



Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (a)

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AUSTRALIAN STOCK EXCHANGE LIMITED

**SUBMISSION TO THE
SELECT COMMITTEE ON SUPERANNUATION
AND FINANCIAL SERVICES**

**Inquiry into Prudential Supervision and Consumer Protection
for Superannuation and Financial Services**

May 2001

Introduction

Australian Stock Exchange Limited (ASX) makes the following submission to assist the Senate inquiry into prudential supervision and consumer protection for superannuation and financial services. As part of that inquiry, the Select Committee on Superannuation and Financial Services is examining issues including HIH Insurance. The Committee has expressed interest in the role ASX has played and/or continues to play in relation to HIH insurance, including how this relates to the regulators such as the Australian Securities and Investments Commission (ASIC).

This submission is divided into parts:

- Part 1: Executive Summary
- Part 2: The Current Framework for Regulation of the Securities Industry
- Part 3: Our Relationship with ASIC
- Part 4: Our Supervisory Activities
- Part 5: Our Role in Relation to HIH

Appendices

- Appendix 1 Requirements for Ministerial Approval of Stock Exchanges
- Appendix 2 Continuing Requirements and Accountability for Provision of Fair and Orderly Markets
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Part 1 – Executive Summary

The Australian Regulatory Model

The Australian model for regulation of securities and futures markets under the Corporations Law is designed to achieve a productive collaboration between the government regulator (the Australian Securities & Investments Commission (ASIC)) and the market operator with its special expertise and close proximity to market activity. The Australian model for statutory regulation includes a role for both ASIC and the Minister.

The Corporations Law is the principal source of law applying to the industry in which ASX operates. The Law includes a strong self-regulatory emphasis, placing primary responsibility for supervision in certain areas on the market operator. Accordingly, ASX has developed rules and practices which apply to those participating in the market facilities provided by ASX and to the trading of financial instruments on those facilities. The Law recognises and supports these rules.

The Diversity of our Supervisory Activity

A diverse range of services to enhance the integrity, reliability and efficiency of trading and clearing activity complements our business rules and listing rules. These include:

- surveillance, review and reporting of market activity;
- monitoring and investigation of market participant and listed company behaviour and processes;
- enforcement of market participant behaviour;
- trading halts, suspensions and delisting;
- assistance to ASIC;
- support education and guidance to market participants and listed companies designed to encourage and facilitate compliance;
- monitoring and enforcing the capital adequacy of broker market participants;
- review and appeal mechanisms for market participants and listed companies;
- provision of efficient automated trading and clearing platforms;
- guarantees of trade completion and risk management.

A Summary of our Role in Relation to HIH

ASX has supervisory responsibilities in respect of listed companies and trading and clearing participants who utilise its listing, trading and clearing market services. In relation to the HIH Group, HIH Insurance Limited (HIH) and HIH Holdings (NZ) Limited (HNZG) are ASX listed entities, HIH convertible notes (HIHG) were on issue and HIH Casualty & General Insurance Limited (HIHCGI) was a non broker participant in CHESS.

Our supervisory activities in respect of these entities comprised:

- market surveillance of trading activity in FAI Insurance, HIH, HNZG and HIHG;
- the exercise of powers under the Listing Rules relative to ensuring an informed market for the trading of HIH and HNZG culminating in suspension from trading in March 2001; and
- the exercise of powers under the SCH Business Rules in relation to a settlement default by HIHCGI in March 2001.

Part 2 – The Current Framework for Regulation of the Securities Industry

Summary

The Australian model for regulation of securities and futures markets under the Corporations Law is designed to achieve a productive collaboration between the government regulator (the Australian Securities & Investments Commission (ASIC)) and the market operator with its special expertise and close proximity to market activity. The Australian model for statutory regulation includes a role for both ASIC and the Minister.

The Corporations Law is the principal source of law applying to the industry in which ASX operates. The Law includes a strong self-regulatory emphasis, placing primary responsibility for supervision in certain areas on the market operator. Accordingly, ASX has developed rules and practices which apply to those participating in the market facilities provided by ASX and to the trading of financial instruments on those facilities. The Law recognises and supports these rules.

The Co-Regulatory Model

The principal source of law applying to the securities industry is Chapter 7 of the Corporations Law. That Chapter deals with markets, exchanges and associations (Part 7.2); the securities clearing house (Part 7.2A); participants in the industry (such as brokers and advisers) (Part 7.3); the conduct of participants' businesses (Parts 7.4 - 7.7); fidelity funds for the protection of investors from default by participants (Parts 7.9 - 7.10); misconduct in the industry (Part 7.11); title to and transfer of securities (Part 7.13) and miscellaneous matters (Part 7.14).

In addition, each securities exchange has its own rules and practices which apply to those participating in the market facilities provided by the exchange and to the trading, clearing and settlement of financial instruments on those facilities. The Law recognises and supports these rules.¹ This highlights an underlying theme of the current regulatory framework for securities: that exchanges and industry associations should, to the greatest extent consistent with appropriate investor protection, be self-regulating.

Since the introduction of securities industry legislation in the early 1970's, the Australian model for stock market regulation has been one of co-regulation (ie a combination of statutory and 'self' regulation).

ASX believes that the co-regulatory model has served financial markets very well. Market operators like ASX have a strong vested interest in the efficient and robust regulation of the market services they provide. They are also better placed to respond quickly to develop best practice and to strive for improvements in the efficiency and transparency of market activity. The proximity of the market operator to the market and its participants allows it to respond quickly and cost effectively to changes in the market dynamic and indeed, to anticipate them. In a recent speech,² Lori Richards, the Securities and Exchange Commission's director of compliance inspections and examinations, discussed the growing importance of self-regulation among exchanges and stated, "*I strongly believe that self-regulation is an ideal regulatory*

¹ They are enforceable not only on the basis that they are a contract but also by virtue of section 777 of the Corporations Law (on the application of the Commission or a "person aggrieved") and section 1114 (on the application of the Commission or the stock exchange).

² September 11, 2000 at the National Regulatory Services Fall 2000 Compliance Conference, Scottsdale, Arizona.

framework for the securities industry for the 21st century. I think that vigilant self-regulation can, and will, increase the competitiveness and further the business interests of competing markets and firms. I truly believe that the investing public will migrate to those market participants and market centers that inspire trust and confidence."

The International Organization of Securities Commissions (IOSCO) SRO Consultative Committee recently undertook a project regarding the effectiveness of self-regulation.³ Their recommendation stated: *Overall, self-regulation fosters integrity in the marketplace and among participants. Moreover, it is an effective method of regulation because self-regulatory organizations are familiar with the increasingly complex nature of the industry as well as the products developed and marketed by members and member organizations. SROs, therefore, have the specific knowledge and ability to effectively implement and conduct efficient and cost-effective regulatory programs."*

Level of Regulation

The level of financial markets regulation and the regulation of stock exchanges is stringent. Vetting mechanisms attach both at the start up of market operations⁴ and on a continuing basis.⁵ Clear and continuing obligations are imposed on securities exchanges relative to the provision of fair and orderly markets and there are a number of mechanisms designed to ensure transparency and accountability of the securities exchange for its supervisory processes.

There are also a number of continuing obligations placed on exchanges relative to providing assistance to the government regulator.

Changes to be Introduced by the FSR Bill

The Financial Services Reform Bill aims to put in place a new integrated regulatory framework for Australia's financial product markets, clearing and settlement facilities and financial service providers. The Bill contains a number of significant regulatory reforms. It provides long overdue harmonisation of regulatory treatment of securities and futures. It also moves towards a more principles based, flexible regime. In doing so, it does not diminish the level of regulation. Nor does it change the fundamental approach to the supervision of securities exchanges.

³ Model for Effective Regulation – Report of the SRO Consultative Committee of the International Organization of Securities Commissions, May 2000.

⁴ Requirements relative to gaining approval as a stock exchange are outlined in Appendix 1.

⁵ Continuing requirements and mechanisms to promote accountability for the provision of fair and orderly markets are outlined in Appendix 2. Market and product developments activate rule lodgement requirements that are complemented by informal consultative arrangements with ASIC.

Part 3 – Our Relationship with ASIC

Summary

Regulation of the primary and secondary markets for securities in Australia is predominantly provided by the Australian Securities & Investments Commission (ASIC), a governmental agency within the Department of Treasury. Market supervision is provided by the Australian Stock Exchange Limited, currently the only national exchange in Australia.

External Regulatory Environment

Under the Corporations Law, a person cannot establish a stock exchange without the Minister's approval or conduct an unauthorised stock market. Before the Minister may approve a stock exchange, that exchange has to demonstrate, among other things, that it has established appropriate business rules and listing rules and that there will be adequate protection by way of a fidelity fund.

ASX was created by the Australian Stock Exchange and National Guarantee Fund Act 1987 and is a securities exchange under the Corporations Law. To complement and facilitate our demutualisation, new provisions were inserted in the Corporations Law (Corporations Law Amendment (ASX) Bill 1997), which clarified our responsibilities as a 'self-regulatory' organisation and ensured appropriate accountability to ASIC and the Government in carrying out those responsibilities.⁶

ASIC has a role in overseeing that an approved exchange operates fairly and that there is compliance with its listing and business rules.

Under the Corporations Law, ASX is required to undertake a number of supervisory and reporting responsibilities including:

- to the extent reasonably practicable, doing all things that are necessary to ensure that ASX's stock market is an orderly and fair market;
- having adequate arrangements for monitoring and enforcing compliance with the business rules and listing rules;
- having adequate arrangements for the expulsion, suspension or disciplining of a market participant for conduct inconsistent with just and equitable principles in the transaction of business or for a contravention of the business rules, Chapter 7 of the Corporations Law or a condition of a licence held by the market participant;

⁶ Obligations were imposed on ASX (and securities exchanges generally) by section 769A:

- to the extent reasonably practicable, to do everything necessary to ensure that the market we conduct is an orderly and fair market;
- to have adequate arrangements for monitoring and enforcing compliance with our rules;
- to have adequate arrangements for the expulsion, suspension or disciplining of market participants for inappropriate conduct;
- to have adequate arrangements for the settlement of transactions that result from trading in securities on a stock market we conduct; and
- to have adequate arrangements for investigating complaints by investors.

The Minister was empowered to direct an exchange to do specified things that the Minister believed would promote compliance with these requirements.

An obligation was also introduced for an annual report to be provided by a securities exchange about compliance with these requirements. That report must be prepared within 3 months after the end of each financial year and provided to ASIC. The Minister may request that the report be audited.

In addition, at any time the Minister may request a special report about compliance with ongoing requirements by an exchange. It may also require that the special report be audited.

- having adequate arrangements for the settlement of transactions that result from trading in securities on a stock market of ASX;
- having adequate arrangements for investigating certain complaints;
- providing assistance to ASIC as ASIC reasonably requires to perform its functions;
- lodging various particulars of disciplinary action with ASIC;
- where ASX believes that a serious contravention of the business rules, listing rules or the Corporations Law is committed or is anticipated, lodging a statement with ASIC concerning the contravention;
- lodging a report with ASIC when it becomes aware of a matter that may adversely affect the ability of a dealer to meet its obligations under the Corporations Law or the conditions of its dealers licence.

ASX has entered into a number of MOUs with ASIC to further refine, and ensure that, ASX properly implements and carries out its supervisory responsibilities. These MOUs, dealing with markets, membership matters, companies matters and transfer of information, place responsibilities on ASX which expand on and complement its supervisory responsibilities under the Corporations Law. A description of these MOUs is contained in Appendix 3.

Our Roles in Relation to Continuous Disclosure

The aim of the disclosure requirements which apply to securities sold or traded after issue (in the secondary market) is to encourage informed decision-making by all parties to securities transactions.

The disclosure requirements are found in sections 1001A and 1001B of the Corporations Law. These provisions apply to “disclosing entities” (as defined in Part 1.2A). If those entities become aware of information, not generally available, which would have a material effect upon the price or value of that entity’s “enhanced disclosure” securities, this information must be publicly disclosed. An entity may be subject to the disclosure requirements if it is a listed entity, if it has raised funds pursuant to a prospectus, if it has offered securities (other than debentures) as consideration for shares in a company which is a takeover target, or if its securities are issued under a compromise or scheme of arrangement.

The disclosure obligations arise when a disclosing entity has price sensitive (or value sensitive) information about an enhanced disclosure security⁷ which is not generally known.

If a disclosing entity is listed with an exchange that requires that entity to notify the exchange of information or upon the occurrence of certain events so that the exchange may inform the market, s.1001A requires compliance with those exchange obligations. For ASX listed entities, this requires compliance with Listing Rule 3.1 which is ASX’s primary continuous disclosure provision. This Rule and the role of ASX in relation to supervision of compliance with it, is explained more fully in Part 4.

The views of the ASC (as it then was) concerning the purpose of the continuous disclosure regime and its obligations for providing relief from it are found in *Policy Statement 95, Relief from Continuous Disclosure Provisions*⁸.

⁷ Enhanced disclosure securities include certain debentures as well as other securities:

- that are quoted on a stock market of a securities exchange;
- that have been issued pursuant to a prospectus (so long as there are not less than 100 holders of such securities); or
- that have been offered as consideration for the acquisition of shares pursuant to a takeover (so long as there are not less than 100 holders of such securities).

⁸ The Policy Statement states that the disclosing entity provisions are designed to:

- overcome the inability of general market forces to guarantee adequate and timely disclosure by disclosing entities;

Because many of the monitoring functions in relation to continuous disclosure are actually performed by ASX, ASIC must assure that its efforts are co-ordinated with those of ASX or any other exchange which obtains ministerial approval.

The second reading speech to the Corporate Law Reform Bill 1993 in the House of Representatives outlines the legislative intention of the Bill, particularly in relation to s1001A. It states that the intention was to build on the existing framework for disclosure by listed disclosing entities to the ASX rather than creating an overlapping system for disclosure of the same or similar information to ASIC.

ASX and the ASC (as it then was) signed a Memorandum of Understanding on Companies Matters dated 23 September 1994. This sets out the arrangements agreed between ASX and ASIC to promote co-operation and assistance in monitoring and, when appropriate, enforcing provisions of the listing rules of ASX and the Corporations Law relating to, among other things, the disclosing entity provisions. The MOU seeks to recognise the respective roles and 'comparative advantages' of each organisation.

The main features are that:

- ASX will take primary responsibility for monitoring and enforcing compliance with the disclosure and accounting requirements of the listing rules;
- ASIC will take primary responsibility for enforcing the disclosure and accounting requirements of the Law;
- ASX will notify ASIC by a statement as required under s776(2A) if it believes a person has committed, is committing or is about to commit a serious contravention of the Listing Rules or the Corporations Law;
- ASIC will notify ASX, with appropriate details, if it believes a person has committed, is committing or is about to commit a serious or material contravention of the Listing Rules.

Dealing with the concept of Self-Listing

ASX demutualised and listed in 1998. In consequence of ASX's changed status, the Law was amended to enable ASIC to supervise ASX's compliance as a listed entity with the ASX listing rules.⁹

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- encourage greater securities research by investors and advisors. This ensures that securities prices more closely, and quickly, reflect underlying economic values;
 - ensure that equity and loan resources in the Australian market are more effectively channelled into appropriate investments, and that funds are withheld or withdrawn from poorly performing disclosing entities (ie to promote capital efficiency);
 - assist investors in deciding whether to buy, sell, or hold securities, including the prospect of a switch to alternative securities;
 - lessen the possible distorting effects of rumour on securities prices;
 - minimise the opportunities for insider trading or similar market abuses;
 - improve managerial performance and accountability by giving the market more timely indicators of performance;
 - encourage the growth of information systems within disclosing entities. This assists directors to make decisions and to comply with their fiduciary duties; and
 - reduce the time and costs when preparing prospectuses.

⁹ The Corporations Law was amended to provide that a securities exchange such as ASX may be included in its own official list and such securities granted quotation if the securities exchange has entered into such arrangements as ASIC requires for:

- dealing with possible conflicts of interest that might arise from the securities exchange quoting its own securities on itself;
- the purpose of ensuring the integrity of trading in securities of ASX.

The Corporations Law requires that the Listing Rules make provision for ASIC (instead of ASX) to make decisions and to take action (or to require ASX to take action) in relation to the admission of ASX to its own official list, the removal of ASX from its own official list and the granting, stopping or suspending of the quotation of ASX's securities. In addition, ASIC is responsible for

This amendment was complemented by a memorandum of understanding dated 23 September 1998, between ASX, ASX Settlement and Transfer Corporation Pty Limited (ASTC) and ASIC. This outlines the arrangements for ASIC monitoring and supervising ASX's compliance as a listed entity with the Listing Rules, the SCH Business Rules and the Corporations Law.

A key objective in negotiating the MOU was a desire to ensure consistency of outcomes and timing between ASX in the administration of the Listing Rules for other entities and ASIC in its administration of the Listing Rules for ASX¹⁰.

exercising the powers and functions that ASX (as a securities exchange) has under the Listing Rules in relation to a listed entity, such as the granting of waivers and the approval of shareholder material submitted for review.

¹⁰ Under the MOU, ASIC is responsible for supervising ASX's compliance with the Listing Rules. It received ASX's application for admission to the official list. In relation to the continuing regulation of ASX as a listed entity, ASIC is responsible for exercising the powers and functions that ASX has as a securities exchange in relation to other listed entities. ASX is not bound to monitor or enforce the Listing Rules in relation to itself. If ASX wishes to apply for an exemption or declaration in relation to a modifiable provision of the Corporations Law, or a waiver of the Listing Rules it may apply to ASIC. ASX pays fees required by the Listing Rules to ASIC. Under the MOU, ASTC is responsible for supervision of ASX's compliance with the SCH Business Rules and its application for admission to CHESS, as it is for other listed entities. However, ASIC may direct ASTC to exercise certain powers and functions.

Part 4 – Our Supervisory Activities

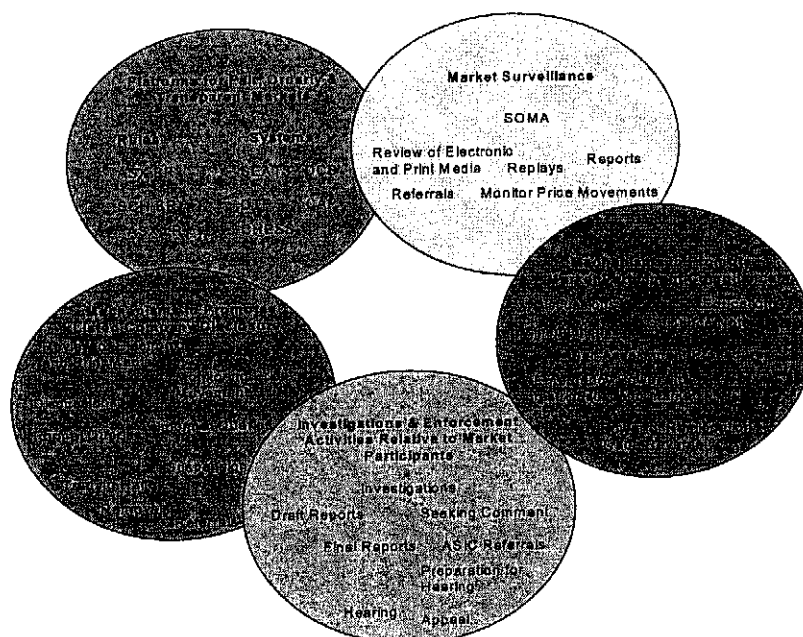
Summary

The success of ASX markets depends in part on the investment community's continued confidence in the integrity of those markets. Accordingly, ASX provides not only a market for trading financial instruments, but also a range of services designed to enhance the integrity, reliability and efficiency of trading and settlement activity. ASX conducts supervision in relation to markets (primarily the equities and derivatives markets), listed entities, market participants and systems – trading, settlement and clearing platforms.

The supervisory activities conducted in these areas include the following:

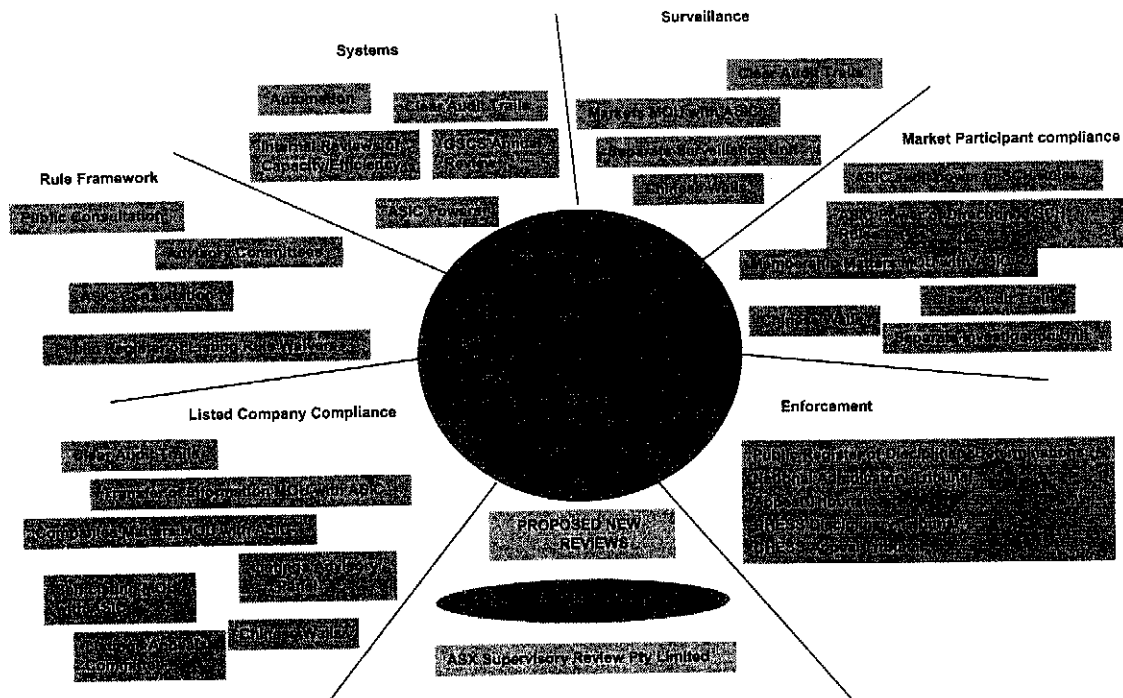
Area of Supervision	Market Integrity Activities
Markets	<ul style="list-style-type: none"> • Surveillance of market activity • Identifying unusual trading • Preliminary investigation of unusual trading and, where necessary, referral to ASIC or relevant ASX areas
Listed Entities	<ul style="list-style-type: none"> • Setting standards for listed entities through the listing rules • Supervising compliance with the listing rules
Market Participants	<ul style="list-style-type: none"> • Setting standards for participants including prudential and systemic risk management through the business rules • Supervising compliance with the business rules • Investigation of breaches and presentation of appropriate cases for disciplinary action
Systems	<ul style="list-style-type: none"> • Establishing standards for the testing and authorisation of designated trading representatives • Maintaining trading parameter settings and access passwords • Gauging compliance with trading rules and procedures • Reporting of "incidents" to relevant ASX areas

In diagrammatic form:



Our Accountability

The following diagram identifies some of the arrangements and processes designed to promote accountability and transparency of ASX's supervisory activities.



Checks and balances to ensure an appropriate level of accountability by ASX in respect of its market supervision obligations are described in Appendix 4.

Promoting Disclosure by Listed Entities

ASX offers a market for trading in securities. Trading takes place through Participating Organisations. ASX's business rules govern Participating Organisations' relationships with ASX, with each other and with clients.

Requirements are imposed on companies and their officers by the Corporations Law and common law. These requirements are complemented, in the case of companies seeking listing and quotation of their securities on the ASX market, by the ASX Listing Rules.

Compliance with the listing rules is a requirement for admission to the official list. It is also a requirement under the contract that an entity enters into on being admitted. The listing rules are not just binding contractually. They are enforceable against listed entities and their associates under the Corporations Law.

Under the Corporations Law, listing rule amendments must be lodged with ASIC. They are subject to disallowance by the Minister.

The principles on which the listing rules are based embrace the interests of listed entities, maintenance of investor protection and the need to protect the reputation of the market. The principles are as follows:

- Minimum standards of quality, size, operations and disclosure must be satisfied.
- Sufficient investor interest must be demonstrated to warrant an entity's participation in the market by having its securities quoted.

- Securities must be issued in circumstances which are fair to new and exiting security holders.
- Securities must have rights and obligations attaching to them that are fair to new and existing security holders.
- Timely disclosure must be made of information which may affect security values or influence investment decisions, and information in which security holders, investors and ASX have a legitimate interest.
- Information must be produced according to the highest standards and, where appropriate, enable ready comparison with similar information.
- The highest standards of integrity, accountability and responsibility of entities and their officers must be maintained.
- Practices must be adopted and pursued which protect the interests of security holders, including ownership interests and the right to vote.
- Security holders must be consulted on matters of significance.
- Market transactions must be commercially certain.

ASX's listing rules govern the admission of entities to the official list, the quotation of securities, suspension of securities from quotation and removal of entities from the official list. One of the most important obligations imposed by these Rules is that of keeping the market informed of activities which may have a material effect on share price. The ASX's listing rules rely on a detailed continuous disclosure and periodic disclosure regime to ensure an informed market.

ASX maintains close contact with its listed companies to promote a culture of compliance with disclosure obligations. The Companies Supervision Unit of ASX makes day to day decisions on the application of the listing rules.

Continuous Disclosure Requirements

Chapter 3 of the Listing Rules sets out the continuous disclosure requirements that an entity must satisfy. Continuous disclosure is the timely advising of information to keep the market informed of events and developments as they occur. Information for release to the market must be given to ASX's company announcements office.¹¹

The general rule (LR 3.1) states that once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information. This general rule does not apply to particular information while each of the following applies:

1. A reasonable person would not expect the information to be disclosed.
2. The information is confidential.
3. One or more of the following applies:
 - (a) It would be a breach of a law to disclose the information.
 - (b) The information concerns an incomplete proposal or negotiation.
 - (c) The information comprises matters of supposition or is insufficiently definite to warrant disclosure.
 - (d) The information is generated for the internal management purposes of the entity.
 - (e) The information is a trade secret.

¹¹ ASX has issued a Guidance note on continuous disclosure. A copy is contained at Appendix 6.

The concept of 'awareness' which is central to the operation of the continuous disclosure obligation is defined in Listing rule 9.12. It provides that an entity becomes aware of information if a director or executive officer has or ought reasonably to have, come into possession of the information in the course of their duties as a director or executive officer of that entity.

Examples given in the Listing Rules of information which would require disclosure of material under listing rule 3.1 include a change in the entity's financial forecast or expectation.

The Guidance Note published by ASX on continuous disclosure addresses the question of market speculation. It specifically notes that from time to time an entity may be required to respond to speculation in order for the market to remain properly informed.

Section 1001A of the Corporations Law is the central provision concerning liability in respect of statutory continuous disclosure for listed entities.

Financial Condition Requirements

Chapter 12 of the Listing Rules contains requirements as to level of operations, financial condition, proportion of assets in cash, level of spread and appropriate structure and operations. In relation to financial condition, Listing Rule 12.2 states that an entity's financial condition (including operating results) must, in ASX's opinion be adequate to warrant the continued quotation of its securities and its continued listing.

Suspension and Trading Halts

ASX continually monitors price movements, print and electronic media. ASX regularly initiates discussion with and queries of listed companies about price movements and reports of their activities. Where an ill-informed market is believed to exist, securities are suspended from quotation by ASX.¹²

Trading halts¹³ are imposed by ASX where material information is anticipated for release to the market. Other than drawing matters to the attention of the market and suspending a listed company's securities from trading, ASX has no disciplinary powers in respect of companies or their officers. ASX refers matters to ASIC for further investigation and possible referral to the Department of Public Prosecutions.

Promoting Fair and Efficient Market Conduct

Under the Corporations Law, ASX's Participating Organisations are governed by a licensing regime and are subjected to specific obligations concerning the conduct of their business and their obligations to clients. The Law also prohibits various market activities.

¹² A listed entity may request a suspension under Listing Rule 17.2 Listing Rule 17.3 states that ASX may at any time suspend an entity's securities or a class of them from quotation if in ASX's opinion the entity is unable or unwilling to comply with, or breaks a listing rule, it is necessary to suspend quotation to prevent a disorderly or uninformed market, ASX's rules require suspension or it is appropriate for some other reason.

¹³ ASX Listing Rule 17.1 allows ASX to grant a trading halt at the request of the entity. The entity must advise ASX its reasons for the trading halt, how long it wants the trading halt to last, that it is not aware of any reason why the trading halt should not be granted and provide any other information necessary to inform the market about the trading halt that ASX asks for. A trading halt cannot exceed the period permitted under the ASX Business Rules (currently a period not exceeding the commencement of normal trading on the 2nd trading day on which it is requested).

These requirements are complemented by business rules which are primarily designed to address prudential requirements for market participants, risk management, market conduct and settlement obligations which apply to ASX markets. The rules include arrangements for disciplinary action for inappropriate conduct, including suspension and expulsion from market access and participation.

ASX supervisory activities include discussions with market participants to encourage and facilitate compliance with their obligations and education about compliance matters including the issue of guidance notes. ASX's supervisory activities are diverse and integral to the conduct of the market services and platforms it provides. They include constant surveillance of trading behaviour, risk management, analysis and referral to investigatory divisions within ASX for examination or to ASIC, inspection and investigation of market participants and of complaints received by ASX from their clients, protection of market integrity by suspension, termination or denial of access to ASX facilities and formal hearing of charges against Participating Organisation and Affiliates.

Facilitating Compliance by Market Participants

A primary focus of the ASX Compliance and Information Unit is on education to facilitate compliance and to promote the benefits of effective education and compliance programs and internal control systems. Activities of the Unit are designed to foster a compliance culture among market participants and to develop lines of communication with ASX which will allow early identification and rectification of any problems.

The Unit facilitates self-assessment programs, conducts follow up reviews and reports back to participants on compliance issues and opportunities for improvement. Where a potential breach of the ASX or SCH Business Rules or the Corporations Law is identified, a referral is made to the ASX Investigations & Enforcement Division.

ASX Surveillance

ASX Surveillance plays an important role in encouraging market confidence by continuous, real time monitoring of trading activity in the equities and derivatives markets of ASX. The ASX surveillance system works by comparing the electronic signal produced by SEATS, which contains all details of trading, with a series of parameters. These parameters are set so that unusual transactions trigger an "alert". Alerts are usually triggered by unusual price or volume movements. Each alert is referred to an ASX analyst, who assesses the market conditions that caused it, and determines whether public information such as a report on the stock by a stockbroker, a company announcement or a newspaper report can explain the market activity.

Prices and traded volumes of stocks continually rise and fall. ASX Surveillance detects any trading that falls outside of the normal pattern of changing prices and volumes. In particular, ASX Surveillance monitors trading to identify situations where:

- there may be an uninformed market;
- market participants may not be complying with the rules of ASX designed to ensure a fair and orderly market;
- there may have been insider trading. This occurs when someone obtains information about an entity and trades in that entity's shares or encourages another person to do so when the information has not been made public and the information would likely have a material effect on the entity's share price or value;
- there may have been a deliberate attempt to interfere with the free and fair operation of the market. This is typically done by either spreading false or misleading information in order to influence others to trade in a particular way, or using buying and selling

orders deliberately to affect price or turnover, in order to create an opportunity for profit.

Most Surveillance alerts turn out to be explainable. Where investigation of trading activity indicates the possibility of market abuse, a referral is made to one or more of the following:

- ASIC for further investigation and possible civil or criminal proceedings;
- ASX's Investigations & Enforcement Department to examine any potential breaches of the business rules; and
- ASX Companies & Investors Division to examine any potential breaches of the continuous disclosure requirements.

ASX Surveillance staff provide regular demonstrations of the work done by the department and discuss with market participants current market issues. This ensures that market participants are aware of the existence, activities and effectiveness of Surveillance and analysts are aware of current market practices.

Risk Management

The ASX Risk Management Unit is concerned with the financial strength of ASX Participating Organisations. It is responsible for the capital liquidity regimes that broker participants in ASX markets must comply with. This includes developing the policy framework and reporting mechanisms designed to ensure that the financial strength of ASX Participating Organisations is measured and monitored based in accordance with a consistent framework, and ongoing analysis of participant data to assess their financial strength.

ASX's primary capital liquidity regime requires participants to maintain a level of "regulatory capital" determined by a measure of risks inherent in their business activities. Risk measures are prescribed in a number of key areas including counterparty, position and operational risk.

Investigations and Enforcement

The ASX Investigations and Enforcement Department investigates any potential breaches of the ASX Business Rules and Securities Clearing House (SCH) Business Rules by market participants. These rules are designed to protect the interests of investors and market participants and promote market integrity and efficiency.

An investigation may find evidence suggesting that a market participant has breached the rules or engaged in inappropriate behaviour. In this case, charges are referred to the National Adjudicatory Tribunal or SCH Disciplinary Tribunal for determination. Investigations and Enforcement present the evidence gathered during the investigation to the Tribunal and the market participant is given an opportunity to present their position. If the Tribunal finds a breach proven, penalties can be imposed, where appropriate. These include censure, suspension, disgorgement of profit and commission, completion of education and compliance programs, fines of up to \$250,000 and in the case of prohibited conduct, expulsion from market participation.

If it appears that a market participant has breached the Corporations Law, ASIC is notified and may take further action.

Committees and Tribunals

There are a number of established committees and tribunals which assist ASX in the performance of its supervisory responsibilities. These committees and tribunals include people external to ASX with relevant industry expertise.¹⁴

National Guarantee Fund

The National Guarantee Fund is available to meet claims arising from dealings with ASX Participating Organisations in certain circumstances. The NGF was established by the Australian Stock Exchange and National Guarantee Fund Act 1987, which also created ASX as a national stock exchange. Securities Exchanges Guarantee Corporation Limited (SEGC), a body limited by guarantee is the body responsible for administration of the NGF. The assets of the NGF are the property of SEGC but are held on trust in accordance with the provisions of the Corporations Law.

The operation of SEGC and the NGF is currently governed by Part 7.10 of the Corporations Law and SEGC's constitution. The legislation includes provisions on the powers and duties of SEGC's Board and the circumstances in which claims may be allowed.

