Appendix 5

(Ref: Para.21(d))

TAILORED ASSURANCE REQUIREMENTS

This appendix summarises the tailored audit requirements applicable for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the audit requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The audit requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The audit requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place as issued from time to time.

1. If the licensee is a responsible entity, operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

   Reasonable assurance that the licensee:

   (a) complied with the requirement to have the projection approved in writing at least quarterly by the directors/partners/person and that the licensee has met the net tangible assets requirements (NTA) and liquidity requirements of the licence, and any other financial requirements in conditions on its licence;

   (b) had, at all times, a projection over at least the next 12 months that purports to, and appears on its face to be based on the licensee's reasonable estimate of what is likely to happen over this period;

   (c) correctly calculated the projection on the basis of the assumptions the licensee used for the projection;

2. If the licensee is a responsible entity or operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

   Limited assurance that the licensee:

   (a) had adequate systems for managing the risk of having insufficient financial resources to meet the NTA requirement, cash/cash equivalent, and liquid asset holding requirement, and any other financial requirements in conditions of its licence;

   (b) did not fail to document the calculations and assumptions used in preparing the projection and describe in writing why the assumptions are appropriate;

   (c) will have access when needed to enough financial resources to meet their liabilities over the projected term of at least the next 12 months;

   (d) will hold at all times during the period to which the projection relates, in cash/cash equivalents and liquid assets, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents;

   (e) adopted assumptions for its projection that were not unreasonable; or (if the licensee complies with the NTA requirement for incidental providers) satisfied the definition of incidental provider.

3. If the licensee is a retail OTC derivative issuer then ASIC requires the following:

   (a) Reasonable assurance that the licensee:

      (i) complied with the NTA and liquidity requirements of the licence and other financial requirements in conditions on its licence;

      (ii) had at all times a projection that purports to, and appears on its face to, comply with the requirement to prepare in each March, June, September and December, a projection of the licensee's cash flows over at least the next 12 months based on the licensee's reasonable estimate of revenues and expenses over this period;

      (iii) correctly calculated the projection on the basis of the assumptions the licensee adopted for the projection.

   (b) Limited assurance that the licensee:

      (i) satisfied section 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to meet the NTA and liquidity requirements of the licensee and any other financial requirements in conditions on its licence; and

      (ii) adopted assumptions for its projection that were not inappropriate;

      (iii) had their projections approved in writing by their directors/partners/person as being based on the licensee's reasonable estimate of revenues and expenses over the period;

      (iv) documented the calculations and assumptions used in preparing the projection, and described in writing why the assumptions are appropriate;

      (v) updates the cash flow projections if there is reason to suspect that an updated projection would show that the licensee :

         - will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and

         - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents.