



# 2000



## 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.

## CONTENTS

CHAIRMAN'S REPORT	1
PAYMENT STATISTICS	2
YEAR'S HIGHLIGHTS	3
PROFILE	4
OPERATIONS REVIEW	
APCS	6
BECS	7
CECS	8
HVCS	9
CROSS-SYSTEM PROJECTS	10
ADVISORY COUNCILS	11
MANAGEMENT	12
CORPORATE GOVERNANCE	13
SHARE & ASSOCIATE MEMBERS	14
FINANCIAL STATEMENTS CONTENTS	15



## GLOSSARY OF TERMS

**ACCC** Australian Competition and Consumer Commission. Determines matters under the Trade Practices Act, including authorising agreements and arrangements.

**APCS** Australian Paper Clearing System. A system for the exchange, clearing and settlement of paper items. Comprises members and other participants which have agreed to abide by APCA rules, and is overseen by the APCS Management Committee.

**BECS** Bulk Electronic Clearing System. A system for the exchange, clearing and settlement of direct entry transactions.

**BIC** Bank Identification Code. An alpha numeric code used to identify financial institutions within a SWIFT message.

**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 for the exchange, clearing and settlement of ATM and EFTPOS transactions.

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

**CLS** Continuous Linked Settlement.

**DE** Direct Entry. A form of payment instruction providing for the automatic debiting or crediting of customer accounts on a regular basis through arrangements between customers and their financial institutions, and approved billing organisations.

**EFTPOS** Electronic Funds Transfer at Point of Sale.

**HVCS** High-Value Clearing System. A system for the exchange and settlement of RTGS payments.

**RTGS** Real Time Gross Settlement. Settlement arrangements in which each payment transaction is settled individually at the time of the transaction.

**STP** Straight Through Processing.

**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.

**SWIFT** Society for Worldwide Interbank Financial Telecommunications.

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



# CHAIRMAN'S REPORT

This year we have placed a strong emphasis on corporate governance arrangements within APCA with the aim of re-laying some of our foundations to take us forward into a new phase of strategy and policy development. I am pleased to report that we have made good progress in tackling a broad range of governance issues, while at the same time progressing our work of continually improving clearing system arrangements.

## Governance

For the most part, APCA's operations are narrowly focused on payments clearing. But what we do can have strong ripple effects beyond clearing.

Non-clearing organisations are increasingly involved in the payments business, and are both affected by, and themselves affect, clearing arrangements. We successfully finalised our widening membership project in response to this with the establishment during the year of three Advisory Councils. With membership drawn from a range of industries, including telecommunications, retail, and hardware and software supply, these councils will be important in ensuring that APCA takes account of a wide set of informed views going forward.

At the same time as establishing Advisory Councils, the Board has been reviewing how owner-membership of APCA can be opened under the Constitution to clearing organisations regardless of their institutional status. The in-principle position has been agreed and the Board will be finalising details over this coming year.

Sometimes the community as a whole can be affected by what we do. So it is important that APCA recognises the Australian community as one of its stakeholders. We have done this in a new Code of Conduct making explicit the standards expected of APCA directors.

In our first years of operation we concentrated on establishing APCA's clearing systems. Emphasis then progressed to orchestrating and co-ordinating improvements to clearing arrangements. The Board decided last year that it was timely for APCA to move to a third, more mature, phase by focusing on the development of strategy and policy for the future.

To implement that decision, a strategy area is in course of being established and resourced. APCA will be a more knowledgeable organisation as a result, and able to make a greater contribution to ensuring that best practice payment arrangements are in place in Australia.

## Operations

New direct debit arrangements were introduced from 31 March 2000, which have added value to the business operations of APCA members and delivered benefits to the community generally. The old form of authority used by organisations to automatically draw funds from their clients' accounts is being replaced by a new form of authority. The new authority is more flexible and

lends itself to electronic commerce and the development of products around e-commerce.

A range of other operational measures were implemented during the year to improve the integrity, security and/or efficiency of payments clearing, and are detailed in the Operations section of the Report. Attention must be drawn to the success of APCA's Y2K program. A smooth crossover to 2000 may have been an anticlimax, but it was perhaps due to comprehensive preparations and skillful handling.

## The Year Ahead

An exciting year lies ahead for APCA.

A number of projects are underway aimed at delivering benefits in the future including for example, consideration of imaging and truncation of cheques. The new research area will be targeting the low-cost direct entry system, and how to tap into its potential for playing a greater role in the payments landscape.

Establishment of the Consumer Electronic Clearing System has been delayed for a considerable time pending trade practices authorisation. A favourable determination from the ACCC shortly after year end gives us confidence that the system can be established during this coming year. This will significantly expand APCA's scope to improve payments clearing arrangements.

## The Board

I would like to thank Leslie Martin, who had been Acting Chair, for her help and support when I took up my position as Chairman in October 1999. Leslie resigned from the Board in February 2000, while she remains as an alternate director. John McFadden took her place on the Board and Bruce Munro accepted the position of Deputy Chair which Leslie vacated.

John Hall left the Board in May following his resignation from Credit Union Services Corporation (Australia) Limited and was replaced by David Taylor.

I would like to thank all directors who served on the Board during the year and all members of APCA's committees and, particularly, members of the Advisory Councils, for their contribution to another successful APCA year. I would also like to acknowledge APCA's Chief Executive Officer, Peter Smith, and his team for the strong contribution they continue to make to ensure APCA achieves its goals.

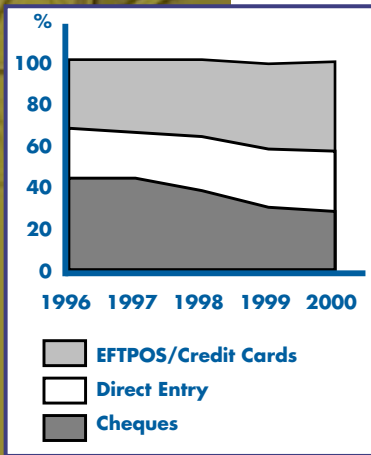


Mr Robert Challis

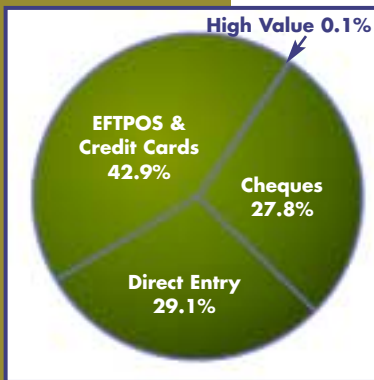
A handwritten signature in dark ink, which appears to read "Robert N Challis". The signature is written in a cursive style.

Robert N Challis  
CHAIRMAN

# PAYMENT STATISTICS



Trends in Type of Payments (by Number)



Number of Payment Transactions (as at May 2000)

The table below provides updated payment statistics to 2000.

	Source	1994	1995	1996	1997	1998	1999	2000
<b>1. Number of payment transactions &amp; ATM withdrawals</b>								
<i>(Millions of items per day)</i>								
Cheques	APCA	3.7	3.9	3.9 <sup>(d)</sup>	3.7	3.7	3.2	3.1
Direct entry credits	APCA	1.6	1.9	1.7 <sup>(d)</sup>	1.8	1.9	2.1	2.3
Direct entry debits	APCA	0.3	0.4	0.4	0.4	0.6	0.8	0.9
<i>(Millions of items per month)</i>								
ATM withdrawals <sup>(a)</sup>	APCA	40.7	38.8	41.6	39.2	42.9	41.9	48.4
EFTPOS <sup>(b)</sup>	RBA	20.7	29.1	35.5	39.2	44.5	48.6	52.0
Credit cards <sup>(b)</sup>	RBA	19.9	22.6	24.6	25.9	32.8	42.9	57.7
<b>2. Value of payment transactions &amp; ATM withdrawals</b>								
<i>(\$ billions per day)</i>								
Cheques	APCA	24.8	23.4	24.3 <sup>(d)</sup>	24.9	14.6	12.3	13.9
Direct entry credits	APCA	1.9	2.6	4.2 <sup>(d)</sup>	3.4	3.6	5.3	7.1
Direct entry debits	APCA	1.3	1.2	1.6	1.6	2.4	4.0	3.9
HVCS transactions <sup>(c)</sup>	APCA					64.1	65.7	72.9
<i>(\$ billions per month)</i>								
ATM withdrawals <sup>(a)</sup>	APCA	4.4	4.9	5.6	5.4	6.2	6.8	7.3
EFTPOS <sup>(b)</sup>	RBA	1.1	1.5	1.9	2.1	2.4	2.8	3.1
Credit cards <sup>(b)</sup>	RBA	1.8	2.0	2.3	2.5	3.6	4.3	6.4
<b>3. Number of accounts / cards</b>								
<i>(Millions)</i>								
Customer payment accounts	APCA	34.4	34.9	30.8	31.6	29.7	26.9	27.1
Debit cards	APCA	13.2	13.6	15.1	15.3	16.4	15.7	17.8
Credit & multifunction cards	APCA	9.1	9.9	9.8	9.7	10.3	12.1	13.2
<b>4. Number of ATM and EFTPOS terminals</b>								
ATMs	APCA	5,848	6,249	7,178	8,182	8,814	9,387	10,818
EFTPOS	APCA	38,875	62,975	107,702	164,199	218,330	265,391	320,372

## Notes to the figures

### Sections 1 and 2

Figures from 1997 onwards are calculated from figures collected in the month of May. Figures for 1994–1996 are calculated from figures collected in the month of November, except for ATM withdrawals which are August figures.

### Section 3

Figures from 1997 onwards are as at the end of May. Figures for 1994–1996 are as at the end of August.

### Section 4

Figures are as at the end of June.

- The “ATM withdrawals” figure for 1995 may have been affected by devices that were out of service due to a security guards’ strike in August.
- The Reserve Bank publishes in its Bulletin figures showing credit card and EFTPOS transactions acquired from merchants each month (see Table C.3 of the Bulletin).
- HVCS figures are values exchanged and do not include “own items”. Note also that a full picture of RTGS transactions would require HVCS transactions to be supplemented by Austraclear and RITS transactions which are not captured by APCA.
- Revised

# YEAR'S HIGHLIGHTS

- Establishment of Advisory Councils for the APCS, BECS and CECS
- Commencement of review of the Constitution and agreement on principles to de-institutionalise owner-membership of the Company
- Increased focus on building and supporting stakeholder relationships and on strategic research



Peter Smith  
Chief Executive Officer



- Successful completion of the Y2K project, with trouble-free transition to the Year 2000
- Favourable determination on the CECS rules issued by the ACCC (dated 16 August 2000)
- Multilateral netting protection obtained for the HVCS rules
- Implementation of new direct debit arrangements
- Implementation of procedures for reversal of duplicated direct entry items
- PKI project brought close to completion
- Commencement of project to introduce cheque imaging and truncation
- Publication of an APCA standard for paper used for printing cheques and other MICR encoded documents
- Implementation of measures designed to combat cheque fraud
- Agreement of principles for inter-organisation compensation rules

# PROFILE



L-R: Alison Stephenson, Manager, Secretariat and Member Services; Ben Cato, Financial Controller; Rani John, General Counsel; Stephen Halliday, Senior Manager, Secretariat and Member Services

## Role

APCA is owned by the financial institutions which participate in the payments clearing arrangements it co-ordinates. Payments clearing is the exchange of individual payment instructions between institutions, for the purpose of obtaining settlement.

Since its establishment in 1992, APCA has developed and managed clearing procedures and standards for the predominant part of (non-cash) payment transactions in Australia. This encompasses cheques, direct entry, debit card transactions in ATMs and through EFTPOS, and high-value RTGS payments.

The open arrangements characterising these types of payments mean that the payer and the payee may deal with different financial institutions. Consequently, common procedural and technical standards are needed to ensure that the payments processes work.

## Structure

APCA manages four streams of payments clearing, each operating as a separate system with its own membership and set of regulations and procedures:

1. Australian Paper Clearing System (APCS), *cheques and other paper items*
2. Bulk Electronic Clearing System (BECS), *direct entry*
3. Consumer Electronic Clearing System (CECS), *ATMs and EFTPOS*
4. High-Value Electronic Clearing System (HVCS), *high-value RTGS payments*

## Clearing System Management

Management Committees operate under powers delegated to them by the Board. They are appointed by each clearing system's membership to overview management of that system.

In response to changing payments system needs brought about by new players and new technologies, APCA is changing the shape of its membership and management structures. During the year, Advisory Councils, providing input and advice to the Management Committees and comprising members chosen from interested industry stakeholders, were incorporated into its decision making arrangements.

## Member Representation

Share membership and the profile of representation on the Board of directors is structured along institutional lines. Each of the four major banks and the Reserve Bank, with ordinary share membership, separately appoints a director. Remaining share members comprise four groups of voting redeemable preference share members. Regional banks (A class) together appoint a director, as do all remaining banks (B class) as a single group. Building societies (C class) and credit unions (D class) both separately appoint a director also. Participating members in clearing systems appoint members of Management Committees along the same institutional lines, repeating the profile of the Board of directors and the structure of share membership. Additionally, any participant with 5% or more of national clearing volumes in a system may individually appoint a member to the Management Committee in that system.

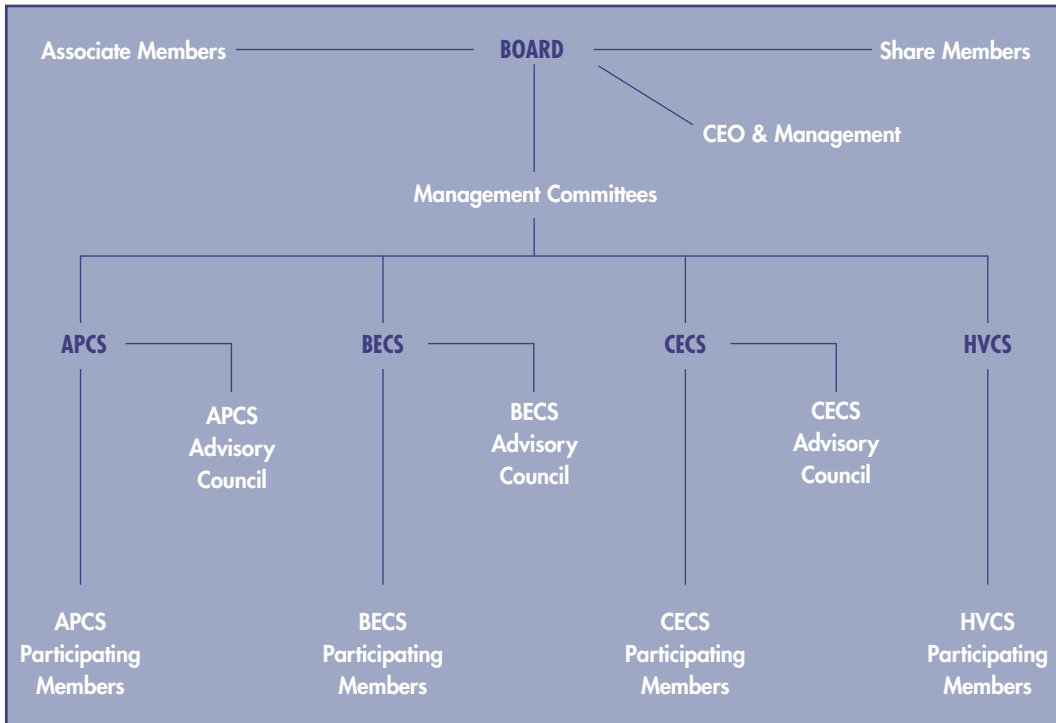
The Board of directors is reviewing APCA's representation structure with a view to moving to a structure where representation is based on the extent of a member's participation in clearing, rather than on institutional status. Again, this is in response to the changing payments environment.

## Funding

Funding is provided directly by the members. Costs directly attributable to each clearing system are borne by the members of that system. Members of each clearing system also contribute a proportion of overhead costs.

Changing the shape  
of membership to provide  
for new players

## Corporate Structure



- **Share Members**

Appoint the Board of directors either individually or in groups according to their share member category and have the right to vote. Are eligible for participating membership in one or more of the clearing systems.

- **Participating Members**

Undertake the day-to-day activities covered by a clearing system and, having met the criteria for membership, have chosen to join the particular clearing system as members. Categories of participating membership are based on whether exchange and settlement occurs directly or indirectly. Membership confers rights to vote and to appoint the Management Committee members. Participation in one clearing system is distinct from participation in another.

- **Advisory Council Members**

Are organisations that are not eligible to be clearing system members, but whose operations in one way or another gives them a relevant interest in a given clearing system. Advisory Council members are appointed by the Board.

- **Associate Members**

Are individuals or organisations interested in payments arrangements, wishing to be kept informed of developments. They are not required to meet any specific criteria, other than that they cannot be eligible for participating membership.

# OPERATIONS REVIEW

## AUSTRALIAN PAPER CLEARING SYSTEM

Having successfully implemented procedures that reduced the time taken to clear cheques by at least two days in the majority of cases, our focus switched this year to the system's strategic direction.