Under the Corporations Law, clients of ASX Participating Organisations can make claims on the NGF in certain circumstances for:

- Completion of sales and purchases of quoted securities entered into by a Participating Organisation on ASX's equity (and debt) market where those transactions are required to be reported to ASX by the Participating Organisation.
- Loss that results if a Participating Organisation transfers quoted securities without authority.
- Loss that results if a Participating Organisation becomes insolvent and fails to meet its obligations in respect of property that had been entrusted to it in the course of, or in connection with, its business of dealing in securities (up to a statutory maximum per Participating Organisation, which is currently \$11.2 million).

In addition, the following claims may be made on the NGF:

- A Participating Organisation or an ASX-related clearing house to which a net payment obligation or a net delivery obligation is owed by the other may make a claim if that obligation is not met;
- Certain claims between brokers for a failed equities settlement that was not included in the net payment or delivery obligations to an ASX related clearing house; and
- ASX may make a claim if an obligation of a Participating Organisation under a guaranteed securities loan is not met.

SEGC is required to maintain a minimum amount in the NGF so that it is able to meet claims and administration costs. The minimum amount is currently set at \$80 million. Because new products and services are developed and changes occur in the securities industry, the SEGC Board periodically reviews the adequacy of the minimum amount. If appropriate, SEGC can borrow to pay claims and can take out insurance to meet its liability.

If the amount in the NGF falls below the minimum amount, SEGC may levy a participating exchange or impose a levy on leviabale transactions. "Leviabale transactions" are certain sales or

¹⁴ Further details are contained in Appendix 4.

purchases of securities that are required to be reported to a participating exchange pursuant to its business rules, or certain guaranteed securities loans.¹⁵

Custodians, banks and other major institutions participate directly in CHES and are currently responsible to their clients for fidelity protection, without backing from NGF. The Securities Clearing House does not prudentially regulate these entities.

In the context of CLERP 6, ASX has sought the ability to separate the clearing support function from NGF's function of protecting investors/consumers from "improper" conduct by Participating Organisations. This will be consistent with international practice and will enable ASX and its clearing houses to be solely responsible for their respective market and systemic integrity (subject to supervision by ASIC and other appropriate regulators).

CHES Participation

Once a market contract has been made between trading participants, a detailed set of Rules specify the timetable and other arrangements for payment of purchase price and delivery of securities. ASX has implemented a fully electronic settlement system, the Clearing House Electronic Subregister System (CHES). The CHES subregister and the actions of CHES participants are regulated by the Corporations Law (Part 7.2A) and ASX's Securities Clearing House Business Rules commonly referred to as the SCH Business Rules.

For securities to be cleared and settled in CHES, the securities must be CHES approved. The SCH Business Rules regulate CHES approval of securities and the clearing and settlement of CHES approved securities.

CHES enables electronic transfer of securities. CHES enables participants in the clearing house (brokers, institutions, custodians, trustee companies and private investors who are sponsored into the system by these entities) to hold approved securities in uncertificated form on an electronic register of holdings maintained centrally in CHES. In CHES, securities are transferred by electronic messages. Market contracts are settled by electronic transfers between brokers and the National Guarantee Fund is available to compensate market participants for broker default.

CHES settles transactions between CHES participants on the basis of irrevocable Delivery-versus-Payment (DvP). Under DvP securities are only transferred on the CHES subregister if cleared funds can be transferred between participating banks and vice versa.

The procedures for delivery of securities and payment of price in settlement of market transactions are complex. They involve a process where:

- All transactions in a particular class of securities which are due for settlement on the same day are netted off, so that each broker delivers or receives only a net amount of securities after all transactions due for settlement are taken into account. Thus for example, if broker B is required to deliver 1000 BHP pursuant to a market contract on behalf of client A, but is entitled to receive 500 BHP for a market purchase made on behalf of client C, B will only be required to deliver 500 BHP to another broker as directed by ASX, and in that way will discharge both market contracts; and

¹⁵ ASX is the only participating exchange. If a levy is payable by ASX, it can determine that participating organisations must pay a levy towards the levy payable by ASX to SEG. Since the NGF was formed, it has not been necessary to impose any levies.

- Similarly all the money obligations arising from transactions due for settlement on a particular day are netted off, so that each broker delivers or receives a single settlement amount from ASX, together with a settlement statement detailing each transaction and showing how the transactions are set off to reach a 'bottom line' figure.

Under the Business Rules, default by a client does not relieve the broker from obligations to either pay the purchase price or deliver the relevant securities.

Part 5 – Our Role in Relation to HIH

Summary

ASX has supervisory responsibilities in respect of listed companies and trading and clearing participants who utilise its listing, trading and clearing market services. In relation to the HIH Group, HIH Insurance Limited (HIH) and HIH Holdings (NZ) Limited (HNZG) are ASX listed entities, HIH convertible notes (HIHG) were on issue and HIH Casualty & General Insurance Limited (HIHCGI) was a non broker participant in CHESSE.

Our supervisory activities in respect of these entities comprised:

- market surveillance of trading activity in FAI Insurance, HIH, HNZG and HIHG;
- the exercise of powers under the Listing Rules relative to ensuring an informed market for the trading of HIH and HNZG culminating in suspension from trading in March 2001; and
- the exercise of powers under the SCH Business Rules in relation to a settlement default by HIHCGI in March 2001.

ASX Market Surveillance Activities

ASX has made several referrals to ASIC concerning Mr Rodney Adler and FAI Insurance. In addition, at the time of the takeover of FAI Insurance by HIH in September 1998, ASX referred the purchase by HIH of Mr Rodney Adler's stake in FAI to ASIC. HIH acquired a 14.3% holding in FAI from Mr Rodney Adler on-market prior to the announcement of the takeover. The referral also noted purchases of FAI by another person prior to the takeover.

In June 2000, Mr Rodney Adler purchased approximately 2 million HIH shares. These purchases were disclosed by way of notification of director's interests and attracted press comment that Mr Adler was demonstrating his commitment to and faith in HIH. ASIC is now investigating the buying.

Trading in HIH convertible notes (HIHG) by a fund manager between June and October 2000 was referred by ASX to ASIC.

ASX Listing Rule Supervision Activities

In December 2000 ASX released over its company announcements platform,¹⁶ the text of speeches to be delivered by the chairman and chief executive officer of HIH at the annual general meeting. This confirmed that a loss was expected for the half year to December 2000.

¹⁶ A list of market announcements made in respect of HIHG since 11 July 2000 appears at Appendix 7. Copies of market announcements made by HIHG which are referred to in this submission appear at Appendix 8.

On Friday 9 February 2001 an article in the Margin Call section of The Australian referred to HIH results and speculated on a "*bottom line loss of \$185 million for December half*". Prior to commencement of trading that day, ASX rang HIH and queried the company in respect of the media article. HIH then made an announcement prior to the commencement of trading that day noting, "*Our interim results for the six months ended 31 December 2000 is not yet quantified or finalised, although the Board has already indicated that a loss will be reported for this restructuring period.*"

On Thursday 22 February 2001 an article appeared in the Rear Window section of The Australian Financial Review titled "*HIH result may revoke an SOS*". The article suggested that HIH's half-year result would be a loss approaching \$500 million. Given that media speculation, ASX considered that the market now required further information about the range of loss anticipated by HIH even if an exact figure could not yet be specified. Accordingly, prior to commencement of trading that day, ASX telephoned HIH regarding the media item and advised that the market required clarification as to the range of loss anticipated. HIH responded that it was not aware of the range of loss and that an announcement to the market that the half-year loss would not be in the range of \$500 million could not be made. ASX indicated that trading in the company's securities might be suspended unless HIH could make an announcement indicating the range of its anticipated loss. A trading halt was then requested by HIH prior to the commencement of trading on 22 February until the commencement of trading on Monday 26 February 2001.

ASX listing rule 17.1 allows ASX to grant a trading halt at the request of an entity. A trading halt can be used if information likely to affect the price or value of an entity's securities cannot be released immediately. A trading halt may be applied for a period not exceeding the commencement of normal trading on the second trading day following the day on which it is imposed.

ASX has no powers of search and seizure in relation to listed company information. On Thursday 22 February 2001 ASX advised ASIC that ASX had concerns regarding HIH. ASIC in turn noted they were also concerned and would request information from HIH.

On Friday 23 February 2001 ASX met with HIH and its legal advisors and discussed issues relating to Chapter 12 of the Listing Rules (financial condition) and Listing Rule 3.1 (continuous disclosure) and a draft announcement from HIH. The position was put on behalf of HIH that ASX had no right to demand disclosure by HIH as HIH were not aware of any further information relative to its half-year loss and therefore were not in breach of Listing Rule 3.1. Arguments put on behalf of HIH included that:

- the chief executive officer and executive management had only been operating since January 2001;
- insurance companies are complex operations where a large component of any operating result is comprised of estimates in relation to valuation of both assets and liabilities and in particular, the level of reserves set aside for future claims payments;
- the position was complicated by the fact that at the same time as the result for the six month period to 31 December 2000 was being compiled, the company was undergoing a major restructure;
- the board was currently without the benefit of legal advice sought in respect of these matters;

- announcements as to the range of expected loss may expose the board of HIH to potential liability under section 995 and possibly section 999 of the Corporations Law and criminal liability under section 1309.

In summary, ASX was advised that HIH were not in a position to make an announcement which placed a cap on their loss or which provided a range of anticipated loss. ASX was informed that even if the media speculation that the loss approached \$500 million was correct, it was not a Chapter 12 issue, that is, such a loss did not equate to insolvency of the company.

HIH advised ASX that the banks were continuing to support it and that it was not aware of any information for further disclosure relative to its financial position pursuant to Listing Rule 3.1.

On Saturday 24 February 2001 an article in The Australian Financial Review titled "*HIH Teeters again as Shares Halted*" quoted an HIH spokesperson as follows "*The reasons for the trading halt are technical from the ASX side and do not relate to the operational viability of the company or our current capacity to function. We are hopeful that the technical issues will be resolved with the ASX very soon*".

On Monday 26 February 2001 HIH released an announcement prior to the commencement of trading. It was in the following terms:

The unique circumstances surrounding the preparation of the HIH 2000/2001 interim result together with recent speculation from various media sources makes it necessary for the company to issue this announcement.

This reporting period covers an extraordinary degree of change in the company's profile and discontinuance of some core business. The major business change in the period is the venture with Allianz Australia Limited on Australian retail business.

The changes to, and review of, HIH's business mean that the accounting treatment of the value of the business going forward may also change, resulting in one-off changes to the balance sheet. If so, the changes would be reflected in the profit and loss statement.

Final advice from HIH's actuaries, accountants and other advisors on these complex matters has not yet been received and so has not been considered by HIH's executives or the Board. As a consequence, Directors are not at this point aware of the interim loss. In that light, any speculation that the amount of the interim loss has already been determined is incorrect and any estimates as to the quantum of any loss are thus pure speculation.

What is clear at this point is that the loss will primarily relate to restructuring activity.

The Board is conscious of the need to inform shareholders of their conclusions as early as possible. However, the new CEO and executive management team have been operating only since January 2001. They have been contemporaneously dealing with the operating performance of the company, preparation of the interim result, and a complex process of business and financial restructuring activity for HIH going forward. Work on all these matters has also involved a wide range of external expert advisors. As with all major business development, HIH has also been keeping its bankers closely informed on the changes and the company has the full support of its bankers in addressing this process of business restructuring.

The tight schedule being adhered to by everyone involved includes a series of Board meetings, the first of which is scheduled for next Monday 26 February. The Board Meetings will be reviewing

all this information and advice relating to the change in the business including: the claims estimates for all current and discontinued business areas; financial evaluation of all current and discontinued business assets and non-core assets; financial re-engineering; the business restructuring; and the corporate strategy and business plan for HIH going forward.

Based on the information presented at those meetings the Directors may make decisions which, individually and collectively, have a material impact on the interim loss. In this context, those wishing to make investment decisions on the company should be aware that the most comprehensive statement on the company's financial position will not be available until all of the current work is finalised by management and the Board has had the opportunity to make decisions based on complete information.

The management review process and the Board's deliberations will be conducted in time for the company to announce its interim result and future strategy and business plan on Friday, 16 March 2001.

This timetable is consistent with our progress report on these issues as provided to the ASX on 9 February 2001."

Trading in HIH then recommenced. After the close of trading on 26 February 2001, ASX received copies of documents that ASIC had obtained from HIH. This provided evidence that internal documents had been created by HIH which made reference to potential losses of \$535.5 million.

On Tuesday, 27 February 2001 ASX telephoned HIH concerning these documents and was advised that the existence of these internal documents did not change the position previously announced - that there were a number of complex issues which required external specialist advice. Until that advice was received and considered, HIH were not in a position to be "aware" of the quantum of the interim loss. ASX arranged a meeting with HIH to discuss the matter further. As a result of that meeting, HIH requested a trading halt until commencement of trading on Thursday 1 March 2001.

HIH then faxed to ASX a draft announcement which did not address the range of anticipated losses for the half year ended 31 December 2000 but which did confirm solvency.

On Wednesday 28 February 2001 ASX had telephone discussions with the legal advisors for HIH. The position continued to be put on behalf of HIH that the information obtained by ASIC did not constitute "awareness" of the quantum of the interim loss for the reasons previously announced to the market.

On Thursday 1 March 2001 ASX indicated to HIH that, in the absence of an announcement indicating the range of anticipated losses, HIH should request a suspension of its securities from trading. Prior to the commencement of trading, HIH requested a suspension and sent a letter to ASX which noted "*I am writing to confirm your verbal advice to me this morning that the trading halt...would not be lifted despite a media release lodged by the company on 28 February 2001. On the basis of that verbal advice, the Company lodged a request that the ASX immediately suspend the securities.*"

The market announcement on 1 March stated in relevant part:

"HIH Insurance Limited ("HIH") requested that ASX immediately suspend from quotation each class of securities quoted on ASX which are issued by HIH or a subsidiary (the "Suspension").

HIH requests the Suspension because, for the reasons set out in its announcement dated 26 February 2001, a comprehensive statement on the company's financial position will not be available until all of the current work is finalised by management and the Board has had an opportunity to make decisions based on complete information.

The Board does not currently have reasonable grounds for making any further announcement as to the expected quantum of interim loss. Indeed to make such a further announcement at this stage could involve a lack of reasonable care on the part of the Directors and could lead to potential liability under the Corporations Law.

HIH requests that the Suspension remain in place until such time as the Directors have available the information and advice necessary to enable them to form a view on reasonable grounds as to the expected quantum of the interim loss.

HIH is not aware (as defined in the Listing Rules) of any reason why its securities should not be suspended."¹⁷

On Friday 2 March 2001, The Australian Financial Review reported HIH criticism of ASX's actions. It noted that "*HIH Insurance was at loggerheads with the Australian Stock Exchange yesterday, claiming the regulator had forced it into "trading exile" after its shares remained suspended because it would not disclose to the market the size of its interim loss.A spokesman for HIH yesterday slammed the ASX's handling of the situation: "We have been pushed down the path of trading exile because we have failed to produce something for the ASX that it is not within our ability to produce right at this time," he said.*"

On 15 March 2001 HIH Insurance Limited announced that it had received approval from the NSW Supreme Court to place the company into provisional liquidation. The release noted:

"The approval followed a resolution by the Board, enabling KPMG to be appointed to HIH and its 18 controlled entities.

Today's announcement follows a Board commissioned review of operations by KPMG which has indicated a loss of approximately \$800 million. Losses from discontinued HIH United Kingdom and United States business as well as other discontinued international business written from Australia, could no longer be sustained by the sound Australian operations."

The shares of HIH and HNZG remain suspended from trading.

HIHCGI as a CHESSE Participant

As noted above, on the evening of Thursday 15 March 2001, HIH placed itself in provisional liquidation, estimating that it would deliver an \$800 million half-year loss. HIH Casualty & General Insurance Limited (HIHCGI), a subsidiary of HIH, was a Non-Broker Participant in CHESSE.

On the morning of Friday, 16 March 2001, HIHCGI was not able to meet its net payment obligations in CHESSE when its Payment Provider, Westpac Banking Corporation Limited

¹⁷ Listing Rule 17.2 requires that an entity requesting a suspension must provide its reasons for the suspension, how long it expects the suspension to last, the event it expects to happen that will end the suspension, that it is not aware of any reasons why its securities should not be suspended and any other information necessary to inform the market about the suspension that ASX asks for.

("WBC") failed to authorise the payment. The net payment obligation was \$16,359.76.

As at Friday 16 March 2001, HIHCGI had 14 sponsored Holders. Ten of these accounts are in the name of FAI Insurance, or a derivative of FAI (part of the HIH group). HIHCGI at that time had no further settlement obligations with the market.

At about 11:00am on Friday 16 March 2001 the CHES Help Desk advised ASX Compliance Services that WBC, the payment provider in CHES for HIHCGI, would not authorise payment for HIHCGI. The obligation arose from a buy and a sell of 40,000 SGB on behalf of an HIHCGI group company, CIC, that had been executed by Macquarie Equities Limited. The settlement obligation had been matched in CHES by dual entry 101 messages that moved the settlement obligation for the trades from Macquarie to HIHCGI as a Non-Broker Participant in CHES.

