



## ANGAS SECURITIES INVESTOR NEWS | December 2009

### NEW REGULATION OF CREDIT RATING AGENCIES

Australian Securities Investments Commission ("ASIC") has recently announced the formalisation of changes that it had previously announced to the regulation of credit ratings agencies in Australia. The changes include the requirement that such agencies hold an Australian Financial Services License ("AFSL") as from January 2010. Another reform is that ASIC has removed Class Order relief that allowed the citing of credit ratings by issuers of investment products without the consent of the agency. Whilst this will give the agencies more control over the use of their ratings, ASIC has made it clear that agencies will be accountable for their ratings. To date, agencies have asserted that their ratings are a statement of opinion and nothing more.

On 18th November 2009 Standard & Poor's announced that it had withdrawn its application for a retail AFSL with the consequence that as from 1 January 2010 its credit ratings will no longer be available to Australian retail investors. The reason cited is the requirement of ASIC that AFSL holders (such as Angas Securities) be members of an approved external dispute resolution process such as the Financial Ombudsman Service. Standard & Poor's states that it supports regulation that strengthens financial transparency and oversight to improve market confidence, but feels that ASIC requirements do not accord international consistency in the framework within which Standard & Poor's operates. It says that membership of a local external dispute resolution scheme could have the effect of interfering with the analytic independence of its ratings and undermining global consistency and comparability of ratings. It fears that a local Ombudsman could "second guess" its own analysts thereby creating investor confusion with the potential to harm financial markets. By not holding an AFSL, Standard & Poor's advises that from 1 January 2010 it will need to restrict the distribution of credit ratings to retail clients.

Any issuer of rated retail products is unfortunately impacted by this regulatory situation. As it currently stands the extent to which Angas Securities will be able to rely upon the credit rating beyond 31st December 2009 is unclear at present. **Standard & Poor's rates Angas Securities as being B+ stable and has confirmed that this rating remains in place.** The present indications are that Angas Securities will continue to be rated but that the rating will not be able to be quoted in offer documents, marketing material, on the websites or in other material that can be accessed by retail investors such as Investor News. Future issues of Investor News will provide updates as to how this apparent regulatory impasse is to be resolved. In the meantime, Angas Securities has been rated Recommended by Melbourne firm Atchison Consulting which provides advice and analysis across all components of managing investment portfolios. This Rating Report is posted on the Angas Securities website.



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# ANNUAL COMPLIANCE REVIEW OF FINANCE

In accordance with AFS License obligations and pursuant to risk management principles followed by Angas Securities, each of the key operations are reviewed annually by the Audit & Risk Management Committee chaired by Kimley Lyons. The annual review of the finance operation was conducted in November. It addressed compliance by Angas Securities with the Corporations Act, Accounting Standards, Financial Controls within the Business Cycle and other relevant matters.

## Corporations Act Requirements

The Corporations Act imposes financial reporting requirements which include the need to prepare annual and half-yearly financial reports that are in compliance with Accounting Standards and give a true and fair view. Other issues include the retention of records, director access and auditor obligations. The annual review found that all Corporations Act requirements had been met.

On an annual basis Angas Securities financial statements are fully audited and on a six month basis they are reviewed by independent auditors Deloitte Touche Tohmatsu. The Finance Manager is responsible for the preparation of the financial statements on a six monthly basis and for lodging the audited/reviewed financials with ASIC and the National Stock Exchange.

The 2008/9 Financial Statements were drafted in July 2009 and finalised in August 2009. Angas Securities adopted the 2008/09 Financials on 11th September 2009 on which day that the audit was signed off. The 2008/09 Financials were lodged with ASIC and the National Stock Exchange on 11th September 2009. Those dates are in compliance with the Corporations Act requirements. ASIC requires the lodgment of the Audited Financials 90 days after year end as does the National Stock Exchange. The National Stock Exchange requires a preliminary report lodged 75 days after year end unless the Audited Financials are filed within 75 days of year end.

At the date of the annual review it was considered there were reasonable grounds to believe that Angas Securities will be able to pay its debts as and when they fall due. There have been no significant changes in the nature of the Company's principal activities or state of affairs during the year. The auditors provided no information, recommendations or findings that were relevant to finance matters of the Company following the 2008/09 Audit.



**Kimley Lyons**  
Chairman of ARMCO

## Accounting Standards

The annual review found that the financial statements of Angas Securities complied with all relevant Accounting Standards. Processes in place to ensure compliance were considered. Deloitte Touche Tohmatsu releases a "Model Set of Financial Statements" each year upon which the accounts are based. The Finance Manager and Assistant Accountant undertake continuous education through CPA Australia. The Directors and the Finance Manager are responsible for the correct application of all accounting standards. Particular items considered in the compliance review were the application of current treatment to transactions and reporting issues, what software was used by Angas Securities to ensure compliance, whether any specific advice was needed on the treatment of any transactions and what procedures were in place to address provisions or writedowns.

One particular item that was new for the year concerned goodwill of an asset at acquisition cost and whether it has subsequently been impairment tested. The goodwill which was acquired as part of the purchase of API Home Loans in 2007 was brought to account as an asset at acquisition costs. In 2008/09 Deloitte Corporate Finance assisted the Finance Manager in setting up a model to review goodwill on an annual basis, this model will be populated on an annual basis after the Angas Securities budget is finalised (May each year). For the FYE 2008/09 goodwill was not impaired. Another particular item concerned investment of equity funds in real property by means of Angas Commercial Property Trust. It was noted that its accounts have been properly consolidated with those of Angas Securities.

## Financial Controls

No new compliance staff have been appointed to any Finance Roles since the last review. No recommendations have been made by Deloitte since the last review. Only two minor changes were made to the Financial Accounting Cycle. Since the last review, there have been three minor changes to the documented Expenditure Cycle. No changes have been made to the Fixed Asset Cycle in 2008/09. No changes have been made to the Payroll Cycle in 2008/09. The review addressed what are considered to be the main risks to Angas Securities in respect to the finance function. It was considered that the main area of risk would be the inflow and outflow of cash. The way this risk is mitigated is via the strict segregation of duties.

## Other Considerations

Angas Securities is up to date with all required tax lodgments and payments. Pledge & Associates lodges all tax returns and the Finance Department prepares and lodges Monthly Installment Activity Statements & Business Activity Statements. Pledge & Associates prepares all Income Tax Returns and Fringe Benefit Returns. Angas Securities Finance Department prepares all IAS and BAS returns.

Additional finance requirements are imposed on Angas Securities in relation to the listing of debentures on the National Stock Exchange. Half yearly Financials plus a preliminary report must be lodged with the National Stock Exchange 75 days after the applicable period end. 90 days after year end an Annual Report must be lodged with the National Stock Exchange and 75 days after year end a preliminary report must be lodged with the National Stock Exchange unless the Annual Report is lodged on the 75th day after year end. As this was done on 11th September 2009, there was no need to lodge a preliminary report with the National Stock Exchange this year.

**Nicholas Corbett**  
External Member of ARMCO



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**\*RATE EFFECTIVE FROM 1 JANUARY 2010**

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