The past two years' statistics taken together show that the volume and value of cheques has fallen. This is due to growth in credit card use and electronic payment methods such as EFTPOS, electronic bill paying, and RTGS payments across the HVCS. While cheque volumes remain large, the shape of the payments landscape is changing. Rapid development of electronic commerce will increase the move to electronic payment mechanisms and have an effect on cheque volumes in the longer term.

A strategic review was undertaken to consider options for future directions for paper clearing. This was a consultative process that included extensive interviews with members, discussions with technology providers and a workshop of members' representatives from a range of expert backgrounds.

The outcome of the strategic review was the development of a White Paper exploring issues related to truncation, imaging, legislative requirements and retrieval standards.

Subsequently, a project for the development and implementation of imaging and truncation in the APCS was approved and commenced in March 2000.

### Imaging and Truncation Project

Imaging and truncation is the priority project for the APCS. It is aimed at improving efficiency and security in the paper clearing system, and delivering better service for customers. It will put in place procedures and standards for the interchange of image data between APCS members. The business principles and business model required to achieve this are in process of being finalised as the first stage of the project, prior to development of the technical requirements. The involvement of the APCS Advisory Council will bring an important perspective to the project.

### Cheque Fraud

Following recommendations from a specially constituted working group, a range of procedures was agreed aimed at improving the detection and

prevention of cheque fraud. To assist APCS members in assessing the nature and scope of cheque fraud, a quarterly collection of statistics has been introduced.

A specialist committee reporting to the Management Committee (the Document Printing Standards Sub-Committee) is reviewing the range of security features on cheques for the purpose of enhancing measures to increase cheque security.

### Printing Standards

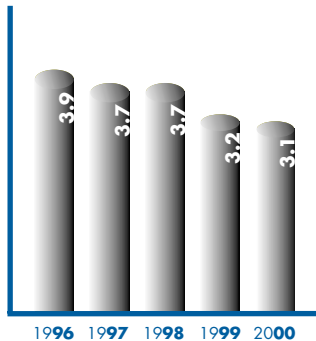
A new version of the 'MICR Book' (Publication 3.3) was released in July 1999, incorporating specifications that bring Australia in line with developments in overseas technology and standards for MICR encoding on cheques and other forms. The MICR Book now specifies the APCA standard for paper to be used for printing cheques and other MICR encoded documents, replacing the previous Australian Standard AS2277.

### Registers

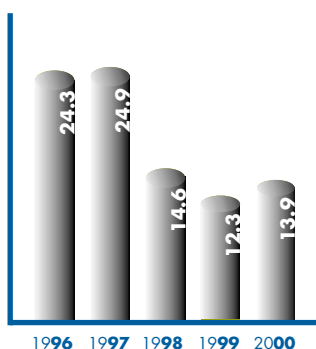
A number of registers are maintained relating to printing standards:

- *Register of MICR Printing Systems* that meets minimum requirements for reliably producing MICR encoding of an acceptable standard. The processes for evaluation are contained in the *MICR Book*.
- *Paper Register* of paper that meets the APCA Paper Standard specified in the *MICR Book*, having been submitted with test results by manufacturers and reviewed by a Paper Standards Sub-group for compliance with the standard.
- *Printer Registration Database* for organisations that print and MICR encode cheques for others or for their own use.

The printer registration database forms part of a system used by APCS members to approve the printing quality and designs of their customers' cheques. Cheques need to comply with the standards specified in the publications *Design Specifications for Cheques and Deposit Forms* and the *MICR Book* to ensure that they can be efficiently processed through the clearing system.



Average Number of Cheque Transactions per Day (in millions)



Average Value of Cheque Transactions per Day (in \$billions)



## BULK ELECTRONIC CLEARING SYSTEM

Direct entry is an efficient payment mechanism whose use is growing, although it is used less than in some other countries. The volume of direct debit payments grew strongly by 26.5% this year, and the volume of direct credit payments grew by 19.3%. The number of billing organisations (debit Users) in the system grew by 21% and the number of organisations crediting accounts (credit Users) by 28%.

The appeal of direct debit as a payment mechanism is expected to increase strongly in the coming year as a result of changes to the system introduced at the end of March.

The changes had been developed and finalised during the previous year, when we worked closely with a number of billing organisations and tested the appeal of the new rules with a wider sample of billing organisations. However, the implementation date was delayed until 31 March 2000 to allow for trade practices authorisation and then the need for a Y2K moratorium period on system changes.

The Direct Debit Request introduced under the new rules is far more flexible than the previous form of customer authorisation. For example, it is not required to be given in paper form, providing greater appeal to both billing organisations and customers. It is expected that the new arrangements will facilitate the use of e-commerce.

A direct debit logo and style guide, for use by billing organisations on their direct debiting marketing material, is available on APCA's web site.



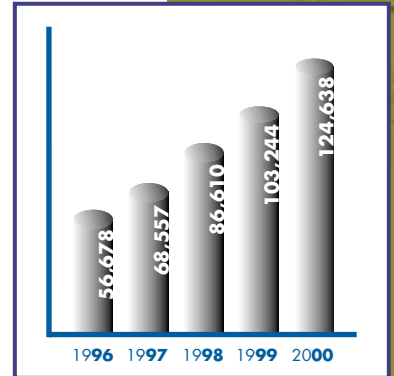
### Reversal of Duplicated DE Transactions

Occasionally, financial institutions receive files of DE transactions that have been duplicated in error. During the year, procedures were developed to enable the notification of duplicated files and to provide for their subsequent reversal. These procedures were efficient in not requiring systems changes and, importantly, provided continued recognition that the reversal of credits is a discretionary matter between a financial institution and its customers.

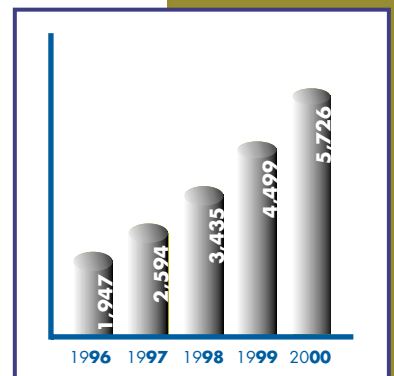
The BECS Management Committee and Advisory Council are working together to collect information from financial institutions and billing organisations, to help understand the nature of the problems that lead to DE files being duplicated.

### The Coming Year

Planning is underway for a strategic review of BECS in the coming year. This will determine the future direction of the system, and the work to be undertaken in the following three - five year period. The input of the BECS Advisory Council into the review will add a valuable dimension to this work.



Number of Direct Entry Credit Users (as at 30 June)



Number of Direct Entry Debit Users (as at 30 June)



L-R: David Leong, Senior Operations Manager; Jacqueline Mellor, Operations Officer; Gavin Bollard, IT Manager; Angelina Maurice, Operations Assistant

# OPERATIONS REVIEW (cont.)

## CONSUMER ELECTRONIC CLEARING SYSTEM

### Authorisation of the System

A special purpose committee of the Board (SPC3) has been overseeing consumer electronic clearing arrangements pending authorisation by the ACCC of draft rules for CECS. The draft rules had been re-submitted to the ACCC in December 1998 after the ACCC rejected our first application for authorisation.

A favourable determination was issued by the ACCC in August 2000. We are working towards establishing CECS around the middle of this financial year.

The draft CECS rules provide for minimum interchange standards for debit card transactions in ATMs and EFTPOS machines. The rules do not cover credit card transactions as these operate under their own set of clearing and settlement rules managed by the various card systems.

The number of EFTPOS terminals and ATMs continues to grow strongly. The volume and value of EFTPOS and ATM transactions is also growing relatively strongly, although not at the rate of the volume and value of credit card transactions.

### Standards

Technical standards are developed through a committee structure reporting through to SPC3. This structure comprises a Standards Committee, a Technical Security Working Group, and a Technical Message Formats Working Group.

### Card Issuer Standards

The CECS Manual sets out minimum technical and security specifications for participation in ATM and EFTPOS schemes.

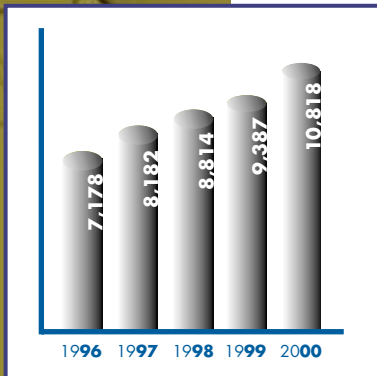
The Manual will become part of the rules for CECS, once authorised, and will be a living document requiring regular review and updating to take account of technological change.

### Key Length Life Cycle Practices

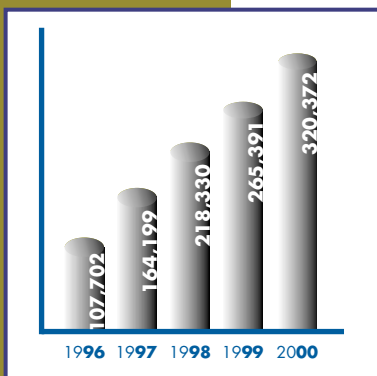
The Technical Security Working Group produced draft recommendations and guidelines on acceptable cryptographic key lengths and made recommendations on key rolling practices for APCA members.

### Debit Card Fraud

APCA sponsored a workshop of industry experts, including representatives of CECS Advisory Council members, to assess the current environment of debit card fraud. From this, a 'snapshot' of available information on fraud is being collected. In the coming year, we will review the ongoing role APCA could play in collecting and disseminating information on fraud to members.



Number of ATM Terminals (as at 30 June)



Number of EFTPOS Terminals (as at 30 June)



L-R: Diane Ward, Office Manager; Natalie Harrison, Receptionist; Maria Sourris, Team Secretary; Linda Price, Senior Secretary

## HIGH-VALUE CLEARING SYSTEM

The HVCS has been operating smoothly since it commenced in mid 1997 and moved to full RTGS in mid 1998. The average daily value of SWIFT/PDS transactions in 1999-2000 was \$70 billion compared with \$67 billion the previous year. Daily volumes increased to 13,800 payments from 12,500.

### Process Improvement Initiatives

Work is being undertaken to develop and implement initiatives to underpin straight through processing (STP). STP enables the automatic processing of SWIFT/PDS messages from the sender to the recipient's account. By removing the need for manual intervention, STP increases the integrity and efficiency of message transmission.

The joint APCA/SWIFT working group developing the initiatives has been reviewing message types and formats in SWIFT/PDS and has agreed to incorporate new SWIFT message types, MT103 and MT103+, to facilitate STP.

A review has commenced of the way in which legal risk associated with processing by account number might be allocated in order to facilitate STP. Consideration is also being given to the basis on which a case could be built for supportive legislative change.

### Multilateral Netting Approval

The rules of the HVCS were declared by the Reserve Bank as "an approved multilateral netting arrangement" under the Payment Systems and Netting Act 1998. The approval gives certainty that the multilateral netting undertaken in the HVCS, in a fall-back situation, is legally sustainable should one of the participants in the system become insolvent.

### New FX Settlement Arrangements

Planning is underway for the implementation of the global CLS initiative in Australia. This will provide a settlement-risk free means for the settlement of the AUD leg of a foreign exchange transaction. We are working to facilitate the entry into the HVCS of CLS Bank and are participating in a group chaired by the



Reserve Bank addressing the operational requirements in the RTGS system for the AUD to be accommodated as a CLS Bank currency.

### CHESS

The HVCS CHESSE Sub-Committee continued discussions with the ASX on its proposal to establish CHESSE as a feeder system to the RTGS system by the end of 2000. Review of the Standard Client Bank Deed also commenced for the accommodation of additional classes of transaction in the CHESSE batch settlement.

### Inter Organisation Compensation Rules

A set of inter-organisation compensation principles has been agreed which establish a standard approach for calculating compensation when undue enrichment occurs.

Development of the principles has been overseen by the HVCS Management Committee. The principles are being drafted as rules to be incorporated by reference in the procedures for each of APCA's clearing systems. Over the coming year, these will replace the separate sets of rules currently provided for in each clearing system.

Based on February 2000 figures, the value of payments exchanged and settled in Australia is around \$116 billion per day. An estimated 93% (\$108 billion comprising transactions in SWIFT PDS, Austraclear and RITS) is settled through the Reserve Bank's RTGS system. Of this, an estimated 68%, amounting to \$73 billion per day, is accounted for by SWIFT PDS transactions.

\* Figures supplied by the Reserve Bank

L to R: Mike Forey, Director Project Management and Operations; Upul de Silva, Business Project Manager; David Ryan, Business Project Manager

# OPERATIONS REVIEW (cont.)

## CROSS-SYSTEM PROJECTS

### Y2K Project

The smooth transition to the year 2000 for APCA's payments clearing arrangements was attributable to the thoroughness of the Y2K industry program. No APCA member reported Y2K-related disruptions to payments clearing arrangements. The program comprised the following components:

- Extensive industry testing across all APCA's payments systems leading up to the year 2000, commencing in October 1998 and finishing on 30 June 1999.
- Preservation measures effective on completion of industry testing, aimed at preserving payments system readiness in the event of post-testing system changes.
- Payments systems change implementation moratorium in the period 1 November 1999 to 17 January 2000, during which members agreed not to make any material changes to their payments systems.
- Contingency planning program in the event of disruptions.
- A Communication and Coordination Centre operating from 29 December 1999 to 5 January 2000 inclusive. Members were required to provide a report each day with additional reporting on the critical day, 1 January 2000.
- Communications strategy and media plan ensuring efficient communications between APCA management, members, regulators, and the media during the transition from 1999 to 2000.

Work was also undertaken to avoid possible disruption to payments systems over the critical period of the leap year date, 29 February to 1 March 2000.

### PKI Project

Trust will be essential in maintaining the integrity of e-commerce payments. We have been developing a regulatory framework for a Public Key Infrastructure (PKI) in which APCA will operate as the root certification authority for those of its members which choose to participate. The APCA PKI will encompass digital certificate specifications, together with the policies and practices governing the issuance and revocation of certificates, and the technical and security standards to be applied in issuance and revocation.

APCA will offer certificates to its participating members as an extension of its role in managing and developing

Widening  
consultation through  
Advisory Councils

payments clearing systems. Baltimore Technologies Pty Limited has been contracted to house the hardware and software used to produce the certificates.

Finalisation of the project is expected by the end of 2000, a little later than originally scheduled.

### Industry Representation and Submissions

APCA is actively involved in non-APCA forums in which the membership has a clearing system interest. During the year, we were represented on the following:

- Standards Working Groups:
  - *ISO/TC68/SC6/Working Group 6*, developing standards for security in retail banking
  - *Standards Australia Committee IT/5*, developing standards for financial transaction systems
  - *Standards Australia Working Group IT/5/4*, developing standards for authentication and security
  - *Standards Australia IT 12/4/1*, developing standards for an Australian public key authentication framework.
- *Certification Forum of Australia*, promoting electronic commerce by facilitating the co-operative development of a national infrastructure for trusted certification activities.
- *Australian Securities and Investment Commission's (ASIC) EFT Technical Experts Working Group*, assisting with drafting ASIC's Expanded EFT Code of Conduct.
- *Protection of the National Information Infrastructure Group*, addressing protection of the national network for storing, processing and transporting electronic information, and protection of the information itself.

APCA also provided submissions on proposals by government or other bodies which may affect APCA's clearing systems:

- Submissions to ASIC on the second Draft Expanded EFT Code of Conduct, in relation to some of the disclosure and security issues in the draft Code.
- Submissions to Federal Treasury and to the Joint Parliamentary Committee on Corporations and Securities in relation to the potential impact of the draft *Financial Services Reform Bill* on APCA's payments clearing systems. The submission followed initial participation in an industry "round table" on the draft bill, hosted by Federal Treasury.

Shaping  
a PKI for  
electronic  
payments

# ADVISORY COUNCILS

## Benefits

Three Advisory Councils were established during the year. They represent a significant initiative in widening APCA's consultative processes.

The role for each Advisory Council is to communicate to the Management Committee for its clearing system opinions, advice and information on matters related to the clearing cycle. Membership is drawn from organisations that participate in one way or another in payments transfers relating to the particular clearing cycle.

The Advisory Councils' establishment is a recognition that APCA needs to take account of the views of organisations with a significant role in the clearing system, but which do not clear and settle payments. Advisory Councils deliver several important benefits:

- they provide APCA with a more robust decision-making structure through access to relevant views and expertise outside traditional clearing organisations,
- deliberative processes will be better informed and more attuned to the changing payments system environment,
- they will assist APCA to stay relevant, as technology opens up the payments arena to a greater array of participants.

Establishment of the Advisory Councils was rolled out in each of CECS, the APCS, and BECS from July to November 1999. These Advisory Councils have direct input into the Management Committees for each clearing system.



## Work During the Year

The year was largely given over to the Advisory Councils and Management Committees learning about each other, and working out ways of delivering the benefits Advisory Councils offer. Council members became familiar with APCA, its boundaries and decision-making processes, and Management Committee members adjusted to the availability of different expertise and fresh perspectives.

The direct involvement of Advisory Council members on clearing system working groups is planned for the 2000-2001 year. There will also be more direct and varied forms of interaction with the Management Committees. The coming year offers significant opportunities for the Advisory Councils to add value to APCA's processes through their input into a number of key projects in the clearing systems.

Advisory Council Chairmen  
L to R: Tem Elliot (CECS),  
Harry Asquith (BECS),  
John Crouch (APCS)

Composition of Advisory Councils as at June 2000

APCS ADVISORY COUNCIL		BECS ADVISORY COUNCIL		CECS ADVISORY COUNCIL	
John Crouch, <i>Chairman</i>	Austrapay Limited	Harry Asquith, <i>Chairman</i>	Australian Taxation Office	Tem Elliott, <i>Chairman</i>	First Data Resources Australia Limited
Michael Aaron	IBM Australia Limited	Michael Aaron	IBM Australia Limited	Michael Aaron	IBM Australia Limited
Ken Anderson	Australia Post	Don Babbs	Secure e-Solutions Pty Ltd	Paul Edwards	Cashcard Australia Limited
Ken Carville	First Data Resources Australia Limited	Peter Blanchard	Tradegate Australia	Paul Hardcastle	Telstra
Alasdair Drummond	Unisys Australia Ltd	Phil Canaway	Cashcard Australia Limited	David Howell	Coles Myer Limited
Kerry Johnston	EDS (Australia) Pty Ltd	Theo Dimou	PayConnect Solutions Pty Limited	David Jang	Hypercom Australia Pty Ltd
Greg King	Thomas Cook Limited	Jeff Dye	Austrapay Limited	Tony Pennington	NCR Australia Pty Ltd
Barbara Lindorff	Prismac Systems Australasia Pty Ltd	Di Fielding	Centrelink	Brett Thompson	Eracom Pty Ltd
Tony Pennington	NCR Australia Pty Ltd	Belinda Jones	Vodafone Pty Ltd	Penny Winn	Woolworths Limited
Glenn Tattersall	Equifax Australia				
Nigel Taylor	Security Printers Association				

# MANAGEMENT



L-R: Jo-Anne Ryan, Director Public Affairs; Rhonda Hunter, Information Officer; Scott Wheeler, Director Strategic Research and Policy Development; Karen Hilzinger, Information Manager

APCA management supports the day-to-day operations of the Company, contributes to the development of strategy and manages projects to give effect to strategies set by the Board.

Often the management of projects entails bringing in

contractor expertise as with the Y2K, direct debit and PKI projects.

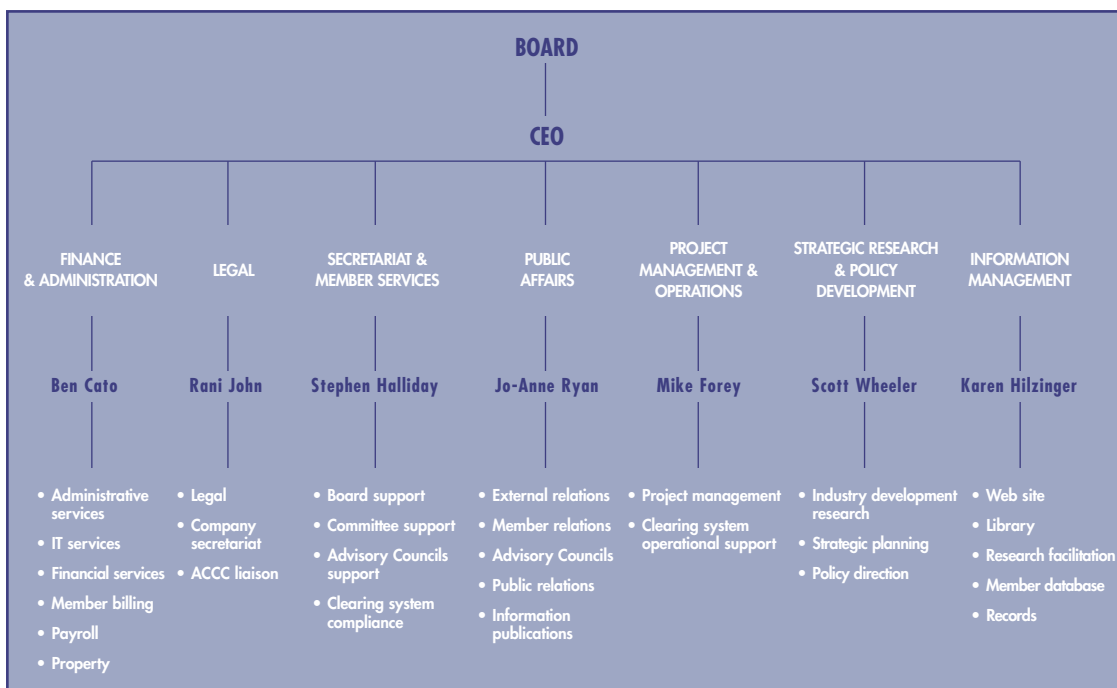
Up until recently, management resources were concentrated in operational support and project management. A decision to recruit additional staff, coupled with some restructuring, has allowed the development of dedicated strategic research and public affairs areas. This will broaden management's role, in keeping with the interests and needs of APCA's stakeholders.

To improve communication with stakeholders, we further developed APCA's web site and extranet service. An IT role was established to support electronic communication systems, data base management and APCA's internal IT systems.

A new performance appraisal system, which was fully bedded down last year, recognises and rewards individual staff based on performance and, in this way, contributes to more effective management.



## Management Structure



# CORPORATE GOVERNANCE

## **The Board of Directors**

The Board is responsible for the corporate governance of the Company, setting direction, approving the annual budget and monitoring financial and management performance.

## **Composition of the Board**

The Board comprises ten non-executive directors and the Chief Executive Officer. Of the non-executive directors, the Chairman was appointed by the Board in October 1999 as an independent member of the Board. The remaining nine non-executive directors are nominee directors. A Deputy Chairman is appointed by the nominee directors from among their number.

Each of the five ordinary shareholders and four shareholding groups (A, B, C and D redeemable preference share classes) is entitled to appoint one director. These nine nominee directors are subject to biennial election.

## **Chairman of the Board**

A significant change in corporate governance practice since the previous year was the appointment by the Board in October 1999 of an independent Chairman from outside APCA's membership. At the same time, the Constitution was amended during the year to provide that a nominee director may not simultaneously hold the office of Chairman of the Company. Under the Constitution amendments, the Chairman holds office for two years from the date of appointment, and may be re-appointed. A position description was adopted for the Chairman, and remuneration is determined by the Board. The Chairman's remuneration level is disclosed in the Directors' remuneration section in the Notes to the Accounts.

## **Relationship with Management**

The Board appoints the Chief Executive Officer to manage the Company in accordance with the direction determined by the Board. The duties and responsibilities of the Chief Executive Officer are clearly defined by the Board, and performance evaluated annually by the Board. While there is clear separation of the roles of Chief Executive Officer and Chairman, the Board acknowledges that the Chairman provides support to Management in order to assist the linkage between the Board's goals and the Company's activities.

## **Committees of the Board**

In addition to the Company's Management Committees for the clearing systems, two committees have been established by the Board to help it fulfil certain of its responsibilities. These are the Finance and Audit Committee and the Remuneration Committee, both with their own charter detailing their delegated authority. The committees make the Board more effective without reducing the responsibility of each director. Minutes are tabled and discussed and recommendations considered at full Board meetings.

### ***Finance and Audit Committee***

The Finance and Audit Committee's charter includes reviewing with the auditors internal financial practices and audits, monitoring the effectiveness of financial practices and controls and administrative policies, monitoring risk exposures and statutory compliance, and reviewing the budget and monitoring expenditure against it. It is also responsible for recommending to the Board the appointment of the Company's auditors. The Finance and Audit Committee currently comprises four non-executive directors (Mr BF Munro, Mr JD McFadden, Mr CS Moore, and Dr JM Veale) and the Chief Executive Officer.

### ***Remuneration Committee***

The Remuneration Committee comprises the Chairman of the Company and the members of the Finance and Audit Committee. The Remuneration Committee's main responsibilities are to recommend remuneration policies and practices for the Company generally and to recommend remuneration levels and contractual arrangements for the Chief Executive Officer. Remuneration for the Chief Executive Officer (as a director of the Company), and senior executives, is disclosed in the Notes to the Accounts.

## **Ethical Standards**

The Board has finalised a Code of Conduct. The Code documents guidelines for the manner of exercise of a director's duties and responsibilities including the way in which nominee directors may take account of their appointors' interests, and principles about confidential information and its disclosure.

Staff are required to adhere to a Code of Conduct providing guidelines on confidentiality, conflict of interest and standards of behaviour for staff in their business dealings.

# SHARE MEMBERS

(as at 30 June 2000)

## **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  
St. George Bank Limited  
Suncorp - Metway Limited

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

ABN AMRO Bank, NV  
AMP Bank Limited  
Arab Bank Australia Limited  
Bank of America National Association  
Bank of China  
Bank of Tokyo-Mitsubishi (Australia) Limited  
Bank One National Association  
Bankers Trust Australia Limited  
Banque Nationale de Paris  
Barclays Bank PLC  
Citibank Limited  
Deutsche Bank AG  
HSBC Bank plc  
HSBC Bank Australia Limited  
IBJ Australia Bank Limited  
ING Bank (Australia) Limited  
Macquarie Bank Limited  
Morgan Guaranty Trust Company of New York  
NM Rothschild & Sons (Australia) Limited  
Oversea-Chinese Banking Corporation Limited  
Overseas Union Bank Limited  
Royal Bank of Canada  
Standard Chartered Bank Australia Limited  
State Street Bank and Trust Company  
The Asahi Bank, Ltd.  
The Chase Manhattan Bank  
The Dai-Ichi Kangyo Bank, Limited  
United Overseas Bank Limited

## **'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

## **ASSOCIATE MEMBERS**

Cashcard Australia Limited  
Mayne Nickless Express  
Compaq Computer Australia Pty Limited  
Unisys Australia Limited  
ETC Electronic Trading Concepts Pty Ltd  
American Express International Inc  
Objectmastery Pty Ltd  
Origin Energy  
Diners Club International  
MasterCard Australia Limited  
Australian Financial Markets Association  
Ms J E Henning  
Solace Pacific Pty Ltd  
Knight Strategic Advisory Services Pty Ltd  
Queensland Systems Integration Pty Ltd  
Prismac Systems Australasia Pty Ltd  
Recall Total Information Management  
Australian Retailers Association  
La Trobe Home Loans of Australia  
Ausdata Pty Limited  
Mr R F Spring  
Permanent Trustee Company Limited  
International Banks and Securities Association



# FINANCIAL STATEMENTS CONTENTS

Australian Payments Clearing Association Limited  
A.C.N. 055 136 519

Directors' Report	16
Profit and Loss Statement	20
Balance Sheet	21
Statement of Cash Flows	22
Notes to and Forming Part of the Financial Statements	23
Note 1 Summary of Significant Accounting Policies	23
Note 2 Operating Revenue	23
Note 3 Operating Profit	24
Note 4 Income Tax	24
Note 5 Current Assets - Cash	24
Note 6 Current Assets - Receivables	24
Note 7 Current Assets - Inventories	25
Note 8 Current Assets - Other	25
Note 9 Non-Current Assets - Office Equipment	25
Note 10 Non-Current Assets - Other	25
Note 11 Current Liabilities - Creditors and Borrowings	25
Note 12 Current Liabilities - Provisions	25
Note 13 Non-Current Liabilities - Provisions	25
Note 14 Share Capital	26
Note 15 Remuneration of Directors	26
Note 16 Remuneration of Executives	26
Note 17 Remuneration of Auditors	27
Note 18 Contingent Liabilities	27
Note 19 Commitments for Expenditure	27
Note 20 Related Parties	28
Note 21 Segment Information	28
Note 22 Reconciliation of Net Cash Inflow from Operating Activities to Operating Profit after Income Tax	28
Note 23 Financial Instruments	29
Directors' Declaration	31
Independent Audit Report to the Members	32

# DIRECTORS' REPORT

The names of the directors in office at the date of this report are set out below, together with particulars of their qualifications, experience and special responsibilities.



Mr R N Challis

**Mr R N Challis** Dip Bank, FAIB, ABINZ

**Chairman**

*(Non-executive director)*

Over forty years' banking experience with the Australia and New Zealand Banking Group Limited. Retired in 1997, having occupied a number of general manager positions and directorships on several ANZ subsidiary companies. Appointed as a director and Chairman of the Company in October 1999. *Chairman of the Remuneration Committee.*



Mr W J Hooper

**Mr W J Hooper**

*(Non-executive director)*

Senior Manager, Payment Services, Colonial State Bank. Over thirty years' banking experience, mostly in areas of information technology, computer auditing, electronic banking and payment systems. Certified Information Systems Auditor. Appointed by the "A" class redeemable preference shareholders (state and regional banks) as a director in October 1997. *Chairman, Management Committee of the Australian Paper Clearing System (CS1).*



Mr P A Inglis

**Mr P A Inglis** B.Ec(Hons)

*(Non-executive director)*

Head, Payments Industry Liaison & Management, Technology, eCommerce & Payments, Australia and New Zealand Banking Group Limited. Over thirteen years' experience in the banking industry in payments and economics; five years in government service, including Federal Treasury. Director of Austraclear Limited. Appointed by the Australia and New Zealand Banking Group Limited as a director in July 1998. *Chairman, Management Committee of the High-Value Clearing System (CS4).*



Mr J D McFadden

**Mr J D McFadden**

*(Non-executive director)*

Head of Payments, Industry Representation, Westpac Banking Corporation. Over thirty-five years' banking experience in a wide variety of roles in Australia and overseas with a focus on payment systems. Alternate director of Austraclear Limited. Appointed by Westpac Banking Corporation as a director in February 2000. *Member of the Finance and Audit Committee and the Remuneration Committee.*



Mr B J Mecklam

**Mr B J Mecklam**

*(Non-executive director)*

General Manager, Global Payment Systems, National Australia Bank Limited. Over thirty-five years' experience in the Australian banking industry gained in a broad spectrum of appointments. Director Mondex Australia Pty Limited. Alternate director, Mondex Australasia Pty Limited. Chairman, Australia Risk & Origination Committee, Mondex Australia. Member, Exposure & Supervisory Committee, Mondex International, London. Alternate director, BPAY Pty Limited. Alternate director, Cardlink Services Limited. Member, World Automated Transaction Clearing House Working Group, NACHA, USA. Member, Cross Border Payments Council, NACHA, USA. Appointed by the National Australia Bank Limited as a director in October 1993. *Chairman, Special Purpose Committee 3 (SPC3).*



Mr C S Moore

**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 by the "B" class redeemable preference shareholders (other banks) as a director in March 1997. *Member of the Finance and Audit Committee and the Remuneration Committee.*

**Mr B F Munro** B.Bus, FAIB

**Deputy Chairman**

*(Non-executive director)*

Head of Transaction Services, Institutional Banking, Commonwealth Bank of Australia. Over twenty years' experience in banking, including financial and capital markets, wholesale payments and related areas. Appointed by the Commonwealth Bank of Australia as a director in May 1998. *Chairman, Management Committee of the Bulk Electronic Clearing System (CS2), Chairman of the Finance and Audit Committee.*



Mr B F Munro

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

**Chief Executive Officer**

*(Executive director)*

Thirteen years' experience in the banking industry prior to joining APCA, 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 in February 1992 and as executive director in April 1992. *Member of the Finance and Audit Committee and the Remuneration Committee.*



Dr P R Smith

**Mr D A Taylor** B.A(Hons)

*(Non-executive director)*

Executive General Manager, Banking and Financial Services, Credit Union Services Corporation (Australia) Limited. Over twenty years' experience in the finance sector, and finance related roles in academia and government service. Member of the Australian Payments System Council (1991– 1998). Appointed as a director by the "D" class redeemable preference shareholders (credit unions) in May 2000.



Mr D A Taylor

**Mr J N Toms** B. Comm

*(Non-executive director)*

Assistant Executive Director, Australian Association of Permanent Building Societies Incorporated and Chief Executive Officer, Australian Settlements Limited. Over sixteen years' experience in areas of industry policy, particularly payments systems. Director of National Custodian Limited. Appointed by the "C" class redeemable preference shareholders (building societies) as a director in December 1992.



Mr J N Toms

**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 fifteen years' experience in Australian central banking. Appointed as a director in January 1998. *Member of the Finance and Audit Committee and the Remuneration Committee.*



Dr J M Veale

**Alternate Directors**

Mr P J Apolony

Ms M L Bullock

Mr D C G Gregg

Mr R B Ham

Mr D A Magin

Ms L E Martin

Mr G O Roach

Mr P A Timms

# DIRECTORS' REPORT

## Principal activities

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

## Results

The operating loss after income tax for the year ended 30 June 2000 was \$6,925 (1999 loss \$2,171).

## Dividends

No dividends were proposed or paid in respect of the period since incorporation to 30 June 2000.

## Review of operations

Introduction of a range of amendments to the APCS Procedures aimed at improving and clarifying industry responses on fraud matters.

A new APCA Standard regarding paper used for MICR encoded documents became effective in August 1999.

The standard replaces the current AS2277 produced by Standards Australia.

"Frequently asked Questions" information sheet on design specifications for cheques and deposit forms released in January 2000.

New direct debit arrangements became effective on 31 March 2000, following authorisation by the ACCC in July 1999.

A "Direct Debit Style Guide" detailing design guidelines for the use of the Direct Debit logo was released.

Staged, industry-wide roll out of encryption software enabling the electronic transfer of BECS User ID information close to completion.

Further amendments to the CECS Regulations widening participating membership to include organisations termed "merchant principals" were lodged with the ACCC in July 1999.

Favourable draft determination on the CECS Rules issued by the ACCC in July 2000.

Establishment of Advisory Councils in APCS (1 August 1999), BECS (1 September 1999) and CECS (1 July 1999).

Successful completion of APCA's Year 2000 Industry Program (covering both the transition from 1999 to the year 2000 and the leap year dates).

Near completion of the documentation that will underpin APCA's PKI.

## 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 is expected to be established during 2000 – 2001. Further progress will be made towards enhancing clearing system operations, including:

- restructuring of the Company's shareholding, board and management committee representation arrangements
- consideration of imaging and truncation of cheques
- consideration of the strategic options for the Direct Entry System to determine the most appropriate strategic positioning for BECS over 3-5 years and identification of the projects necessary to reach that position
- review of EFTPOS fallback transaction processing procedures
- finalisation of Inter-Organisation Compensation Rules, and incorporation (by reference) into clearing system Regulations and Procedures as appropriate
- establishment of Failure-to-Settle Regulations and Procedures within all clearing systems

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 2000, no matters or circumstances have arisen that have significantly affected or may significantly affect:

1. the operations in the financial year ended 30 June 2000; or
2. the results of those operations; or
3. the state of affairs as at 30 June 2000.

## Directors' meetings

Thirteen 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 N Challis	8	8			1	1
J Hall	12	12				
W J Hooper	9	13(d)				
P A Inglis	13	13				
J D McFadden	5	5	2	2		
L E Martin	7	8(a)				
B J Mecklem	11	13(a)				
C S Moore	11	13(b)	6	7	1	1
B F Munro	11	13(b)	5	7	1	1
P R Smith	13	13	7	7	1	1
D A Taylor	0	1(a)				
J N Toms	11	13(a)				
J M Veale	10	13(c)	6	7	1	1

### Notes:

- \* Reflects the number of meetings held while the director held office (or was a member of the relevant committee(s)) 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
- (d) Four 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 an 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 R S John (appointment effective from 6 September 1999); Director, Public Affairs, Ms J C Ryan; Director Project Management and Operations, Mr M Forey; Director Strategic Research and Policy Development, Mr S Wheeler; and Financial Controller, Mr B Cato.

## 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.



R N Challis  
Chairman



P R Smith  
Chief Executive Officer

# PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2000

	Notes	2000 \$	1999 \$
<b>Operating profit before abnormal items and income tax</b>	3(a)	-	1,898
Abnormal items before income tax	3(b)	-	(1,898)
<b>Operating profit before income tax</b>			-
Income tax attributable to operating profit	4	6,925	2,171
<b>Operating (loss) / profit after income tax</b>		<b>(6,925)</b>	(2,171)
Retained profits at the beginning of the financial year		208,584	210,755
<b>Retained profits at the end of the financial year</b>		<b>201,659</b>	208,584

*The above profit and loss account should be read in conjunction with the accompanying notes.*

# BALANCE SHEET

As at 30 June 2000

	Notes	2000 \$	1999 \$
<b>Current Assets</b>			
Cash	5	300	300
Receivables	6	379,505	589,958
Inventories	7	27,300	26,809
Other	8	111,883	141,640
<b>Total Current Assets</b>		<b>518,988</b>	758,707
<b>Non-Current Assets</b>			
Office equipment	9	386,047	277,783
Other	10	83,263	70,052
<b>Total Non-Current Assets</b>		<b>469,310</b>	347,835
<b>Total Assets</b>		<b>988,298</b>	1,106,542
<b>Current Liabilities</b>			
Creditors and borrowings	11	282,274	602,895
Provisions	12	188,634	155,327
<b>Total Current Liabilities</b>		<b>470,908</b>	758,222
<b>Non-Current Liabilities</b>			
Provisions	13	314,872	138,872
<b>Total Non-Current Liabilities</b>		<b>314,872</b>	138,872
<b>Total Liabilities</b>		<b>785,780</b>	897,094
<b>Net Assets</b>		<b>202,518</b>	209,448
<b>Shareholders' Equity</b>			
Share capital	14	859	864
Retained profits		201,659	208,584
<b>Total Shareholders' Equity</b>		<b>202,518</b>	209,448

The above balance sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2000

		<b>2000</b>	<b>1999</b>
		<b>\$</b>	<b>\$</b>
	<b>Notes</b>	Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash Flows from Operating Activities</b>			
Contributions towards expenses by members		5,227,461	5,030,898
Other operating income		312,264	321,146
Payments to suppliers and employees		(5,314,503)	(5,164,067)
Interest and other costs of finance paid		(10,547)	(7,840)
Income tax refund / (payment)		12,993	(66,435)
Proceeds from sale of inventories		4,537	10,549
<b>Net cash inflow from operating activities</b>	22	<b>232,205</b>	124,251
<b>Cash Flows from Investing Activities</b>			
Payments for office equipment		(188,336)	(111,380)
<b>Net cash outflow from investing activities</b>		<b>(188,336)</b>	(111,380)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		-	5
Payments for redemption of shares		(5)	(6)
<b>Net cash outflow from financing activities</b>		<b>(5)</b>	(1)
<b>Net Increase in Cash Held</b>		43,864	12,870
Cash at the beginning of the financial year		(142,810)	(155,680)
<b>Cash at the End of the Financial Year</b>	5	<b>(98,946)</b>	(142,810)

*The above statement of cash flows should be read in conjunction with the accompanying notes.*



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

## 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 to 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.

	2000	1999
	\$	\$
<b>2 Operating Revenue</b>		
Contributions towards expenses by members	5,017,084	5,186,530
Other revenue		
Membership fees	81,780	75,900
Representation change fees	198,150	202,350
Sundry	26,292	29,623
Proceeds from sale of publications and gauges	4,537	10,549
	<b>5,327,843</b>	5,504,952

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont.)

For the year ended 30 June 2000

	2000	1999
	\$	\$
<b>3 Operating Profit</b>		
(a) Operating profit before income tax is arrived at after charging the following specific items:		
Office equipment depreciation	80,072	88,608
Interest paid/payable	10,987	8,307
Employee entitlement provisions	407,960	231,346
Rental expense relating to operating leases	<b>264,936</b>	252,783
(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	-	1,898
<b>Credit</b>		
Applicable income tax credit on abnormal charge	-	683
Abnormal items after income tax	-	1,215
<b>4 Income Tax</b>		
Operating profit before income tax	-	-
Income tax calculated @ 36%	-	-
Tax effect of permanent differences:		
Entertainment expenditure	2,027	2,171
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in company rate to 34%	4,898	-
Income tax attributable to operating profit	<b>6,925</b>	2,171
<b>5 Current Assets - Cash</b>		
Cash on hand	300	300
The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:		
Balance as above	300	300
Less: Bank overdraft (note 11)	(99,246)	(143,110)
Balance per statement of cash flows	<b>(98,946)</b>	(142,810)
<b>6 Current Assets - Receivables</b>		
Contributions receivable from shareholders	371,220	581,597
Sundry debtors	8,285	8,361
	<b>379,505</b>	589,958

	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>
<b>7 Current Assets - Inventories</b>		
Publications and gauge stocks	<b>27,300</b>	26,809
<b>8 Current Assets - Other</b>		
Tax refund due	-	19,086
Prepayments	111,883	122,554
	<b>111,883</b>	141,640
<b>9 Non-Current Assets - Office Equipment</b>		
Office equipment – at cost	786,840	598,504
Less: Accumulated depreciation	(400,793)	(320,721)
	<b>386,047</b>	277,783
Total office equipment	<b>386,047</b>	277,783
<b>10 Non-Current Assets - Other</b>		
Future income tax benefit	<b>83,263</b>	70,052
<b>11 Current Liabilities - Creditors and Borrowings</b>		
Bank overdraft	99,246	143,110
Other creditors and accruals	183,028	459,785
	<b>282,274</b>	602,895
<b>12 Current Liabilities - Provisions</b>		
Taxation provision	14,043	-
Employee entitlements	174,591	155,327
	<b>188,634</b>	155,327
<b>13 Non-Current Liabilities - Provisions</b>		
Long service leave	<b>314,872</b>	138,872

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont.)