ASX attempted to contact HIHCGI to advise that WBC had refused its payment in CHES and to see if the matter could be speedily resolved. However, it was not possible during the course of the morning to reach any of its senior management. In the afternoon contact was eventually made with the Financial Controller Investments.

In the event of a settlement default, "meltdown" procedures can apply under SCH Business Rule 7.2 pursuant to which the Securities Clearing House can back out the HIH obligations from scheduled settlement. In view of the amount of the net payment obligation in this particular case, ASX considered the more expedient solution was to negotiate with Macquarie Equities for it to fund its client's payment shortfall through WBC since ultimate responsibility as against the rest of the market rested with Macquarie Equities. To avoid undue settlement delay, ASX put WBC in funds for the net amount in order to allow settlement to go forward. ASX recouped the funds from Macquarie Equities a couple of days later.

In consequence of the settlement default, ASTC suspended the CHES participation of HIHCGI on 16 March 2001 in accordance with SCH Business Rule 19.2.1 (c). Action to commence termination of HIHCGI was then commenced.

On 20 March 2001, CHES approval for securities issued by HIH Insurance Limited (ASX Codes: HIH and HIHG) and HIH Holdings (NZ) Ltd (ASX Code: HNZG) was suspended.

On Friday 20 April 2001, ASTC terminated the CHES participation of HIHCGI pursuant to SCH Business Rule 19.2.1.

Effective Monday 7 May 2001, all Holder Identification Numbers (HINs)¹⁸ sponsored by HIHCGI were cancelled, all holdings converted to the corresponding Issuer Sponsored subregisters, and the Participant Identifier (PID)¹⁹ of HIHCGI cancelled.

HIHCGI lodged with ASTC a performance bond, to the value of \$250,000. The Issuer of this performance bond is WBC. SCH Business Rule 10.19.6 provides that where the participation of a Non Broker Participant is terminated, ASTC must publish a notice in a newspaper of general circulation advertising for claims for compensation to be paid out of money obtained under a performance bond, specifying a date not less than three months after publication of the notice by which claims must be made. If any claims against the bond are made in this period

¹⁸ HINs are numbers used to identify a Holder of Securities on the CHES subregister and to link the holding details maintained on that subregister with the Holders' Registration Details.

¹⁹ The Participant Identifier is a n identification code for a CHES participant that controls a Holding on the CHES subregister and is included in message headers to identify the source and/or destination of CHES data messages.

they must be resolved before the bond can be released. If no claims are made, the earliest date that ASTC intends on returning the performance bond to HIHCGI, in accordance with SCH Business Rule 10.19.8, is three months from the date of publication of the relevant notice, ie Monday 20 August 2001.

Pursuant to SCH Business Rule 3.5.6, if suspension of an issuer's CHES approved securities continues for 60 business days, CHES approval must be revoked with effect from the end of the 60th day. The 60th day will expire on 18 June 2001. On 30 May, ASTC sent a letter to the liquidator noting the revocation procedure and advising that appeal rights exist under SCH Business Rules 3.4.5 and 3.4.6. By 5 pm 18 June 2001 unless the liquidator lodges an appeal in accordance with those Rules, ASTC will revoke CHES approval of HIH, HIHG and HNZZG. Revocation of CHES approval has the effect of converting CHES holdings to issuer sponsored holdings.²⁰

²⁰ Shares registered in an issuer sponsored subregister are held by the company who issues the shares.

Appendix 1 – Requirements for Ministerial Approval of Stock Exchanges

The Corporations Law prohibits the establishment or conduct of an unauthorised stock market. Continuing requirements and mechanisms to promote accountability for the provision of fair and orderly markets are outlined in Appendix 2. An unauthorised stock market is a stock market that is not, among other things, a stock market of a securities exchange. A “securities exchange” is either a stock exchange or an approved securities organisation. A “stock exchange” is either ASX or a body corporate that has been approved as a stock exchange.²¹

The Minister may only approve a body as a stock exchange if the Minister is satisfied that there are adequate provisions in respect of the business rules and listing rules of the exchange. The Minister must also be satisfied that there is or will be adequate protection by way of a fidelity fund and that the interests of the public will be served by the granting of the approval. Once approved continuing requirements are imposed on stock exchanges by the Corporations Law. These are discussed in Appendix 2.

The business rules of a stock exchange seeking approval must make adequate provision for the following matters:

- the standards of training and experience, and other qualifications for membership;
- the exclusion from membership of any person who is not of good character and high business integrity and of any body corporate where a director of the body corporate, a person concerned in the management of the body corporate or a person who has control, or substantial control, of the body corporate is not of good character and high integrity;
- the expulsion, suspension or disciplining of a member for conduct inconsistent with just and equitable principles in the transaction of business or for a contravention of the body’s business rules, of Chapter 7 of the Corporations Law, or of the conditions of a licence held by the member;
- the monitoring of compliance with, and for enforcement of, the body’s business rules;
- the conditions under which securities may be listed for trading on the stock market of the stock exchange;
- the conditions governing dealings in securities by members;
- generally the carrying on of the business of the proposed stock exchange with due regard to the interests of the public.

Amendments to the business rules are subject to disallowance by the Minister.

The listing rules of a stock exchange seeking approval must make adequate provision with respect to conditions under which securities may be traded on the stock market of the proposed stock exchange, and generally provisions for the protection of the public. Amendments to the listing rules are subject to disallowance by the Minister.

²¹ ASX was created in 1987 by the Australian Stock Exchange and National Guarantee Fund Act 1987, which deemed it to be incorporated under the Companies Act 1981. Other securities exchanges in Australia are the Bendigo Stock Exchange, the Newcastle Stock Exchange and the Australasian Bloodstock Exchange. The Stock Exchange of Ballarat is in liquidation. There are also some “exempt stock markets” and special stock markets for unquoted prescribed interests.

Appendix 2 - Continuing Requirements and Accountability for Provision of Fair and Orderly Markets

The Core Ongoing Requirements

Once approved, a securities exchange must, among other things:

- to the extent reasonably practicable, do all things that are necessary to ensure that each stock market of the exchange is an orderly and fair market;
- have adequate arrangements for monitoring and enforcing compliance with its business rules and listing rules;
- have adequate arrangements for the expulsion, suspension or disciplining of a member for conduct inconsistent with just and equitable principles in the transaction of business or for a contravention of the exchange's business rules, Chapter 7 or the conditions of a licence held by members;
- have adequate arrangements for the settlement of transactions that result from trading in securities on a stock market of the exchange;
- have adequate arrangements for investigating complaints by investors relating to the transaction of the business of investors on a stock market of the exchange; and
- within 3 months of the end of each financial year, prepare and give to ASIC a report on the extent to which it complied with each of these requirements during the financial year. The Minister may request that this report be audited.

Minister May Give Compliance Directions

If the Minister is of the opinion that a securities exchange is not complying with these requirements (except the last), the Minister may direct the exchange to take action to promote compliance. A court, on application by ASIC may order an exchange that contravenes a direction to comply with the Minister's direction.

Special Reports May also Be Required by the Minister

The Minister may, at any time, require a securities exchange to prepare and give to ASIC a special report on the extent to which the exchange is complying with these requirements (except the last). ASIC must give the report to the Minister. The Minister may require that it be audited.

Requirement to Assist ASIC

Securities exchanges are required to provide such assistance to ASIC, or to a person acting on behalf of, or with the authority of, ASIC as ASIC reasonably requires for the performance of its functions.

Where a securities exchange reprimands, fines, suspends or otherwise takes disciplinary action against a member of the securities exchange, it must, as soon as practicable, lodge written particulars of the name of the member, the reason for and nature of the action taken, the amount of the fine (if any) and the period of the suspension (if any).

There is also a reporting obligation relative to suspected serious contraventions of the exchange's rules or the Corporations Law. Section 776(2A) provides that where a securities exchange believes a person has committed, is committing or is about to commit a serious contravention of the securities exchange's business or listing rules or of the Corporations Law, the securities exchange must as soon as practicable lodge with ASIC a statement setting out particulars of the suspected contravention and reasons for its belief.

A “disclosing entity” under the Corporations Law includes a body that has at least one class of its securities quoted on a stock market of a securities exchange. If a securities exchange makes information about a listed disclosing entity available to a stock market conducted by the securities exchange, then the securities exchange must, as soon as practicable give ASIC a document that contains the information. This requirement is subject to any regulations made under the Corporations Law, which may provide that information of a specified kind need not be provided to ASIC.

Access must also be afforded to ASIC to the trading ‘floors’ of a securities exchange.

Under the Corporations Law, a ‘dealer’ is a person who carries on a business of dealing in securities (a “securities business”) or two or more persons who together carry on a securities business. Where, in relation to a dealer who is a member of a securities exchange, the securities exchange becomes aware of a matter that, in the opinion of the securities exchange:

- has adversely affected, is adversely affecting or may adversely affect the ability of the dealer to meet the dealer’s obligations as a dealer; or
- constitutes or may constitute a contravention of the provisions of the Corporations Law relating to the dealer’s obligations concerning accounting records; trust accounts, the treatment of scrip that is held in safe custody or relating to money that is lent to the dealer, or registers of interest in securities; or
- constitutes or may constitute a contravention of a condition of a licence held by the dealer,

then the securities exchange must, as soon as practicable after becoming aware of the matter, lodge a written report on the matter with ASIC and send a copy of the report to the dealer.

Remedies

Where a person who is under an obligation to comply with or enforce the business rules or listing rules of a securities exchange fails to so comply or enforce them, a court may order compliance with or enforcement of those business rules or listing rules.

ASIC, the relevant securities exchange or a “person aggrieved” are entitled to make such an application to a court.

A court also has wide powers to make orders wherever it appears that there has been a relevant contravention of the Corporations Law, or the business rules or listing rules of a securities exchange.

Rule Amendments

The Law requires any amendment to the business or listing rules of a securities exchange to be lodged with ASIC. ASIC must provide notification of the amendments to the Minister. The Minister may then disallow in whole or part, any amendment within 28 days of receiving notification. In practice the formal lodgement period is complemented by informal lodgement arrangements with ASIC to facilitate the giving of advice to the Minister. This, depending on the complexity of the changes proposed, introduces a time delay which can be substantive and which needs to be built into the business development process.

Appendix 3 – MOUs with ASIC

Markets MOU

Under the Corporations Law, ASX has a general responsibility to provide assistance to ASIC as ASIC reasonable requires to perform its functions. On 18 December 1992, ASX entered into an MOU on markets setting out details of the arrangements agreed between ASX and ASIC in relation to the referral by ASX to ASIC of possible serious matters, such as insider trading and market manipulation, which ASX detects in the course of its surveillance of its markets.

The MOU sets up a mechanism to facilitate close co-operation between ASX and ASIC. Responsibilities of ASX under the MOU include:

- nominating for the benefit of ASIC any persons which ASX believes could be a possible source of information which may assist ASIC in its investigations;
- providing such assistance as ASIC market teams may request;
- where an ASIC investigation discloses matters which should be subject to disciplinary action or legal proceedings, being involved with ASIC in the assessment as to what appropriate action should be taken;
- being consulted by ASIC before ASIC commences any action against an affiliate or participating organisation so as to co-ordinate the respective response by each agency; and
- assisting in the provision of expert testimony.

The MOU sets out ASIC's arrangements for dealing with referrals from, and co-operating with, ASX.

Membership Matters MOU

On 5 November 1993, ASIC and ASX entered into an MOU on membership matters, in which ASIC and ASX recognise that there are areas of overlap between ASIC's powers and responsibilities in relation to monitoring compliance with conditions of licences to conduct securities businesses and ASX's powers and responsibilities in relation to monitoring compliance with the Business Rules. ASIC and ASX recognise it is in the interests of both parties to minimise duplication of activities.

To this end, ASIC has agreed with ASX to give ASX primary responsibility for ensuring that affiliates and participating organisations are financially sound and that they conduct their business efficiently, honestly and fairly.

The MOU includes arrangements so that ASIC can be satisfied with the procedures adopted by ASX for undertaking that supervision.

Companies Matters MOU

On 23 September 1994, ASIC and ASX entered into an MOU on companies matters setting out the arrangements agreed between ASIC and ASX relating to ASX's monitoring and enforcing provisions of the listing rules and ASIC's enforcing the Corporations Law relating to disclosure, accounting, corporate governance and related party matters.

The Corporations Law requires that ASX lodge a statement with ASIC where it believes that a serious contravention of among other things, the listing rules is committed or anticipated. The Corporations Law also contains a number of other provisions requiring the exchange of information between ASX and ASIC.

The MOU provides that ASX will notify ASIC in circumstances additional to those required by the Corporations Law. For example, if ASX believes that there has been a contravention of the listing rules on a recurrent basis, even if each contravention does not constitute a serious contravention requiring notification, it has agreed to notify ASIC. Similarly, if an application for listing is withdrawn or does not proceed, then ASX has agreed to notify ASIC.

Under the MOU, ASIC has agreed to notify ASX where it believes that a serious or material contravention of the listing rules has been committed or is about to be committed or where it proposes to take or has taken action in respect of an entity that is included, or has applied for inclusion, in ASX's official list.

In the area of disclosure, ASX has agreed that it will take primary responsibility for monitoring and enforcing compliance with the disclosure requirements of the listing rules and notify ASIC as discussed above. In so doing, ASX has regulatory responsibilities including:

- assessing whether market releases have been provided in a timely manner and contain adequate information;
- assessing whether a market release is required based on other information ASX may have;
- reviewing listing documentation to ensure adequate disclosure and an informed market; and
- taking enforcement action where appropriate.

ASX has similar responsibilities in relation to monitoring accounting information and enforcing compliance with the listing rule requirements on related party transactions.

The MOU also provides for co-operation and assistance in areas of overlapping responsibility between ASIC and ASX, as well as for staff secondments and other informal means to exchange information.

The MOU extends ASX's responsibilities and regulatory role by delineating the functions ASX will perform and the action it will take in the areas discussed above where these obligations are not fully set out in the Corporations Law.

Transfer of Information MOU

On 3 September 1997, ASX and ASIC entered into an MOU on transfer of information. ASX receives and disseminates information about listed disclosing entities through its company announcements office. Under the Corporations Law, ASX is required to provide to ASIC, as soon as practicable, documents containing information about listed disclosing entities which ASX has made available to its stock market. This MOU sets out the mechanism for ASX's compliance with that obligation under the Corporations Law.

This MOU does not place additional regulatory responsibilities on ASX in the way the three MOU's discussed previously do. However under this MOU, ASX agrees to provide ASIC with documents containing information about listed disclosing entities even where not strictly required under the Corporations Law (eg because the securities of the entity are suspended from quotation or the entity is an exempt foreign entity) thereby extending the reporting responsibilities of ASX.

Appendix 4 – ASX Accountability

Checks and balances to ensure an appropriate level of accountability by ASX in respect of its market supervision obligations include:

- the transparency of our processes by their embodiment in rules which are made available for public scrutiny and comment, and which are subject to informal ASIC approval processes and Ministerial disallowance procedures;
- structural arrangements to quarantine supervisory decision making;
- the increasing automation of our processes;
- the hearing and appeal rights afforded to our customers;
- public registers of Listing Rule waiver decisions and of Business Rule disciplinary determinations;
- the publication of the basis on which ASX will exercise a discretion under, or grant relief from, particular Business Rules which specifically provide ASX with such discretion or waiver power;
- the imposition by the Corporations Law of ongoing compliance requirements (discussed previously);
- the requirement to lodge a compliance report annually with ASIC and the Minister. The Minister's power to direct that this report be audited;
- the Minister's power to direct ASX to do specified things in order to promote compliance with these ongoing requirements;
- the Minister's ability to request a special report from ASX. The Minister's power to direct that this report be audited;
- ASIC's power to prohibit trading;
- the power of ASIC or a person aggrieved to apply for a court order for ASX to enforce its rules;
- the requirement to lodge particulars of disciplinary action and serious contraventions of the Law/Rules with ASIC;
- the obligations embraced by our MOUs with ASIC;²²
- the committees and tribunals which assist ASX in the performance of its supervisory responsibilities which include people external to ASX²³.

²² ASX has entered into a number of MOUs with ASIC to further refine, and ensure that, ASX properly implements and carries out its supervisory responsibilities. These MOUs, dealing with markets, membership matters, companies matters and transfer of information, place responsibilities on ASX which expand on and complement its supervisory responsibilities under the Corporations Law. A description of these MOUs is contained in Appendix 3.

²³ The **Business Rules Committee** approves proposed amendments to our Business Rules. It is chaired by a member of the Board with stockbroking experience and comprises members, including management and industry representatives, with experience in the equities and derivatives areas. The **Listing Appeals Committee** hears appeals from decisions of management on admissions to and

-
- prohibitions on anti-competitive behaviour or misuse of market position contained in trade practices law.
 - ASX Supervisory Review Pty Limited.²⁴

removals from the Official List and the application of and waivers from, the Listing Rules. It also hears appeals from management decisions on warrant issues and provides advice to management on policy questions as requested. Membership of the committee is based on appropriate industry expertise and knowledge. The Listing Advisory Panel gives advice to management in relation to both general policy matters and decisions affecting particular entities. Joint meetings of the Listing Advisory Panel and the Listings Appeals Committee are also held to consider the annual exposure draft of proposed listing rule amendments. Membership of the Panel is based on appropriate industry expertise and knowledge. The National Adjudicatory Tribunal adjudicates disciplinary matters concerning affiliates and participating organisations and such other matters as are delegated to it from time to time. The Tribunal has a permanent chairman and deputy chairman and a panel from which tribunal members are drawn for hearings. The decisions of the Tribunal may be appealed to an Appeal Tribunal that is currently chaired by a top tier law firm partner. Other members are drawn from a panel. The Appeal Tribunal is also responsible for hearing any appeals concerning admissions, authorisations and other management decisions in the equities, settlement and derivatives areas. The ASTC Board has established a separate Disciplinary Tribunal which considers disciplinary matters relating to the SCH Business Rules concerning non-broker participants, participating organisations and issuers. The Tribunal has an appointed president and deputy president and there is a panel from which tribunal members are drawn for hearings. Members of the Tribunal Panel must be persons of good reputation and high business integrity. The Panel includes senior representatives from non-broker participants and participating organisations. The decisions of the Tribunal may be appealed to an Appeal Tribunal that is currently chaired by a solicitor.

²⁴ A description of the role of ASX Supervisory Review and the philosophy underlying its formation is contained in Appendix 5.

Appendix 5 – ASX Supervisory Review Pty Limited

Proposal for ASX Supervisory Review Pty Limited

ASX Supervisory Review Pty Limited will audit the supervisory policies and procedures of the ASX Group. The Financial Services Reform legislation will also confer on ASIC the power to audit (absent Ministerial direction) our continuing compliance with our obligations as a market provider and clearing house.

ASX Supervisory Review Pty Limited will:

- review the policies and procedures of areas in the ASX Group which have supervisory functions. This will include a review of the level of funding and resources for supervisory functions;
- provide reports and express opinions to the ASX Board on whether appropriate standards are being met and whether the level of funding and resources for supervisory activities are adequate;
- as a result of these activities, provide assurance that the ASX Group adequately complies with its ongoing responsibilities as a market and clearing house operator, is conducting its supervisory activities ethically and responsibly and is maintaining appropriate controls against employee conflict of interest; and
- oversee supervision of listed entities with special identified conflicts that select this option (the “Review Group”).²⁵ The oversight function will involve consultation on each supervisory decision concerning the exercise of discretion.

We consider this structure best promotes consistency of outcomes and timing while affording an extra dimension of transparency and accountability.

In addition to reporting to the ASX Board, ASX Supervisory Review reports will be used to assist in the preparation of our annual regulatory report to the Minister and will be made available to ASIC.

²⁵ The ‘Review Group’ will comprise entities which satisfy one of the following criteria:

- (a) their business is in direct competition with our business in a material way for ASX;
- (b) they hold a substantial shareholding interest in ASX;
- (c) we hold a substantial shareholding interest in them;
- (d) the entity ‘controls’ an entity falling with paragraphs (a), (b) or (c). For this purpose ‘control’ means the direct or indirect capacity to dominate decision making in accordance with AASB 1017: Related Party Disclosure; or
- (e) it is otherwise desirable for the entity to fall within the Group because of the potential for significant conflict of interest.

Appendix 6 – Continuous Disclosure Guidance Note

INSERT GUIDANCE NOTE HERE

Guidance note



Australian Stock
Exchange Limited
ACN 008 624 691

Continuous disclosure: listing rule 3.1

Issued 16/11/98

Introduction

1. This note is published to assist listed entities to understand how listing rule 3.1 of Australian Stock Exchange Limited (ASX) operates. It also discusses ASX's expectations in the area of disclosure of information about oil and gas exploration programs.

The listing rules

2. ASX regards timely disclosure of relevant information as of prime importance in the operation of an efficient market. Listing rule 3.1 is a particularly important listing rule. It is part of ASX's continuous disclosure regime and is based on the following principle:

*Timely disclosure must be made of information which may affect *security values or influence investment decisions, and information in which *security holders, investors and ASX have a legitimate interest. (See the Introduction to the listing manual.)*

3. The listing rule applies to all listed entities except exempt foreign entities. Debt issuers must comply in relation to their debt securities. Entities subject to listing rule 3.1 should ensure that they are familiar with it and make their own judgements when considering how to

comply with it. In the enforcement of the listing rule ASX will give weight to judgements that are logically and honestly made.

Listing rule 3.1

4. Listing rule 3.1 says:

*Once an entity is or becomes *aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information. This rule does not apply to particular information while each of the following applies.*

3.1.1 A reasonable person would not expect the information to be disclosed.

3.1.2 The information is confidential.

3.1.3 One or more of the following applies.

(a) It would be a breach of a law to disclose the information.

(b) The information concerns an incomplete proposal or negotiation.

(c) The information comprises matters of supposition or is insufficiently definite to warrant disclosure.

(d) *The information is generated for the internal management purposes of the entity.*

(e) *The information is a trade secret.*

5. Aware is defined in listing rule 19.12 as follows.

An entity becomes aware of information if a director or executive officer (in the case of a trust, a director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity.

6. The definition of 'aware' is based on section 1002E of the Corporations Law. However, it is narrower in that the test is limited to directors and executive officers and does not extend to employees generally. An executive officer is a person concerned in, or taking part in, the management of the company (see section 9 of the Corporations Law). Compliance with listing rule 3.1 is the responsibility of the entity. Because of the way the listing rules treat an entity as becoming aware of information, the entity should consider appropriate systems to identify material information and decide about disclosure of that information.

7. Entities should also note listing rule 15.7. It says that an entity must not release information which is for release to the market to any person (including the media, even on an embargoed basis) until it has given the information to ASX and received an acknowledgment that ASX has released it to the market. An 'out-of-hours' exception exists (see below - overseas listing).

Structure of listing rule 3.1

Obligation

8. The language of the obligation to disclose under listing rule 3.1 is similar to

the language used in section 1001A of the Corporations Law. An entity must disclose information if a reasonable person would expect that information to have a material effect on the price or value of the securities. A reasonable person is taken to expect information to have a material effect on the price or value of securities if it would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities (see section 1001D).

9. In *Flavel v Roget*, O'Loughlin J said:

Much will depend upon the identity of the particular company; what one company should advise the Stock Exchange might not have to be advised by a second company; what should be advised by a company at one stage in its career might not have to be advised at another stage of its career because of changed circumstances. (1990) 1 ACSR 595, 602-3.

10. An entity must disclose information needed to prevent a false market because it would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities. For this reason, an entity may be required to confirm or correct a rumour (see the discussion on market speculation below).

11. The fact that information is generally available is not an excuse for failing to disclose it under listing rule 3.1. If an entity releases information having a material effect to the media, but does not give it to ASX under listing rule 3.1, the entity is in breach of the listing rule and listing rule 15.7.

12. Listing rule 3.1 is not limited to information from a particular source. The entity must disclose material information of which it is aware that has come from any source. The entity must take into account its interests in other entities.

13. The information to be disclosed is information concerning the entity. An entity is not required to disclose general information, such as the gold price. However, if the information has a particular effect on the entity (eg. a lower gold price means that the entity can no longer economically operate a mine) that effect may be required to be disclosed.

Exception

14. Listing rule 3.1 includes an exception from the requirement to make immediate disclosure. It allows an entity to delay disclosure of particular information. In order to rely on the exception, three requirements must be met. They are set out in listing rules 3.1.1, 3.1.2 and 3.1.3. The exception then operates while each of the three requirements is satisfied. If any of the requirements ceases to be satisfied, the entity must disclose the information immediately.

15. For example, if information that has not been disclosed becomes known in some way to participants in the market, it must then be given to ASX for release to the market. This is because listing rule 3.1.2 is no longer satisfied. It does not matter how the information became known. The obligation to disclose the information arises even though 2 requirements of the exception (ie. listing rules 3.1.1 and 3.1.3) are still satisfied. If the information is then immediately disclosed, listing rule 3.1 is complied with.

Listing rule 3.1.1

16. The first requirement of the exception is that a reasonable person would not expect the information to be disclosed.

17. A reasonable person would not expect information to be disclosed if the result would be unreasonable prejudice to the entity. Similarly, a reasonable person

would not expect disclosure of an inordinate amount of detail.

18. Conversely, if listing rules 3.1.2 and 3.1.3 are satisfied but a reasonable person would expect the information to be disclosed, the exception is not available.

19. ASX will balance the needs of the market and the interests of the entity, bearing in mind the principle on which the listing rule is based, when considering if this requirement is satisfied.

Listing rule 3.1.2

20. The second requirement of the exception is that the information is confidential. 'Confidential' in this context has the sense of secret, and generally implies control by the entity of the use that can be made of the information. Entities should note that they are not entitled to rely on the exception just by entering into confidentiality arrangements (ie. without the other two requirements being satisfied).

21. ASX accepts that confidentiality is not breached if information is given to an entity's advisers, a person the entity is negotiating with, or other regulatory authorities, if it is given on a basis that restricts its use to the stated purpose.

22. Even with public information, some investors receive it and respond to it more quickly than others. But it is inimical to a fair market if some investors have access to information that others do not. Confidentiality means that no one in possession of the information is entitled to trade in the entity's securities. Unusual activity in an entity's securities may suggest that the information is no longer confidential. If it is not, this requirement is not satisfied.

Listing rule 3.1.3

23. The third requirement of the exception is that the information is of the type in one of the listed categories. If it is not, or if it loses that character, then the requirement is not satisfied. The types are:

- It would be a breach of a law to disclose the information.
- The information concerns an incomplete proposal or negotiation.
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure.
- The information is generated for the internal management purposes of the entity.
- The information is a trade secret.

The Corporations Law

24. Section 1001A of the Corporations Law is the central provision concerning liability in respect of statutory continuous disclosure for listed entities. It imposes statutory liability for certain breaches of listing rule 3.1.

25. At the time the section was introduced, the explanatory memorandum said that it was not intended to cover ASX's periodic reporting obligations (eg. half-yearly and quarterly reports).

Continuous disclosure practice

26. It is important to bear in mind that listing rule 3.1 expresses broad principles. It must be complied with in the 'spirit' of continuous disclosure. Listing rule 19.2 makes it clear that it should not be interpreted in a restrictive or legalistic fashion. Listing rule 19.2 says:

An entity must comply with the listing rules as interpreted:

- *in accordance with their spirit, intention and purpose;*
- *by looking beyond form to substance; and*
- *in a way that best promotes the principles on which the listing rules are based.*

27. The credibility of the market is enhanced if continuous disclosure is carried out in the 'spirit' of the listing rule.

Preliminary announcements, trading halts and suspension

28. Some announcement may still be possible even though an entity delays detailed disclosure relying on the exception. An appropriate announcement should be considered (eg. the fact of a negotiation may be able to be disclosed, if not the details of the negotiation).

29. A trading halt is available if such an announcement is not sufficient to properly inform the market. (See the ASX guidance note on trading halts.) The suspension of quotation of the entity's securities at the request of the entity is also available. ASX expects listed entities to consider these possibilities.

Market speculation

30. From time to time an entity may be required to respond to speculation in order for the market to remain properly informed. The most frequent example of this is in relation to media speculation. ASX does not expect an entity to respond to all comments made in the media, or to respond to all market speculation. However when the comment or speculation becomes reasonably specific, or when the market moves in a way that appears to be referable to the comment or speculation, and the entity has not already made a statement in response, ASX will call on it to make a

statement so that the market remains properly informed.

31. ASX does not seek to compel the disclosure of trade secrets, internal management documents or incomplete negotiations that an entity is entitled not to disclose. But it is ASX policy that, whatever the information, and however much it might otherwise have been reasonable not to disclose it, the information should be released to the whole market once it becomes known to any part of the market.

Underwriting

32. Listing rule 3.1 requires an entity to disclose whether there has been a short-fall or over-subscription in relation to a proposed issue of securities that is material to the entity. In the case of a short-fall, one relevant factor to take into account is whether it is likely that an underwriter or sub-underwriter will want to dispose of some or all of the holding. ASX recognises that the entity will not always know the intentions of the underwriter or sub-underwriter.

Disclosure about oil and gas exploration

33. Until 30 June 1998, ASX had specific listing rules regarding disclosure in relation to oil and gas exploration activities. These listing rules were removed because they were placing some ASX listed companies at a competitive disadvantage. This happened because all ASX listed entities engaged in these activities were required to disclose commercially valuable information even if it was not information that a reasonable person would expect to have a material effect on the price or value of the securities of the entity making the disclosure.

34. Of course, if test results or progress in drilling programs are information that a reasonable person would expect to have a

material effect on the price or value of the securities of the entity concerned, listing rule 3.1 requires that it be disclosed. It is unlikely that all the prerequisites to the exception to listing rule 3.1 would be met in relation to oil and gas exploration results, especially those in listing rule 3.1.3 (see paragraph 23 above).

35. ASX expects entities to adopt a regime of structured disclosure at regular intervals for each drilling program following disclosure of information about progress in that program under listing rule 3.1. Entities should apply that regime consistently. Historically, reporting on a weekly basis has been required. This may continue to be appropriate, but the interval an entity adopts should be one that means, in the circumstances of the entity, useful information is provided on a regular basis.

36. Information that is likely to be relevant in regular structured disclosure includes each of the following.

- The name of the well.
- The permit in which the well is located.
- The well's position in the permit with respect to previous wells, known oil or gas fields, or towns.
- The depth of the well.
- Progress since the last disclosure.
- Details of any indications of hydrocarbons and fluids observed while drilling.
- The entity's beneficial percentage interest in the well.
- The time to which progress is reported.

Analysts reports

37. Analysts can play an important role in providing information to the market. However an entity must ensure that only public information is given when answering an analyst's questions or reviewing an analyst's draft report. It is inappropriate for a question to be answered, or draft report corrected, if doing so involves providing material information that is not public. One

consequence is that the exception from disclosure ceases to operate. When analysts visit the entity care should be taken to ensure that they do not obtain material information that is not public.

Employees

38. Some employees have access to information that is not public. They should be made aware of its confidential status. Entities should also be careful that confidential information does not find its way into an 'in-house' publication.

Overseas listing

39. Entities also listed overseas should note that, generally, information must be given to ASX no later than the time that it is given to the overseas market. However, it may be given to another exchange first if ASX is closed and that other exchange's listing rules require its disclosure immediately. In that case, the information must be faxed to ASX with advice that it has been released (see listing rule 15.7). Additional information that might be necessary (eg. exchange rates) should be included with the fax.

Censored documents

40. Some entities rely on an Australian Securities and Investments Commission class order, or a modification of section 1029 of the Corporations Law, allowing them not to make available for inspection sensitive information in a contract referred to in a prospectus. The contract which is made available is censored. The class order or modification does not necessarily mean that the exception in listing rule 3.1 also applies.

41. An entity which relies on the class order or a modification may be required to assure ASX that the information censored from the material contract is not information which would be required to be

disclosed under the listing rules and, in particular, under listing rule 3.1. Alternatively, the entity may make the uncensored contract available.

Disclosure and accounting standards

42. Listing rule 3.1 imposes obligations over and above those contained in other areas of the Corporations Law. For example, for the market to be properly informed an entity may be required to provide additional accounting information, or to provide accounts in a different form to that required under the Corporations Law.

Examples of the operation of listing rule 3.1

43. Listing rule 3.1 indicates some matters that may require disclosure by examples at the end of the listing rule. Further examples are set out below. They explain in more detail the operation of the listing rule. For simplicity, they assume that the amounts involved are large enough to have a material effect on the price or value of the entity's securities. They illustrate general principles only and do not affect the operation of the listing rules.

44. *X Ltd enters into a confidential settlement of a product liability claim involving payment of damages.* Disclosure of the amount of the settlement and other material terms would normally be required. This is so even if the proposed claim was never made public.

45. *X Ltd reaches agreement in-principle for the supply of major plant and equipment but has not yet signed the formal contract.* Disclosure would not normally be required, unless signing of the contract was merely a formality. If binding heads of agreement were entered and the contract was subject to conditions precedent, then disclosure would normally be required unless the

satisfaction of the conditions was really in doubt.

46. If the heads of agreement were not binding, disclosure might be delayed. In this case, it could be said that the proposal is incomplete. Of course, the delay would be subject to there being no media publicity and no movement in the price of the entity's securities which indicates that confidentiality may be lost.

47. *X Ltd signs a formal contract for the supply of major plant and equipment but the contract is conditional on a loan being approved by the purchaser's bank.* Disclosure would normally be required, stating that the contract is conditional upon a loan being approved. Only if there is real doubt about the loan being obtained would this example come within the concept of an incomplete proposal or negotiation.

48. *X Ltd signs a formal contract for the supply of major plant and equipment but the contract is conditional on a loan being approved by the purchaser's bank and provides that details of the transaction are not to be made public until after the loan approval is secured.* Initially, disclosure may be in the form of a preliminary announcement. If no satisfactory preliminary announcement is possible, a trading halt or suspension should be considered.

49. *X Ltd is considering entering a joint venture and holds preliminary discussions with prospective joint venture partners as to their willingness to explore the possibility.* Disclosure would not normally be required. This is the case whether the proposed joint venture relates to the whole of the undertaking of a small entity (for example) or a part only of the undertaking of a large entity.

