic entity which have been recognised on the balance sheet other than cash on hand, is the carrying amount of those financial assets.

A concentration of credit risk arises from contributions receivable from shareholders of the company. At balance date, the total credit risk to this concentration was \$425,965 (Note 6).

### (b) Interest Rate Risk Exposure

1998	Notes	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>Financial assets</b>				
Cash on hand	5		300	300
Receivables	6		428,765	428,765
Other	8		90,368	90,368
			<b>519,433</b>	<b>519,433</b>
<b>Financial liabilities</b>				
Bank overdrafts and loans	11	155,980	-	155,980
Trade and other creditors	11	-	242,532	242,532
		<b>155,980</b>	<b>242,532</b>	<b>398,512</b>
Weighted average interest rate		-		
<b>Net financial (liabilities)/assets</b>		<b>(155,980)</b>	<b>276,901</b>	<b>120,921</b>

Reconciliation of Net Financial Assets to Net Assets:

	Notes	1998 \$
Net financial assets as above		120,921
Inventories	7	3,717
Property, plant and equipment	9	256,909
Provisions	12,13	(220,680)
Other non-financial assets and liabilities		50,753
<b>Net assets per balance sheet</b>		<b>211,620</b>

### (c) Net Fair Value of Financial Assets and Liabilities

The net fair value of financial assets and financial liabilities of the company approximates their carrying value.

Australian Payments Clearing Association does not hold any off balance sheet financial instruments.