



ANGAS SECURITIES LIMITED ABN 50 091 942 728
AUSTRALIAN FINANCIAL SERVICES LICENCE NO. 232 479

26 April 2018

Refusal of application to ASIC for relief – Half Year Review – 31 December 2017

On 28 February 2018, Angas Securities Limited (“**Angas**”) applied to ASIC for relief under section 340 of the *Corporations Act 2001 (the Act)* to dispense with the requirements relating to the review of half year financial report for the period to 31 December 2017 (“**Half Year Report**”). Specifically, Angas sought relief from the requirement for its directors to have the Half Year Report externally reviewed by its auditor. If the relief sought was granted by ASIC, Angas said it would still prepare and lodge a Half Year Report (which has been done), but it would avoid the significant cost to debenture holders of an external review as well as the significant distraction to Angas management associated with the auditor review process.

Angas sought to satisfy ASIC that there is a burden associated with complying with the Act and that such burden on Angas is unreasonable. Factors that are relevant in determining whether the requirements sought to be modified would impose an unreasonable burden are:

- a) Information needs of users and potential users of the financial report;
- b) Objectives of the financial reporting and audit provisions; and
- c) Intentions of the Auditing and Assurance Standards Board.

Angas contended that it is in a unique situation given the Run Off of the Debenture business. This has led to increasingly time intensive and expensive audit processes throughout the debenture book Run Off to date. These costs have caused Angas serious economic detriment and have to some extent impeded the progress of the Run Off. The vast majority of amounts paid to the auditor are amounts that could otherwise have been paid to debenture holders. Further, the time spent by management and staff during the audit and review process is time that could be spent working towards realising remaining debenture loan assets for the benefit of debenture holders. These serious economic detriments have little or no compensating benefit to debenture holders, share holders and other users of the Half Year Report.

Angas submitted to ASIC that it provides a substantial amount of other reporting which Angas considers is of more relevance given the unique circumstances of the Run Off. This reporting includes monthly update reports to the Loans Realisation Committee (“**LRC**”) and quarterly updates to debenture holders in addition to the auditor reviewed annual financial report (“**Annual Report**”). The members of the LRC regularly question Angas directors and other members of senior management at its monthly meetings on the contents of the monthly reports provided to the LRC.

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The principal users of the Angas financial reports are debenture holders, whose information needs are focused on the current and anticipated returns of invested principal and the progress Angas is making towards the realisation of its assets in order to pay those returns. Indeed, Angas contended to ASIC that financial statements prepared under AASB 139 are of minimal utility to debenture holders compared to the monthly reports provided by Angas to the LRC which contain dynamic cash projections which are the real test of Angas' trading capacity.

Angas submitted that the intent of the audit provisions is to provide users with an independent opinion on the information in the Half Year Report. They generally are also directed at maintaining investor confidence, enhancing market efficiency and ensuring the accountability of management through the provision of timely and reliable financial information and making information available that is useful to a wide range of users, to help them make economic decisions. The Annual Report and LRC monthly reporting already provided by Angas (in addition to the unaudited half-year financial report and directors' report) provides timely and reliable financial information which allows the users of the financial reports to make informed decisions.

The intentions of the AASB said to be twofold: first to ensure that stakeholders in a company receive relevant and up to date information on the company's financial performance and secondly to enable those stakeholders to compare the financial position and performance of Angas with that of other companies. The general purpose of the Half Year Report is of far less relevance to debenture holders than its forward looking projection of when the remaining debenture assets will be realised and for how much according to Angas.

Similarly, Angas feels that the comparison function of general purpose financial reporting is now irrelevant to debenture holders. Their investments in Angas have been frozen since 2015 by order of the Federal Court. There is accordingly no utility in Angas providing standardised general purpose half year financial reporting to enable major creditors and stake holders (the debenture holders) to compare the performance of Angas with other companies as the debenture holders do not have the option of redeeming their debenture investments and instead investing in another company.

ASIC refused the application on 16 April 2018. Its reasons reject the primary contentions made by Angas. As to the objectives of financial reporting, ASIC considers that the other reporting provided by Angas is not an adequate substitute for half year statements reviewed by the auditor. It pointed out that LRC, the debenture trustee and individual debenture holders ought to be able to consider the financial position of Angas at Balance Date which has been independently verified. Further, ASIC has not been persuaded that compliance would impose an unreasonable financial burden on Angas. It sets out its reasons for this view including an observation that Angas continues to manage substantial property and funds on behalf of its debenture holders. That is certainly the case.

ASIC accepts that the Run Off process is unusual but concludes that this does not negate the importance of independently reviewed Half Year Reports which will allow users to assess the accountability and actions of management. The Angas directors are considering whether Angas should seek a review of this administrative decision made by ASIC.



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