50. *X Ltd is looking at entering a joint venture and executes a confidentiality agreement to protect information exchanges*

between it and the prospective joint venture partners. Disclosure of the agreement would not normally be required since it is merely part of a negotiation.

51. *X Ltd executes heads of agreement with joint venture partners to pursue a joint venture project. The joint venture is subject to formal contract.* Generally as in paragraphs 45-46. However, in some cases heads of agreement are intended to be binding (subject perhaps to compliance with a condition such as regulatory approval). In that case, disclosure would be required.

52. *X Ltd executes a formal contract for a joint venture.* Disclosure would normally be required.

53. *The amount shown in the accounts of X Ltd may need to be increased to cover bad loans but the precise figure is not known.* If the board of X Ltd does not have enough information to decide whether an adjustment needs to be made, disclosure normally is not required.

54. However, if there is enough information to decide that an adjustment must be made, even though it is not enough to decide the amount, disclosure would normally be required. The decision has been made, and the fact that the precise figure has not yet been received is irrelevant. The disclosure should approximate the amount, or explain how the amount will be arrived at. An announcement quantifying the amount should be made as soon as the amount is known.

55. *X Ltd commences drilling an oil exploration well. Experience with other wells suggests that progress in drilling the well will have a material effect on the price or value of X Ltd's securities.* Disclosure of progress is required. (see paragraphs 34 - 36.)

56. *X Ltd plugs and abandons an oil exploration well. Progress in drilling the*

well was reported to the market. Disclosure would normally be required.

57. *The board of X Ltd has met with its auditors and is aware that they will be providing a qualified report concerning the*

value of property shown in preliminary accounts to be given to ASX. A figure has not been given by the auditors and the board will receive a written report shortly. As in paragraphs 53-54.

Appendix 7 - List of HIHG Market Announcements

Announcement Listing

Report Date: 04/06/2001

Selection

Announcement:
 Issuer Code: HIH
 Report Classification:
 Home Branch: All

Release Date(s): 11/07/2000
 To: 17/04/2001
 Public/Internal: All
 Sensitivity: All

Release Date	Ann No	Code	Sens	Page	HeaderText
11/07/2000 12:58:18	2A212635	HIH	N	5	MBL's Endowment Warrants Report
11/07/2000 12:59:36	2A212608	HIH	N	5	MBL's Quarterly Warrant Issuer Report
12/07/2000 11:07:59	2A212717	HIH	Y	2	Key Strategic Alliance extended to 2004
18/07/2000 3:43:45	2A213136	HIH	N	12	Change in substantial holding for ACY
01/08/2000 2:46:43	2A214132	HIH	N	11	Change in substantial holding for ACY
18/08/2000 10:39:25	2A215357	HIH	N	4	MBL Endowment Warrants
21/08/2000 10:15:19	2A215462	HIH	N	2	Statement regarding media report
06/09/2000 8:54:03	2A216899	HIH	N	11	Change in substantial holding for ACY
11/09/2000 10:04:02	2A217311	HIH	Y	2	Trading Halt
13/09/2000 10:02:46	2A217595	HIH	Y	1	Suspension from Official Quotation
13/09/2000 12:22:19	2A217634	HIH	N	23	Preliminary Final Report and Media release
13/09/2000 12:47:42	2A217643	HIH	Y	2	Reinstatement to Official Quotation
13/09/2000 2:20:35	2A217670	HIH	N	21	New Venture & 1999/2000 Results Presentation
14/09/2000 3:27:22	2A217876	HIH	N	1	Section 205G Notice - Director's Interests
14/09/2000 4:03:56	2A217888	HIH	N	1	Section 205G Notice - Director's Interests
18/09/2000 4:01:47	2A218091	HIH	N	1	Section 205G Notice - Director's Interests
19/09/2000 2:12:52	2A218179	HIH	N	1	Section 205G Notice - Director's Interests
19/09/2000 4:42:01	2A218197	HIH	N	1	Section 205G Notice - Director's Interests
21/09/2000 3:17:15	2A218360	HIH	N	1	Section 205G Notice - Director's Interests
21/09/2000 6:01:35	2A218402	HIH	N	1	Section 205G Notice - Director's Interests
22/09/2000 10:52:57	2A218431	HIH	N	1	Section 205G Notice - Director's Interests
29/09/2000 9:09:34	2A218864	HIH	N	1	Section 205G Notice - Director's Interests
29/09/2000 9:16:07	2A218866	HIH	N	1	Section 205G Notice - Director's Interests
04/10/2000 12:20:53	2A219238	HIH	N	2	Section 205G Notice - Director's Interests
05/10/2000 8:52:48	2A219303	HIH	N	8	Appendix 3B - Conversion of Convertible Notes
05/10/2000 9:12:12	2A219308	HIH	N	8	Appendix 3B- Conversion of 8% Convertible Notes issued 1996
05/10/2000 11:57:50	2A219333	HIH	N	2	Section 205G Notice - Director's Interests
05/10/2000 4:53:37	2A219371	HIH	N	11	Ceasing to be a substantial holder for ACY
09/10/2000 9:14:50	2A219497	HIH	N	9	Appendix 3B - Issue under DRP
10/10/2000 3:33:55	2A219728	HIH	N	5	Chairmans Letter to Shareholders
11/10/2000 2:54:04	2A219845	HIH	N	5	MBL Endowment Warrants: Warrant-Issuer Report
12/10/2000 2:39:48	2A219999	HIH	N	2	Management & Board Changes
13/10/2000 9:54:56	2A220058	HIH	N	11	Ceasing to be a substantial holder
17/10/2000 2:04:19	2A220372	HIH	N	77	ASIC Annual Audited A/cs
17/10/2000 6:21:11	2A220411	HIH	N	26	Concise Financial Report
18/10/2000 3:03:32	2A220497	HIH	N	1	Section 205G Notice - Director's Interests
19/10/2000 9:25:33	2A220565	HIH	N	1	Section 205G Notice - Director's Interests
19/10/2000 5:09:22	2A220673	HIH	N	1	Section 205G Notice - Director's Interests
19/10/2000 6:24:15	2A220683	HIH	N	2	Section 205G Notice - Director's Interests
20/10/2000 6:41:37	2A220844	HIH	N	3	Replacement pages for Financial Stmtnts./Concise Fin.Stmnts.
31/10/2000 9:35:51	2A221805	HIH	N	1	MBL Endowment Warrants
31/10/2000 9:58:53	2A221811	HIH	Y	2	Exits Loss Making Business in United States
02/11/2000 12:35:00	2A222110	HIH	Y	2	Receives \$125m completing first leg of US asset deal
03/11/2000 12:48:10	2A222242	HIH	N	2	S & Ps Rating Changes
03/11/2000 3:19:13	2A222269	HIH	N	1	Change to AGM Date
07/11/2000 11:22:41	2A222403	HIH	Y	2	Operations in Asia
07/11/2000 2:43:59	2A222424	HIH	N	1	Advice re Section 259C Notice
08/11/2000 5:42:50	2A222527	HIH	N	1	Section 205G Notice - Director's Interests
09/11/2000 10:34:25	2A222581	HIH	Y	1	NRM ann Media Speculation re possible purchase of HIH Insur
14/11/2000 12:44:19	2A222936	HIH	N	1	Record Date for Interest Payments on Unsecured Notes

Announcement Listing

Report Date:04/06/2001

Release Date	Ann No	Code	Sens	Page	HeaderText
14/11/2000 5:18:09	2A222979	IIII	N	11	Ceasing to be a substantial holder for PSI
16/11/2000 5:41:50	2A223194	IIII	N	4	Notice of Annual General Meeting
16/11/2000 5:43:51	2A223196	IIII	N	125	Concise Financial Report/Annual Report/Top 20
17/11/2000 12:05:16	2A223258	IIII	Y	2	To offer Australian corporate clients 'AA-' backing
22/11/2000 10:07:27	2A223581	HIH	Y	2	HIH Confirms On-Going Discussions with Gerling Group
04/12/2000 3:52:25	2A224468	HIH	N	2	Financial strength ratings affirmed at A-
15/12/2000 2:04:12	2A225391	IIII	N	2	Retirement of Director&Chief Executive/Appmnt of Chief Exec.
15/12/2000 4:07:37	2A225407	IIII	N	16	Chairman's & CEO's Address to Shareholders
18/12/2000 9:43:46	2A225468	HIH	N	1	Results of AGM
22/12/2000 10:19:59	2A225913	HIH	N	6	Ceasing to be a substantial holder
27/12/2000 1:44:40	2A226056	HIH	N	2	Section 205G Notice - Director's Interests
03/01/2001 3:24:49	2A226280	HEH	N	8	Appendix 3B-conversion of co's 8% convertible notes
09/02/2001 10:47:43	2A228254	IIII	Y	2	Progress Report following appointment of Randolph Wein
22/02/2001 10:15:54	2A229127	IIII	Y	2	Trading Halt
26/02/2001 9:48:58	2A229312	IIII	Y	3	Composition of int loss/Restructuring of bus going forward
26/02/2001 11:39:31	2A229336	IIII	N	2	Director Resignation
27/02/2001 12:53:49	2A229439	HIH	Y	1	Trading Halt
01/03/2001 10:13:55	2A229652	HIH	Y	3	Suspension from Official Quotation
05/03/2001 5:57:53	2A229929	HIH	N	2	Media Release: Corporate business
06/03/2001 10:11:14	2A229963	IIII	N	3	QBE:QBE&HIH to form JV for major corp Insurances in Aust&NZ
06/03/2001 11:06:06	2A229983	IIII	N	3	HIH & QBE corporate insurances joint venture
09/03/2001 5:27:24	2A230373	HIH	N	1	Regulatory Authorities
09/03/2001 5:45:57	2A230376	IIII	N	1	Allianz Put Options
13/03/2001 9:50:33	2A230501	HIH	N	2	QBE's ann: QBE & HIH Sign Joint Venture Agreement
13/03/2001 9:56:37	2A230503	HIH	N	2	QBE & HIH sign joint venture agreement
14/03/2001 9:42:38	2A230607	HIH	N	2	QBE's ann: QBE Corporate Insurance Joint Venture with HIH
14/03/2001 9:42:50	2A230606	HIH	N	2	HIH announces \$130m Deal with NRMA
14/03/2001 9:42:52	2A230613	IIII	N	3	HIH's ann:NRMA to take on HIH Workers Compensation Portfolio
14/03/2001 6:37:20	2A230708	HIH	N	4	Background Info IIII Insurance Aust. Workers' Comp portfolio
15/03/2001 8:57:23	2A230736	HIH	Y	4	Standard & Poor's Announcement Index Sample Changes
15/03/2001 7:25:44	2A230890	HIH	N	2	HIH moves to appoint provisional liquidator
16/03/2001 10:15:10	2A230926	HIH	N	2	Premiers claims rejected
16/03/2001 10:19:01	2A230928	HIH	N	2	QBE Corporate Insurance/HIH
16/03/2001 10:33:10	2A230934	IIII	N	2	NRM's ann: NRMA Insurance Grp/HIH Transaction confirmed
19/03/2001 4:49:13	2A231201	HIH	N	1	ACY's:Reviewing Lease Exposure to FAI Gen. Insurance Co Ltd
22/03/2001 2:33:51	2A231510	HIH	N	2	WBC: Clarifies exposure to HIH
23/03/2001 5:55:00	2A231648	HIH	N	2	NRM's ann:HIH Insurance Aust.Workers' Compensation Portfolio
27/03/2001 9:22:24	2A231782	HIH	Y	2	QBE Corporate Insurance Ltd
27/03/2001 1:03:07	2A231818	HIH	N	1	NRMA acquires certain subsidiaries of HIH
28/03/2001 4:26:15	2A231951	HIH	N	1	re: Commissioner of Insurance Hong Kong
28/03/2001 4:43:13	2A231962	HIH	N	3	NRM completes HIH workers' compensation transaction
02/04/2001 12:57:13	2A232271	IIII	N	2	ACY: Clarification of position re Leases to FAI-sub of HIH
05/04/2001 3:12:41	2A232605	HIH	N	1	CNN Safetrate Ltd Investment Update
17/04/2001 4:47:23	2A233227	HIH	Y	2	QBE expands into Latin America

Appendix 8 – HIHG Market Announcements

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HIH INSURANCE

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HIH Insurance Limited ACN 008 636 576
AMP Centre, 50 Bridge Street, Sydney, NSW 2000, Australia
DX 10149 Sydney, G P O Box 9814 Sydney 2001
Telephone 02 9650-2000 Facsimile 02 9650-2083

Secretariat

Facsimile transmission

To	Company Announcements Office	Date	15 December 2000
Company	ASX	Fax No.	Auto
Total no of pages	16	Phone No.	
<hr/>			
From	Frederick Lo	Phone No.	02 9650-2000
Subject	Listing Rule 3.13.3	Fax No.	02 9650-2083

Attached please find text of prepared speeches that will be delivered by the Chair and the Chief Executive Officer respectively at the Company's annual general meeting to commence at 4.00pm on 15 December 2000.

Yours faithfully

A handwritten signature in black ink, appearing to be 'F Lo', written over a horizontal line.

F Lo
Company Secretary

Australian Stock Exchange



HIH000199

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**Chairman's address
HIH Insurance 2000 Annual General Meeting
Friday, 15 December 2000**

Introduction

I am most appreciative of your presence here today and for the opportunity to discuss the position of the company with you. My address will be distributed to all shareholders as soon as is practicable after this meeting.

In the lead up to this meeting, we have heard from a large number of shareholders and I know that all of you are seeking detailed commentary on what has been happening to the company and, more importantly, where is it heading?

What has happened to the company?

What is clear is that the company has been facing some fundamental and serious business challenges. It is also clear that most shareholders have experienced a substantial erosion in the value of their holdings.

Earlier this year, on the release of our Interim Results, we genuinely believed we had turned the corner from what had been a tough period culminating in the Company's only ever reported loss. We were wrong. Our second half failed to improve on the first half operating performance and saw further improvement in our Australian insurance operations offset by poor results from the United Kingdom and the United States. Additional write-offs from our FAI acquisition were taken to the Balance Sheet through goodwill. The final reported profit of \$18.4 million after tax and abnormals represented an unsatisfactory outcome.

Today I propose to comment on that outcome in a structured manner. In order to do that, I need to go back in time briefly and then, hopefully, you will have a better context for our current situation. Accordingly, I am going to discuss:

- The strategic growth of HIH
- Key recent developments
- The business impact of those developments
- Our immediate strategy to protect the business and its capital base
- Our current position
- Our strategy going forward
- Our financial results and outlook

THE STRATEGIC GROWTH OF HIH

A corporate insurance specialist

As many of you are aware, HIH was established over 32 years ago as a workers compensation underwriting agency. The company listed on the Australian Stock Exchange in 1992 as a corporate insurance specialist, still with a heavy involvement in workers compensation insurance. The market response to the listing made it quite clear that greater diversity needed to be a key business strategy. Such diversity by both product and market was viewed as a means of reducing potential earnings volatility.

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By the mid-1990's, a further factor was at work -- it had become apparent that a substantial deterioration in premium rates for corporate insurance was underway. This market softening was due to a combination of factors but primarily due to excess capacity. Faced with this substantial deterioration in market conditions for our core business, the necessity for diversification became even more pressing and urgent.

Winterthur and the move to retail

Consequently, in 1995, we acquired CIC Insurance Limited and, through that transaction, a new major shareholder in Winterthur Swiss Insurance Company. The CIC acquisition provided HIH with sizeable portfolios in Australian personal lines on retail business. At the beginning of 1997, we added to our retail business through the acquisition of the general insurance business of Colonial Limited. These initiatives were essentially defensive measures designed to secure greater portfolio diversity. They have often been misinterpreted as simply a quest for top line growth.

The Winterthur exit

In 1998, restructuring within the merger of Winterthur with the global Credit Suisse Group led to Winterthur announcing its intention to exit its major involvement in mainstream Australian general insurance and its shareholding in HIH.

Refinancing with converting notes

Winterthur's intention to sell-down its shareholding meant that HIH had to take immediate action to underpin its capital base and Standard & Poor's ratings. This was secured through the issue of converting notes in June 1998. Those notes were issued at a time when the HIH share price was in the \$2.50 to \$3.00 range. The structure of the notes was seen as non-dilutionary in that they would ultimately convert at a small discount to market and their conversion would be non-dilutionary to shareholders provided the share price at conversion remained above the company's net tangible asset backing per share. The minimum conversion price of 25c assigned to the notes was thus not seen as a significant dilutionary risk for ordinary shareholders.

More retail -- the FAI takeover

Shortly after the issue of those notes, in August 1998, HIH launched a successful takeover bid for FAI Insurances Limited. The FAI acquisition delivered HIH a direct distribution franchise and the final link in a comprehensive chain of general insurance distribution channels. The acquisition also added critical mass to HIH's Australian retail operations -- an essential business requirement both then and now. The FAI acquisition took effect from January 1999.

The FAI acquisition was part funded through the issue of a new series of converting notes, substantially similar in terms to the 1998 issue. In fact, holders of the 1998 notes ultimately agreed to have their "old notes" incorporated into the 1999 issue. As such, all of the 1998 and 1999 notes are now consolidated into the one instrument which is listed on the Australian Stock Exchange under the code HNZG. I shall be making further comment on these converting notes later in this address.

