

FINANCIAL REPORTING PANEL MAKES FOUR DETERMINATIONS

SECTION 323EC ALLOWS THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) TO REFER FINANCIAL REPORTS TO THE FINANCIAL REPORTING PANEL (FRP) IF THEY ARE OF THE OPINION THAT THE FINANCIAL REPORT DOES NOT COMPLY WITH ONE OR MORE OF THE FINANCIAL REPORTING REQUIREMENTS.

The FRP is an independent expert panel comprising Chartered Accountants with expert knowledge about accounting standards and is a quicker and less expensive mechanism for resolving disputes about accounting treatments than going through the Courts. This avenue has been available to ASIC since 2006 when the FRP was first established but this is the first year that we have seen ASIC refer matters to the FRP for resolution. The FRP recently made two decisions in ASIC's favour and two decisions in favour of the entities whose financial reports were subject to dispute. A summary of these decisions is included below:



SINO STRATEGIC INTERNATIONAL LIMITED ('SINO') – REVERSE ACQUISITION ACCOUNTING

Matter:	A business combination occurred in the 2005-2006 financial year (first year of IFRS) that ASIC argued should have been accounted for as a reverse acquisition.
FRP decision:	Agreed with ASIC
Action required:	Retrospective adjustment by Sino of their financial statements, accounting for the transaction as a reverse acquisition.

BBX PROPERTY FUND LIMITED ('BBX') – CLASSIFICATION OF TRADE DOLLARS

Matter:	Shares issued by BBX are settled in 'trade dollars', therefore creating an asset for BBX. Trade dollars are exchanged for goods or services by BBX. At 30 June 2009, BBX classified trade dollars as a financial asset and then in their 31 December 2009 half-year financial statements as 'Trade dollar account'. ASIC contended that they should be accounted for as intangible assets under AASB 138 Intangible Assets and AASB 136 Impairment of Assets applied for impairment testing.
FRP decision:	Agreed with ASIC. Should be accounted for as an intangible asset because they are not a physical asset, nor a monetary asset. Made various determinations about how fair value of the trade dollars should be determined on initial recognition as well as how to calculate impairment.
Action required:	Reclassify trade dollars as an intangible asset in their financial statements.

ING REAL ESTATE ENTERTAINMENT FUND ('IEF') – GAMING AND LIQUOR LICENCES INCLUDED AS INVESTMENT PROPERTY

Matter:	IEF held investments in hotels and clubs that it leased to tenants. Gaming and liquor licences are attached to the leased premises. In its 30 June 2009 financial statements, IEF included the licences as part of investment property and thus they were measured at fair value in accordance with IEF's accounting policy for investment property. ASIC contended that the licences should have been measured under AASB 138 Intangible Assets and that they should have been measured using the cost basis because they would not have met the 'active market' criterion in AASB 138 for revaluation of intangible assets.
FRP decision:	Did not agree with ASIC. Licences were not separable from the investment property and the cash flows cannot be split into the land and buildings, fixtures or licences.
Action required:	IEF to expand their disclosure of their accounting policy so that it was clear what the components of investment property are.

OAKS HOTELS & RESORTS LIMITED ('OAKS') – AMORTISATION PERIOD FOR INTANGIBLES

Matter:	Oaks manages strata title apartments and pays to acquire the long-term management rights for letting. Oaks had used the life of the associated building to amortise the intangible. ASIC contended that it should have used the licence period (including renewal periods specified in the current contracts).
FRP decision:	Did not agree with ASIC. The FRP agreed it was reasonable to consider, in this case, that expected renewals in further contracts would extend across the life of the building. This was a Queensland contract where legislation prohibits the term of a contract being more than 25 years and some contracts contain restrictive clauses that prohibit other parties such as real estate agents from undertaking letting activity (hence lending an argument to using the longer amortisation period).
Action required:	-