For the year ended 30 June 2000

	2000	1999
	\$	\$
<b>14 Share Capital</b>		
Issued and paid up		
5 ordinary shares of \$100 each (1999: 5)	500	500
35 "A" class voting redeemable preference shares of \$1 each (1999: 40)	35	40
126 "B" class voting redeemable preference shares of \$1 each (1999: 126)	126	126
100 "C" class voting redeemable preference shares of \$1 each (1999: 100)	100	100
98 "D" class voting redeemable preference shares of \$1 each (1999: 98)	98	98
	<b>859</b>	<b>864</b>

- (i) Unclassified shares may be divided into one or more classes and such classes will have the rights and obligations determined by the Constitution.
- (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 Constitution. 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 2000 do not carry a fixed rate of dividend.
- (iv) During the year the Company redeemed 5 "A" class redeemable preference shares in accordance with Article 3.6 of the Constitution. 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 has resulted from take overs.
- (v) The Company is limited by shares and guarantee.

	2000	1999
	\$	\$

## 15 Remuneration of Directors

Income received, or due and receivable by directors from the Company and related bodies	<b>309,074</b>	251,055
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The number of directors whose income from the Company or related bodies corporate was within the specified bands are as follows:

\$Nil	11	10
\$30,000 - \$39,999	1	-
\$250,000 - \$259,999	-	1
\$270,000 - \$279,999	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	<b>546,349</b>	243,059
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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:

\$100,000 - \$109,999	2	1
\$130,000 - \$139,999	-	1
\$160,000 - \$169,999	1	-
\$170,000 - \$179,999	1	-

	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>

### 17 Remuneration of Auditors

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

Audit of accounts of the Company	18,950	13,550
Other services	32,570	61,277
	<b>51,520</b>	<b>74,827</b>

### 18 Contingent Liabilities

A bank guarantee exists for \$119,850 (1999: \$119,850) 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 \$40,000 (1999: \$40,000) are held with the bank which are necessary for payroll and direct debit payments. These guarantees, if utilised, are repayable on demand. The guarantees have not been utilised during the period.

	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>

### 19 Commitments for Expenditure

Lease commitments

Total lease expenditure contracted for at balance date but not provided for in the accounts payable:

Not later than one year	238,797	266,984
Later than one year but not later than 2 years	218,897	248,193
Later than 2 years but not later than 5 years	-	218,897
	<b>457,694</b>	<b>734,074</b>

Representing:

Non-cancellable operating leases	<b>457,694</b>	<b>734,074</b>
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# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont.)

For the year ended 30 June 2000

## 20 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: RN Challis, J Hall, WJ Hooper, PA Inglis, JD McFadden, LE Martin, BJ Mecklem, CS Moore, BF Munro, PR Smith, DA Taylor, JN Toms, JM Veale; and alternate directors PJ Apolony, ML Bullock, DJ Dunne, DCG Gregg, RB Ham, D Magin, GO Roach, B Thorsby and P Timms.

The Company shareholders are both the creditors and debtors of the Company. During the financial year the Company sold assets to the shareholders totalling \$4,537 (1999: \$10,549). All transactions have been performed on an arm's length basis.

## 21 Segment Information

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

	2000	1999
	\$	\$
<b>22 Reconciliation of Net Cash Inflow from Operating Activities to Operating Profit after Income Tax</b>		
Net cash inflow from operating activities	232,205	124,251
Depreciation	(80,072)	(88,608)
Loss on sale of assets	-	(1,898)
Change in operating assets and liabilities		
(Decrease)/increase in debtors	(210,453)	161,193
Increase/(decrease) in inventories	491	23,092
Increase/(decrease) in prepayments	(10,671)	32,186
(Increase)/decrease in other creditors	276,758	(217,253)
Decrease/(increase) in provision for income taxes payable	(33,129)	44,965
Increase in provision for future income tax benefit	13,211	19,299
Increase in other provisions	(195,265)	(99,398)
Operating profit after income tax	<b>(6,925)</b>	(2,171)

## 23 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 \$371,220 (1999: \$581,597) (Note 6).

### (b) Interest Rate Risk Exposure

	Notes	Floating Interest Rate \$	Non-interest Bearing \$	Total \$
<b>2000</b>				
<b>Financial assets</b>				
Cash on hand	5	-	300	300
Receivables	6	-	379,505	379,505
Other	8	-	111,883	111,883
		-	491,688	491,688
Weighted average interest rate		-		
<b>Financial liabilities</b>				
Bank overdrafts and loans	11	99,246	-	99,246
Trade and other creditors	11	-	183,028	183,028
		99,246	183,028	282,274
Weighted average interest rate		9.7%		
Net financial (liabilities)/assets		(99,246)	308,670	209,414

	Notes	Floating Interest Rate \$	Non-interest Bearing \$	Total \$
<b>1999</b>				
<b>Financial assets</b>				
Cash on hand	5	-	300	300
Receivables	6	-	589,958	589,958
Other	8	-	141,640	141,640
		-	731,898	731,898
Weighted average interest rate		-		
<b>Financial liabilities</b>				
Bank overdrafts and loans	11	143,110	-	143,110
Trade and other creditors	11	-	459,785	459,785
		143,110	459,785	602,895
Weighted average interest rate		7.5%		
Net financial (liabilities)/assets		(143,110)	272,113	129,003

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont.)

For the year ended 30 June 2000

	2000	1999
	\$	\$
<b>Reconciliation of Net Financial Assets to Net Assets</b>		
Net financial assets as above	209,414	129,003
Inventories (Note 7)	27,300	26,809
Property, plant and equipment (Note 9)	386,047	277,783
Provisions (Notes 12 and 13)	(503,506)	(294,199)
Other non-financial assets and liabilities (Note 10)	83,263	70,052
Net assets per balance sheet	<b>202,518</b>	209,448

### (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 Limited does not hold any off balance sheet financial instruments.



# DIRECTORS' DECLARATION

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The directors declare that the financial statements and notes set out on pages 20 to 30:

- (a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2000 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Law; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



RN Challis  
**Director**

Sydney  
24th August 2000



PR. Smith  
**Director**

Sydney  
24th August 2000

# INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF AUSTRALIAN PAYMENTS CLEARING ASSOCIATION

## *Scope*

We have audited the financial report of Australian Payments Clearing Association Limited (the Company) for the financial year ended 30 June 2000 as set out on pages 20 to 31. The Company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, 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 report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law in Australia so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by 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 report of Australian Payments Clearing Association Limited is in accordance with:

- (a) the Corporations Law, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2000 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

**Chartered Accountants**



Mark Haberlin

**Partner**

Sydney

28th August 2000

## CORPORATION INFORMATION

### BOARD

Mr Robert Challis (Chairman)  
Dr Peter Smith (Chief Executive Officer)  
Mr Wes Hooper  
Mr Paul Inglis  
Mr John McFadden  
Mr Brian Mecklem  
Mr Chris Moore  
Mr Bruce Munro  
Mr David Taylor  
Mr John Toms  
Dr John Veale

### COMPANY OFFICERS

Peter Smith (*Chief Executive Officer*)  
Ben Cato (*Financial Controller*)  
Mike Forey (*Director Project Management and Operations*)  
Rani John (*General Counsel, Company Secretary*)  
Jo-Anne Ryan (*Director Public Affairs*)  
Scott Wheeler (*Director Strategic Research and Policy Development*)

### SOLICITORS

Mallesons Stephen Jaques, Sydney

### AUDITORS

PricewaterhouseCoopers, Sydney

### REGISTERED OFFICE

Level 24  
25 Bligh Street  
Sydney NSW 2000  
Telephone: (02) 9221-8944  
Facsimile: (02) 9221-8057  
Web Page: <http://www.apca.com.au>

### COMPANY MEETINGS

The Annual General Meeting will be held on Thursday, 19 October 2000 at 9.30am.  
The Annual Meeting of the APCS will be held on Wednesday, 29 November 2000 at 9.30am.  
The Annual Meeting of BECS will be held on Tuesday, 14 November 2000 at 9.30am.  
The Annual Meeting of the HVCS will be held on Thursday, 23 November 2000 at 9.30am.

## APCA PUBLICATIONS

### ● BSB Numbers in Australia

Issued quarterly and available in either book form or on computer diskette. May be purchased directly from Craftsman Publishing Pty Ltd (prices on application)

Craftsman Publishing Pty Ltd  
Address: 125 Highbury Road, Burwood.Vic 3125  
Telephone: (03) 9926 1200  
Facsimile: (03) 9926 1291

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- **Design Specifications for Cheques & Deposit Forms (Publication 11.5)**
- **Magnetic Ink Character Recognition (MICR) (Publication 3.3)**
- **Payments Monitor**  
A quarterly publication for members which provides an update on APCA-related activities.

Also Available:

- **Gardon Gauges** (hand held device for verifying positioning of MICR encoding)