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KEY RECENT DEVELOPMENTS

Tough market conditions

From early 1999, global and local market conditions continued to deteriorate, although Australian market conditions began to turn the corner late in 1999 and have continued to improve across the board since then.

Throughout 1999, a number of external events adversely affected the company. Most notably these were the April 1999 Sydney hailstorm - Australia's largest insured loss for a single event disaster; international weather related catastrophes; weak and volatile market conditions and claims inflation placing pressure on the company's United States workers compensation business; and the impact on HIH of the Australian Government's GST legislation.

In the last few days of 1999, severe windstorms in Europe added to the catastrophe losses.

A demanding new regime - APRA

Through this year an additional external pressure on Australian licensed insurers has been the impending changes to the regulatory framework proposed by the Australian Prudential and Regulatory Authority (APRA). The series of proposals currently put forward by APRA will make Australia one of the world's most capital intensive general insurance jurisdictions. This added cost of capital will mean that much business will be placed outside of Australia because other markets and jurisdictions are not subject to the same oppressive capital requirements. However, as an Australian insurer, HIH is preparing itself for the new regime and this has necessitated a significant level of business and capital restructuring.

All of the above factors can be characterised as external issues that have had an impact on the profitability of HIH. In that sense they are part of the operating environment that we share with other insurers.

Our own problems

The issues specific to HIH that have caused us the most financial harm are:

- our United Kingdom operations
- our re-entry into United States Workers Compensation, and
- our acquisition of FAI Insurances

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United Kingdom losses

HIH wrote its United Kingdom business through a Branch structure until, in 1998, the acquisition of the Cotesworth Group Limited facilitated direct participation in the Lloyd's market.

Since 1999, the Branch has been in run-off and all of HIH's United Kingdom business is written through Lloyd's.

HIH made good profits from the United Kingdom in the 1990's. Since that time, with the market downturn, substantial losses have been incurred, first within the Branch and more lately within Lloyd's. While there is a widespread view that Lloyd's pricing conditions and results will be substantially stronger in 2001, this does not diminish the adverse impact on HIH over the past few years.

The Lloyd's market, in particular, has historically displayed a distinct premium rate cycle. The market view currently is that the low point has been reached and that the cycle is now upswing. The record shows that our Cotesworth syndicates match or outperform their peers at Lloyd's. It is therefore a reasonable expectation that we should derive the full benefit of any market improvement.

An expensive United States market re-entry

HIH had a good experience in California workers compensation from its entry in 1987 to its very profitable sale in 1995. The timing of the exit was also good – in 1993 the total premium pool in that market was in excess of US\$10 billion. By the end of 1995, changes to the competitive environment meant that the premium pool had halved.

There were plenty of precedents to suggest that, within a few years, the market would correct. We re-entered California in 1997 seeking to buy back at the bottom, having sold at the top.

Regrettably, there has been no market correction to this date. Premium as a percentage of payroll is around its lowest level for more than a decade. Claims costs have risen by over 50% since 1995. In such an environment, even our own well-managed business could not generate profits even with sensible geographic diversification outside of California. While there has been some recent market recovery, it is neither adequate nor necessarily sustainable.

As a consequence, we have taken action on the whole of our United States Workers Compensation interests.

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Mixed results from the FAI acquisition

The acquisition of FAI was strategically correct, but has since proven to be costly.

Since acquisition, we have extracted substantial synergy benefits of \$50million per annum from the insurance operations. We have also successfully met the challenge of rationalising FAI's so-called "non-core" assets (which included wide-ranging property interests, business ventures and a coal mining operation).

Where the damage was occurred, especially this past year, has been through adverse claims development from business acquired through the acquisition of FAI. In this respect, FAI has significantly strained our cash flows and capital base.

The best elements of FAI have materially enhanced our retail market franchise and this is proven through the terms of the Allianz venture.

Notwithstanding, with the benefit of hindsight, the FAI acquisition certainly was expensive. Taking into account all of the pluses and minuses, including the Allianz venture, it has cost us approximately \$200 million more than we first anticipated.

At the time, the bid was launched, there had been no due diligence because, as with many public companies in such situations then and now, due diligence access had been refused, HHH relied on publicly available information, including FAI's published audited accounts.

There has been some recent publicity concerning the prospect of HHH initiating legal action in respect of the FAI acquisition. I can confirm that the Board has not yet made any decision in respect of this matter, particularly on the question of any possible litigation. The matter is under review.

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THE IMPACT ON THE LATEST RESULTS

Offsetting actions

The impact on the results of the past year could have been greater except for two factors :

- As noted in our accounts, the adverse operating conditions experienced in the 1999 / 2000 report were partially offset by the company utilising whole of account reinsurance contracts to protect the underwriting portfolio. Such contracts, which are now commonly used in the industry, are essentially designed to reduce volatility from underwriting (especially in years such as the last where there has been an unusual incidence of catastrophes).
- The second factor that lessened the impact of the adverse trading conditions on the bottom line was as I referred to earlier, the accounting treatment of the FAI run-off claims deterioration. All of the impact of this deterioration was accounted for as a goodwill adjustment. The rationale for this treatment was that the deterioration came from outstanding claims that were already part of the FAI balance sheet acquired by HIH. The venture announced with Allianz to which I will refer in more detail later, means that the value of the majority of ongoing FAI business has now been crystallised and will offset a substantial proportion of the current large goodwill figure when the transaction is completed on 1 January 2001. Obviously, this will substantially reduce the impact on our profit and loss goodwill amortisation in the future. It should be noted that the portfolio going into the Allianz venture comprises all of the HIH Australian retail business and, as such, is made up of FAI, CIC and some HIH product.

Financial Damage

As you are all aware, the overall financial impact of all of the recent events that I have described has meant that the company has suffered material damage to both our profitability and our capital base.

Our key business imperative for the start of this millennium was to grow our retained earnings in order to facilitate further expansion of our Australian retail insurance portfolio and also to reinforce our capital position in the transition to the new APRA regime. Regrettably, the outcome of the year to 30 June 2000 was to diminish our capacity to achieve either of these objectives.

Our aspirations are now tempered by the reality of our financial position.

Our capital base has been materially eroded and this is reflected in the recent lowering of our Standard & Poor's insurer financial strength rating for our Australian business from A- one notch lower to BBB+. This rating remains on CreditWatch pending the finalisation of our restructuring programme. Our New Zealand operations remain at A- due to the stand-alone strength of that business and some legal restructuring.

We do not now have sufficient capital to independently continue growing our Australian retail portfolio. As we have said on many occasions, the retail business requires substantial scale in order to achieve the necessary cost efficiencies and profitability.

Given our financial results, the global business review that we had initiated earlier this year acquiring a different set of priorities and a greater sense of urgency.

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IMMEDIATE STRATEGY

We have had to review all of our business to ensure that we can continue to pursue only those areas that are sustainable in the short to medium term. The key objectives have been to protect and nurture our core business areas and to ensure that the company has a sound financial base supported by adequate cashflow. This has led to a series of decisions and initiatives which have included the following :

The Allianz venture

We have formed a venture with Allianz Australia Limited through which both companies will market all of their Australian retail general insurance business. The terms of the venture provide Allianz with 51% equity and HIH with 49%. HIH is contributing approximately \$1,000 million in gross earned premium to the venture with Allianz contributing premium of approximately \$400 million. Allianz is paying HIH \$200 million upfront and has a call option for the ultimate acquisition of HIH's 49% share. The Allianz call option is exercisable 5 years from the 1 January 2001 commencement (or earlier in certain defined circumstances) for an exercise price based on a fair market valuation and subject to a minimum of \$125 million and a maximum of \$500 million. HIH has a put option, exercisable for \$125 million at any time.

HIH thus derives three benefits from this transaction, namely \$200 million in cash payable in January 2001 ; the additional \$125 - \$500 million ultimately payable by Allianz ; and up to five years more of premium, claims, expenses and profits (based on HIH's 49% equity in the new venture).

As I said earlier, the Allianz venture is consistent with our view that the retail market franchise needs to be large in scale. The transaction recognises that we cannot independently further derive the necessary critical mass for this area. The intended five year term also matches the proposed transition period to the new APRA regulatory regime. Our eventual exit from the retail business will vastly reduce the amount of premium we are writing and our capital requirements at the time that the new APRA regime is due to be fully operational.

Exiting the United States

We have also further reduced our longer term capital requirements by exiting our loss making United States workers compensation business. This has been achieved through two separate initiatives involving the sale of our renewal rights to our workers compensation portfolio and by ceasing to underwrite United States workers compensation as of 31 October 2000. The United States workers compensation business represented 10% of HIH's total gross earned premium in 1999 / 2000 but its financial performance has been problematic and it has certainly not met the performance criteria established under the company's global business review. The exit strategy involves the sale to Alaska National Insurance Company and to Argonaut Co company of the renewal rights and other tangible assets related to different components of all of our United States workers compensation portfolio.

Our remaining operations will be transformed into a managing general agency which will generate fee income and fund the preservation of our own expert management team to conduct the run-off of our claims.

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Optimising value from Asia

We have accelerated the financial restructuring of our Asia operations. As we have consistently said, appropriate returns will only be generated from this promising segment if we are able to add to its scale. We do not currently have capital available for such a commitment. Consequently, we are examining a range of options, including a joint venture approach, designed to increase scale off our existing capital base. Discussions with interested parties as part of our joint venture approach have confirmed the significant value of our Asia franchise. The ultimate decision on this business will be made on the basis of optimising that value for shareholders.

Preserving the Australian corporate business base

We have moved swiftly to ensure the preservation of HIH's market leading corporate insurance portfolios and underwriting and claims teams following the lowering of our Standard & Poor's rating from A- to BBB+. On Friday, 17 November 2000, we announced, subject to regulatory approval, the formation of a new managing general agency designed to provide HIH's Australian non-statutory corporate clients with access to the Standard & Poor's AA- (very strong) backing through the Gerling Group. The agency structure commenced operating from 1 December 2000.

We described this initiative as prudent, sensible and in the best interests of shareholders because it preserves our valuable Australian corporate business franchises notwithstanding HIH's now lower Standard & Poor's rating. The insurance market response has been emphatically supportive. Corporate insurance buyers and their intermediaries want continued access to the underwriting and claims management skills that have made HIH corporate insurance market leaders. The corporate financial issues currently being addressed by HIH do not alter the fact that technically and operationally we are the Australian corporate insurance market leader. The managing general agency and backing from the Gerling Group simply preserves that position.

A strong relationship with Gerling

We have also subsequently confirmed that we are in ongoing discussions with the Gerling Group in relation to cementing even stronger ties with them. The tough market conditions for general insurance and the emerging demands of Australia's new APRA regime are creating an environment where the Australian corporate insurance market is increasingly becoming the province of global market leaders. In addition, some of that Australian corporate business is now being placed offshore into markets such as Lloyd's. While it obviously makes sense for HIH to have a strong relationship with a large international group, it is also currently a business necessity given the operational constraints of our current Standard & Poor's "BBB+" rating.

Board and management changes

As well as all of the other decisions made within the context of our global business review, we have also made Board and Management changes. On 12 October 2000, we announced a number of changes following a detailed review of Board structure, corporate governance and management issues.

The Board was been substantially restructured and reduced in size through the deletion of the Executive Director positions and the reduction of non-Executive Director positions by one. The newly constituted Board at that time comprised the Chairman, Chief Executive, four non-Executive Director positions and one Executive Director.

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The Board changes recognised the view of many shareholders and the wider investment community that substantial improvements would be achieved through a smaller Board with significantly less Executive representation.

Ray Williams announced his retirement on 12 October and he has now stepped down from the position of Chief Executive with the appointment of his successor, Randolph Wein.

I would like to place on record my thanks to all of the individuals who served as Directors. In particular, the contribution of Ray Williams over 32 years should be recognised. This company was his vision and his passion. Out of nothing, he created a major Australian international insurance group and, with it, jobs for several thousand Australians. His contribution to Australia and to the Australian insurance industry has been substantial.

There has been some speculation concerning the issue of a termination payment for Mr Williams. Like most Chief Executives, he has a contract. We have finalised a termination payment of \$5 million by reference to that contract and on the advice of independent remuneration consultants.

CURRENT SITUATION

A sound reconstituted business

The newly constituted Board has responsibility for a significantly reconstituted business. We now have, going forward:

- Corporate insurance market leadership in Australia and New Zealand
- A 49% interest in one of Australia's leading retail general insurance franchises for up to five years
- A significant presence at Lloyd's of London, the premier international insurance market
- A valuable regional nucleus in our Asia operations, and
- A strengthened capital base together with a clear focus on our core businesses.

The completion of our global business review will conclude the strategy for going forward with those operations supportable within the limitations of our current capital and resources.

SPECIFIC ISSUES

Before moving to comment on our performance so far this financial year and our outlook, I would like to deal with a number of issues that have been the subject of continuing enquiry from our shareholders.

Onetel investment

There has been a degree of confusion as to HIH's investment in OneTel. This shareholding was acquired as part of the FAI investments and has always been treated as "non-core" by HIH. At the beginning of the 1999 / 2000 financial year, HIH had close to 44 million shares in OneTel. It has never been the company's investment policy to hold such large positions in any one stock. Consequently, since that time we have steadily realised our position on a favourable basis. HIH now does not hold any shares in OneTel.

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Claims reserves

Many shareholders have raised concerns about the adequacy of the company's claims reserving, both in respect of ongoing business and also in relation to businesses in run-off. The claims reserves across the business are set using management estimates and a mix of internal and external actuarial advice. The company does not currently adopt prudential margins around its central claims estimates. Such margins will be required under the new APRA proposals. However, the Board is of the opinion that the reserves are adequate and this is supported by very recent independent external advice sought by the Board as part of HIH's current restructuring process. It should be noted, however, that a degree of uncertainty will always be present in relation to the claims estimating process and the Board's view, while well founded, does not mean that no deterioration in the claims estimate position is possible in the future.

Potential dilution from converting notes

The converting notes referred to earlier, which are listed on the Australian Stock Exchange under the code "HNZG", provide holders with a right of conversion on a quarterly basis from 12 June 2001, unless a conversion event occurs prior to that date. This means that on conversion, the number of notes on issue are able to be converted based on a formula that divides the \$5 face value of the notes by 95% of the weighted average market price of an ordinary share for the five business days prior to the date of conversion. This formula operates favourably for ordinary shareholders of the company in that it is non-dilutionary when the company's share price is in excess of the company's net asset per share. However, such is not the case with our share price at the moment and conversion in the current share price range would have a significant dilutionary impact on shareholders.

Takeover discussions

The final topic that has been consistently raised is the position of the Board and management on takeover discussions and bids. I can provide shareholders with unequivocal assurance that at all times the Board and senior management has acted in the best interests of all shareholders in all discussions and dealings that may have ultimately led to corporate initiatives. At no stage has a bid been put on the table that would have led to a due diligence process. On this basis, this means that no party has been refused due diligence access; no-one has commenced due diligence; and no-one has walked away from any negotiations as a result of any due diligence findings. Any suggestions to the contrary are false.

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FINANCIAL PERFORMANCE AND OUTLOOK

The performance since June 2000

I now turn to the company's recent financial performance and outlook.

The financial damage sustained in the period to 30 June has had a profound impact on our cashflow and capital base.

The measures already taken to address and repair that damage have made some fundamental changes to our business.

Contemporaneously, there have been no sudden or remarkable positive changes to our external operating environment that could have offset the financial deterioration.

Since June, although the Australian general insurance market conditions have continued to improve overall, there has not yet been any significant change to the adverse operating conditions in our two principal offshore markets - the United Kingdom and the United States. While we expect the United Kingdom to significantly correct at the December / January renewal period, we do not share the same confidence for the United States and have acted accordingly. Our other spheres of operation, in Asia and New Zealand, are experiencing reasonable market conditions.

Equity market movements were neutral to negative since June. Consequently, the operating outcome has not been offset to any extent by investment performance.

These market conditions and our own operating performance mean that no financial turnaround can or will be registered during this half year - during this critical period of pivotal structural change.

We are now very close to the end of the first half of this financial year and, subject to final investment market movements, the Board is of the view that a financial turnaround from the losses made in the half to June 2000 is not achievable. Accordingly, we also anticipate that a loss will also be reported for this restructuring period.

The timing of restructuring changes means that they will have little or no impact on operating performance for this half year. However, they provide us with a positive outlook beyond 1 January 2001. The venture with Allianz is profitable business. Our Australian corporate business, now written with Gerling's backing, is experiencing strong premium rate rises. Our remaining Australian business, in workers' compensation and travel insurance, are firmly in profit. The United Kingdom is set to benefit from the widely anticipated market recovery. Our other businesses in Asia and New Zealand are also expected to generate profits this financial year.

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HIH INSURANCE

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Some abnormal items from restructuring

Some one-off abnormal items will also need to be taken into account from the restructuring. There is the once-off gain from the Allianz venture. On the other hand, the cessation of workers compensation underwriting in the United States will necessitate the write-off of goodwill attaching to that business. All of the restructuring-related abnormal items are expected to be taken to account this financial year. On the basis of current information, the Board believes that their impact overall will not be material. Indeed, so far, the overall impact has been positive. However, the timing of the accounting entries may mean that there is a mis-match of profits and losses at the half year balance data even though they will essentially balance out over the full financial year.

In accordance with its policy, the Board will form a view on dividends when the results for the half year have been finalised.

The new strategy going forward

Going further forward, a considerable amount of background work has already been undertaken on the company's mid to longer-term strategic direction. I know that many shareholders are keen to see articulated a clear 3-5 year strategy.

I am sure all of you appreciate that the person to finalise, articulate and deliver that strategy should be the new Chief Executive. The background work already undertaken will ensure that the new Chief Executive will be in a position to make early decisions on strategy, management and resources. A detailed statement on those issues can therefore be expected as soon as possible after the appointment.

In the meantime, the company will continue to move further towards completion of its restructuring.

Thank you for your attention and for your attendance today.

I will now ask Mr Randolph Wein, our new Chief Executive to address you briefly.

Mr Wein has a proven track record in Chief Executive roles as well as extensive experience in general insurance and reinsurance from a career that so far has included direct exposure to insurance markets in Europe, Australia and throughout the Asia-Pacific region. He was selected from a high quality field of candidates following an international search conducted by global executive search specialists Korn/Ferry International Pty Ltd.

The diverse professional background of Mr Wein includes legal studies in Germany and Paris prior to his admission to the Bar in Munich; from 1981, various executive positions with Munich Reinsurance Co; and senior appointments in Hong Kong and Australia with Winterthur Swiss Insurance Company. During his time with Winterthur, from 1990 to 1998, he was the architect of their restructuring in the Asia-Pacific region and he secured, for Winterthur, a general insurance licence in China.

Initially, he joined the HIH Board to represent Winterthur's interests, having engineered the successful and profitable merger between CIC Insurance Limited and HIH. In 1998, he accepted the appointment of Chief Executive, HIH Asia, through which, from his Hong Kong base, he has built a substantial and financially sound regional business. Currently, Mr Wein is the only non Australian-based Director of HIH Insurance

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Mr Wein was the best candidate in a strong field because he has precisely the right mix of personal attributes and expertise to take on the challenges facing HIH at this time. In addition, his internationalisation and German background will be invaluable as HIH further develops its key new ventures with the German-based Allianz and Gerling Groups.

I will now hand over to Mr Wein.

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Randolph Wein -- Chief Executive's Address

Thank you Mr Cohen.

I am honoured to be here today and to be able to make my first public statement as Chief Executive to you.

While my appointment has been made by the Board, I am the first to acknowledge that it is the shareholders to whom I am ultimately accountable.

Some of you may recognise me from my existing role with HIH. For the past two years I have been based in Hong Kong building an Asian platform for the Group. Prior to that, my work as senior executive with the Winterthur Group meant that I was associated with their profitable Australian business including their financially rewarding period as a major shareholder in HIH.

I sought this job for two reasons :

First, I strongly believe that this company still contains substantial unrealised value. We have some excellent franchises and we are still one of the largest general insurers in Australia. However, there are significant challenges ahead and also financial risks.

But they should be viewed in the context of a turnaround we hope to achieve.

Second, I am confident that I can drive the process of business change that is necessary to unlock value and bring the company back to its past successful performance levels.

Some new Chief Executives choose to go through an acclimatisation period before they begin to put their own plans into effect. I do not believe that we have the luxury of such time. We have to move with speed and determination.

My first priority is to ensure that the business moves ahead on a solid financial base. I have already called for detailed situation reports on all critical financial areas with immediate action to be taken.

Operationally, I intend to conclude the current global business review and restructuring with a core framework comprised only of those units capable of making an on-going positive contribution to earnings.

HIH has undergone and is continuing to experience a period of rapid and substantial change. The company now needs to follow a clear, realistic and intelligent strategy.

I am aware that considerable work has been done in this area. In the coming weeks I will be reviewing that work, testing the findings, and finalising the strategy. I will be finalising the new HIH strategy and a refined business plan and will brief shareholders as soon as possible.

A key issue I currently see is the need to re-energise the whole organisation. We have to face our challenges with enthusiasm as well as commitment. HIH still has a superb manpower base. Our staff are experienced, loyal and capable. What we need now is a team that can lead us successfully out of this admittedly challenging situation.

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In summary, within the early weeks of my tenure, you can expect:

- Financial consolidation
- Further restructuring, both financial and operational
- The finalisation of the new HIH business strategy going forward and the articulation to the market of that strategy, and
- A new management team in place leading a re-vitalised company.

I can assure you that I will lead this process with an independent mind. We will have to make tough decisions in restructuring our business. We will have to cut costs vigorously and I assure you that there will be no sacred cows. My primary objective is to increase shareholder's value. To that end, the interests of management and shareholders need to be completely aligned.

I am convinced that an energetic and motivated management team will be able to restore the fortunes of the company and rebuild shareholders' wealth.

Thank you for your time today. I shall now hand back to Mr Cohen to continue with the meeting.

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HIH Casualty and General Insurance Limited ACN 008 482 291
AMP Centre, 50 Bridge Street, Sydney, New South Wales 2000, Australia
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Telephone (02) 9650 2000 Facsimile (02) 9650 2083



Secretariat

Facsimile transmission

To	Company Announcement Office	Date	9 February 2001
Company	ASX	Fax No.	Auto
Total no of pages	2	Phone No.	
From	Frederick Lo	Phone No.	(02) 9650 2000
Subject	Listing Rule 15.7	Fax No.	(02) 9650 2083

Please see attached media release due to be issued shortly.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Frederick Lo', written over a horizontal line.

Frederick Lo
Company Secretary

AUSTRALIAN STOCK EXCHANGE



HIH000202

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ASX code: HIH

Media Release

HIH Insurance progress report

- *Allianz venture operating and \$200 million initial payment received from Allianz.*
- *Corporate strategy and detailed business plan now being finalised (with assistance from Boston Consulting Group).*
- *First phase of organisation restructuring completed on schedule*

Sydney, 9 February 2001. HIH Chief Executive, Randolph Wein, today provided a progress report on HIH's corporate restructuring initiated following his appointment in mid-December 2000.

The period so far under Mr Wein's leadership has seen:

- the settlement of the first stage of the Allianz Australian retail venture such that \$200 million in cash has been received with HIH's remaining interest in that venture subject to a market valuation within the range of a minimum value of \$125 million and a maximum of \$500 million. The cash settlement and remaining investment in that venture will facilitate a restructure of the balance sheet at 31 December 2000.
- substantial progress made towards completion of a corporate strategy and detailed business plan which will provide the base from which HIH moves forward. This project is being undertaken with high-level assistance from the Boston Consulting Group and is expected to be completed before the end of March.
- the completion, this week, of the first stage of an organisation restructuring with the final stage to be implemented in conjunction with the new business plan.

According to Randolph Wein, "We are part of the way through what is a critical restructuring phase for HIH. The operational issues are being addressed while, at the same time, we are completing a programme of financial reconstruction. Our interim result for the six months ended 31 December 2000 is not yet quantified or finalised, although the Board has already indicated that a loss will be reported for this restructuring period."

"The significant progress already made on the strategy and business plan project means that we expect to be able to make a statement on this area when the interim result is released in March."

Contact: John Clarke
General Manager, Public Affairs
Telephone: (02) 9650 2000
(0418) 361 778

26/02 '01 09:28 FAX 61 2 9650 2083

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Secretariat

Facsimile transmission

To	Company Announcement Office	Date	26 February 2001
Company	ASX	Fax No.	Auto
Total no of pages	2	Phone No.	
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From	Frederick Lo	Phone No.	(02) 9650 2000
Subject	Listing Rule 15.7	Fax No.	(02) 9650 2083

Please see attached media release subject of the trading halt application by the Company on Thursday 22 February 2001.

Yours faithfully,


Frederick Lo
Company Secretary

AUSTRALIAN STOCK EXCHANGE



HIH000205

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Telephone 61 2 9650 2000 Facsimile 61 2 9650 2065



ASX code: HIH

Media Release

Process and timing for announcement of HIH interim result

- **Composition of Interim loss**
- **Restructuring of business going forward**

Sydney, 26 February 2001. The unique circumstances surrounding the preparation of the HIH 2000/2001 Interim result together with recent speculation from various media sources makes it necessary for the company to issue this announcement.

This reporting period covers an extraordinary degree of change in the company's profile and discontinuance of some non-core business. The major business change in the period is the venture with Allianz Australia Limited on Australian retail business.

The changes to, and review of, HIH's business mean that the accounting treatment of the value of the business going forward may also change, resulting in one-off changes to the balance sheet. If so, the changes would be reflected in the profit and loss statement.

Final advice from HIH's actuaries, accountants and other advisors on these complex matters has not yet been received and so has not been considered by HIH's executives or the Board. As a consequence, Directors are not at this point aware of the quantum of the interim loss. In that light, any speculation that the amount of the interim loss has already been determined is incorrect and any estimates as to the quantum of any loss are thus pure speculation.

What is clear at this point is that the loss will primarily relate to restructuring activity.

The Board is conscious of the need to inform shareholders of their conclusions as early as possible. However, the new CEO and executive management team have been operating only since January 2001. They have been contemporaneously dealing with the operating performance of the company, preparation of the Interim result, and a complex process of business and financial restructuring for HIH going forward. Work on all of these matters has also involved a wide range of external expert advisors. As with all major business development, HIH has also been keeping its bankers closely informed on the changes and the company has the full support of its bankers in addressing this process of business restructuring.

The tight schedule being adhered to by everyone involved includes a series of Board Meetings, the first of which is scheduled for next Monday, 26 February. The Board Meetings will be reviewing all this information and advice relating to the change in the business including: the claims estimates for all current and discontinued business areas; financial evaluation of all current and discontinued business assets and non-core assets; financial re-engineering; the business restructuring; and the corporate strategy and business plan for HIH going forward.

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Based on the information presented at those meetings the Directors may make decisions which, individually and collectively, have a material impact on the interim loss. In this context, those wishing to make investment decisions on the company should be aware that the most comprehensive statement on the company's financial position will not be available until all of the current work is finalised by management and the Board has had the opportunity to make decisions based on complete information.

The management review process and the Board's deliberations will be concluded in time for the company to announce its interim result and future strategy and business plan on Friday, 16 March 2001.

This timetable is consistent with our progress report on these issues as provided to the ASX on 9 February 2001.

Contact : John Clarke
General Manager, Public Affairs
Telephone : (02) 9650 2000
(0418) 361 778

HIH Insurance Limited ACN 008 636 675
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Telephone 61 2 9650 2388 Facsimile 61 2 9650 2065



Public Affairs

Facsimile transmission

To	Luisse Elsing	Date	1 March 2001
Company	ASX	Fax no.	9241 7620
Total no of pages	2		
<hr/>			
From	John Clarke	Phone no.	61 2 9650 2388
Subject	Trading halt	Fax no.	61 2 9650 2065

SYD.ASX 10:00:00

HIH Insurance Limited ACN 008 636 575
50 Bridge Street, Sydney, New South Wales 2000, Australia
DX 10149 Sydney Stock Exchange GPO Box 9814 Sydney 2001
Telephone 61 2 9650 2388 Facsimile 61 2 9650 2065



1 March 2001

*Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000*

Attention: Ms Luise Elsing

Dear Luise

I am writing to confirm your verbal advice to me this morning that the trading halt on the listed securities of the company and subsidiaries would not be lifted despite the media release lodged by the company on 28 February 2001.

On the basis of that verbal advice, the Company lodged a request that the ASX immediately suspend the securities

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Clarke', written in a cursive style.

JOHN CLARKE
General Manager, Public Affairs

1.MAR.2001 10:04
TO: CDO

ASX LISTINGS SYD 61 2 92417620

NO.511 P.1/3



MARKET RELEASE

1 March 2001

HIH Insurance Limited and HIH Holdings (NZ) Limited

SUSPENSION FROM OFFICIAL QUOTATION

The securities of HIH Insurance Limited and HIH Holdings (NZ) Limited (the "Companies") will be suspended from quotation immediately, at the request of the Companies, pending release of an announcement to the market.

Security Codes: HIH
 HIHG
 HNZG

A.R.A. Black.

Andrew Black
Senior Companies Advisor

V1/ 1.MAR.2001:10:04:1.2 ASX LISTINGS SYD 61 2 92417620
61 2 9650 2083

NO.511 P.2/301/002

HIH Casualty and General Insurance Limited ACN 008 492 291
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Secretariat

Facsimile transmission

To	Ms Luise Eising	Date	1 March 2001
Company	ASX	Fax No.	9241-7620
Total no of pages	2	Phone No.	
From	Frederick Ltd	Phone No.	(02) 9650 2000
Subject		Fax No.	(02) 9650 2083

Please see attached.

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01/ 1.MAR.2001:16 10:04:1 2 0ASX LISTINGS SYD 61 2 92417622
61 2 9650 2083

NO.511 P.3/302/002

HIH Insurance Limited ACN 008 638 575
50 Bridge Street, Sydney, NSW 2000, Australia
DX 10148 Sydney, G P O Box 9814, Sydney 2001
Telephone 02 9650-2000 Facsimile 02 9650-2083



1 March 2001

Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000

Attention: Ms Luise Elsing

Request for suspension of securities from quotation

HIH Insurance Limited ("HIH") requests that ASX immediately suspend from quotation each class of securities quoted on ASX which are issued by HIH or a subsidiary (the "Suspension").

HIH requests the Suspension because, for the reasons set out in its announcement dated 26 February 2001, a comprehensive statement on the company's financial position will not be available until all of the current work is finalised by management and the Board has had an opportunity to make decisions based on complete information.

The Board does not currently have reasonable grounds for making any further announcement as to the expected quantum of interim loss. Indeed to make such a further announcement at this stage could involve a lack of reasonable care on the part of the Directors and could lead to potential liability under the Corporations Law.

HIH requests that the Suspension remain in place until such time as the Directors have available the information and advice necessary to enable them to form a view on reasonable grounds as to the expected quantum of the interim loss.

HIH is not aware (as defined in the Listing Rules) of any reason why its securities should not be suspended.

If ASX requires any further information in relation to HIH's request for suspension of quotation please contact the undersigned on 9650-2455.

Yours faithfully,


Frederick Lo
Company Secretary
For and on behalf of HIH Insurance Limited

15/03 '01 19:16 FAX 61 2 9650 2083

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Secretariat

Facsimile transmission

To	Company Announcement Office	Date	15 March 2001
Company	ASX	Fax No.	Auto
Total no of pages	2	Phone No.	
From	Frederick Lo	Phone No.	(02) 9650 2000
Subject	Listing Rule 3.1	Fax No.	(02) 9650 2083

Please see attached media release due to be issued shortly.

Yours faithfully,

Frederick Lo
Company Secretary



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DX 10149 Sydney Stock Exchange PO Box 9614 Sydney 2001
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ASX code: HIH

Media Release

HIH moves to appoint provisional liquidator

Sydney, 15 March 2001. HIH Insurance Limited announced it had this evening received approval from the NSW Supreme Court to place the company into provisional liquidation.

The approval followed a resolution by the Board, enabling KPMG to be appointed to HIH and its 18 controlled entities.

Today's announcement follows a Board-commissioned review of operations by KPMG which has indicated a loss of approximately \$800 million. Losses from discontinued HIH United Kingdom and United States business as well as other discontinued international business written from Australia, could no longer be sustained by the sound Australian operations.

KPMG Partner Tony McGrath said that HIH will be managing its existing liabilities and claims, but will not be writing new business. The balance sheet now will facilitate an orderly run-off but is not capable of supporting ongoing insurance business.

Mr McGrath said: "While it is too early to be talking about potential outcomes following the initial review process, KPMG will be working with HIH management to continue the process of retaining as much value as possible in the company for the benefit of policyholders, creditors and shareholders. KPMG will also be continuing its review of the HIH operations"

HIH's interim results process had been delayed because of the complete financial review initiated by the new Chief Executive, Randolph Wein, who had upon his appointment committed to undertaking a thorough financial situation analysis. Mr Wein's analysis, supported by expert external advice and further Board review, has led to some tough decisions in respect of the ongoing operations of HIH.

Mr Wein said: "Today's decision was difficult for the Board, but prudent and necessary given present indications about the extent of the losses for the first half and their impact on the balance sheet. In addition, what has come to light through the business restructuring process are further contingent liabilities that an already weakened balance sheet could not sustain."

"The recent sales of Australian and New Zealand businesses have captured substantial value for shareholders. The transactions with Allianz, QBE and NRMA have all delivered very positive financial outcomes from valuable franchises that were being significantly eroded in the marketplace. Those companies have committed to take on the vast majority of HIH employees involved in the respective operations.

"Today's decision is in the best interests of all stakeholders. The management of HIH will now be working closely with KPMG to ensure the best outcome is achieved," Mr Wein said.

An information line will be established by Monday, 19 March 2001 to update shareholders and policyholders on developments.

Contact: John Clarke
General Manager, Public Affairs
HIH Insurance Limited
Telephone: (02) 9650 2388
Mobile: 0418 361 778

Paula Hannaford / Ian Smith
Gavin Anderson & Company
Telephone: (02) 9552 4499
Mobile: 0413 940 180 / 0418 614 611