



Board Meeting Summary Paper

Subject: Debenture Issuers' Auditors' Reports

Date: 26 May 2008

AUASB
AGENDA
ITEM NO.

11(c)

**Meeting Date:
2-3 June**

2008

Action Required

For Information Purposes Only

Agenda Item Objectives

To update the Board on ASIC's project to revise Regulatory Guide 69 (October 2007) *Debentures – improving disclosure for retail investors* with respect to the auditing requirements.

Background

In 2007 ASIC identified a need for enhanced reporting by unlisted debenture issuers due to the large volume of funds invested in debentures and the poor transparency in existing reporting.

In the Australian financial system, there is approximately \$523 billion invested in deposits and debt securities. Of this amount, less than \$8 billion is invested in unlisted and unrated debentures (UUDs). Confidence in the market for unlisted and unrated debentures has been adversely affected by the collapses of Fincorp, Australian Capital Reserve and Bridgecorp Finance. There have also been similar corporate failures of debenture issuers in New Zealand.

As these particular securities are unlisted, retail investors are unable to adequately determine the value of their securities on a market. Also, unlisted, unrated debentures do not have a credit rating so there is no independent assessment of the risk that an investor may lose some or all of their interest or principal. Many retirees invested in unlisted, unrated debentures on the basis of their advertising alone.

On 30 May 2007, ASIC's Chairman, Mr Tony D'Aloisio, announced ASIC's 3-point plan in relation to unlisted, unrated debentures.

The 3-point plan, to be implemented over a 12-month period, addresses:

1. existing debenture issuers in the retail sector;
2. new debenture issues to retail investors; and
3. investor education.

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This approach is part of ASIC's wider 'retail investors' priority – developing initiatives to assist them to better manage their investments and wealth.

In response to this perceived need, ASIC developed eight benchmarks against which unlisted debenture issuers are required to report, on an “if not, why not” basis, in their prospectuses or by way of a continuous disclosure notice. These disclosures are then updated in future prospectus' as well as within two of the statutory quarterly reports to their Trustees. These new disclosures were set out in ASIC Regulatory Guide 69 (RG69) which was issued in October 2007. ASIC's focus to date has been on facilitating and monitoring debenture issuers' adoption of these new disclosure requirements.

In addition to the pre-existing requirement for Debenture Issuers' half-yearly financial reports to be reviewed and annual financial reports to be audited, RG69 introduced an “expectation” that the Issuers' performance against the benchmarks will be audited. ASIC are working towards reissuing RG69, primarily to elevate this audit expectation to a requirement and to clarify exactly what the auditor will opine on.

Matters to Consider

The AUASB met with ASIC to discuss the form and content of auditors' reports for debenture issuers under a revised RG69. The following matters were agreed between AUASB and ASIC:

- ASIC will develop and issue guidance for auditors of unlisted debenture issuers on the new disclosure requirements by revising RG69, including provision of proforma auditor's reports;
- ASIC will develop the guidance and reports in consultation with the AUASB;
- The auditor's report will be structured in two sections: financial and compliance;
- The compliance audit or review will be an attest engagement based on a directors' report on the benchmarks;
- The benchmarks will be expressed in the directors' report in terms which are able to be readily audited and will include disclosures against each of the benchmarks developed by ASIC on an “if not, why not” basis;
- The level of assurance provided by the audit opinion may be a combination of positive or negative assurance depending on the subject matter of the benchmark; and
- ASIC will seek to issue the revised RG69 and proforma directors' and auditor's reports for implementation from periods commencing 1 July 2008.

Staff Recommendations

The AUASB should continue to liaise with ASIC in order to provide input into the draft revisions to RG69 and the draft directors' and auditor's reports, expected in June 2008. The AUASB will provide Board and staff member contacts to facilitate this liaison.

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Material Presented

Agenda Item 11(c) Board Meeting Summary Paper

Agenda Item 11(c).1 ASIC Regulatory Guide 69 *Debentures – improving disclosure for retail investors*
(Oct 2007)

Notes

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