MEDIA RELEASE (22-153MR)

ASIC calls for better disclosure of business risks and asset values following financial reports review

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ASIC's latest review of the financial reports of 70 listed entities for the year ended 31 December 2021 has resulted in inquiries of 18 entities about 31 matters, mostly related to insufficient disclosure of business risks in the operating and financial review and impairment of assets.

ASIC Commissioner Sean Hughes said, 'We acknowledge that many companies are facing changing market conditions. With this comes increasing demand for better information about uncertainties, key assumptions, business strategies and risks.

'Financial reports are critical in providing useful and meaningful information for investors and other users. Our most recent review has identified that some entities still did not appear to give sufficient attention to the disclosure of business risks in the operating and financial review and the reporting of asset values.

'ASIC continues to raise inquiries where the assumptions about future cash flows appear unsupportable, and where the impacts of changing market conditions on the business were not clearly disclosed', Mr Hughes said.

Focus areas for 30 June 2022 financial reports are highlighted in 22-124MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-124mr-asic-highlights-focus-areas-for-30-june-2022-reporting/) *ASIC highlights focus areas for 30 June 2022 reporting*.

ASIC's inquiries

Following its 31 December 2021 reviews, ASIC made inquiries of 18 entities about the following matters:

Matter	Number of inquiries
Operating and financial review	10
Impairment and asset values	7
Provisions	2
Revenue recognition	2
Non-IFRS profits	2
Going concern	2
Leases	2

Matter	Number of inquiries
Other matters	4
Total	**31**

Making inquiries of individual entities does not necessarily lead to material restatements in every case. Matters involving three of the entities have concluded without any changes to their financial reporting. Inquiries of the remaining 15 entities are continuing.

Material changes

When a company makes material changes to information previously provided to the market following inquiries made by ASIC, ASIC makes a public announcement. In addition to improving the level of market transparency, these announcements are intended to make directors and auditors of other companies aware of ASIC's concerns so they can avoid similar issues.

Since the last release of ASIC findings on 15 December 2021, we have made public announcements about:

- Woodside Petroleum Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-027mr-woodside-petroleum-increases-restoration-provision-and-enhances-associated-disclosure/)
- Collection House Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-037mr-collection-house-adjusts-deferred-tax-asset/)
- Buddy Technologies Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-047mr-buddy-technologies-writes-down-intangible-assets/)
- Oliver's Real Food Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-053mr-oliver-s-real-food-announces-a-decrease-in-asset-values-following-asic-review/)
- Betmakers Technology Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-355mr-asic-urges-greater-focus-on-material-business-risk-disclosure-in-financial-reports/)
- Ashley Services Group Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-355mr-asic-urges-greater-focus-on-material-business-risk-disclosure-in-financial-reports/)
- IQ3Corp Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-355mr-asic-urges-greater-focus-on-material-business-risk-disclosure-in-financial-reports/)

Negative adjustments to profit before tax included $51 million for Collection House, $44 million for Buddy Technologies and $4.5 million for Oliver's Real Food. Betmakers Technology, Ashley Services Group and IQ3Corp related to the adequacy of disclosure in the Operating and Financial Review.

More information about the findings from ASIC's recent reviews is provided in the attachment to this media release.

Attachment to 22-153MR ASIC calls for better disclosure of business risks and asset values following financial reports review

1. **Operating and financial review**

ASIC has made inquiries with 10 entities as part of its continued focus on the adequacy of disclosure of material business risks that may affect the achievement of a listed entity's strategies and prospects.

As a result of ASIC's inquiries so far, two listed entities have provided disclosure of material business risks in response to our concerns that these had not been sufficiently disclosed in the operating and financial review of the directors' report. For the year ended 31 December 2021:

- Telix Pharmaceuticals Limited has made disclosures in its *CEO's Address to AGM* released on 18 May 2022; and
- Audio Pixel Holdings Limited made disclosures in its *AGM CEO Presentation* released on 30 May 2022.

A further three entities recently made announcements about material business risks in response to ASIC's review of their 30 June 2021 financial reports (refer: 21-355MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-355mr-asic-urges-greater-focus-on-material-business-risk-disclosure-in-financial-reports/) *ASIC urges greater focus on material business risk disclosure in financial reports)*.

2. **Impairment**

ASIC's inquiries on assessments of the recoverability of the carrying values of assets, including goodwill, other intangibles, and property, plant and equipment include:

- *Reasonableness of cash flows and assumptions*: There continue to be cases where the cash flows and assumptions used by entities in determining recoverable amounts are not reasonable or supportable having regard to historical trading results and ongoing changes to market conditions. This item includes matters arising from the finalisation of impairment matters from our reviews of 30 June 2021 financial reports. (Refer: 22-047MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-047mr-buddy-technologies-writes-down-intangible-assets/) *Buddy Technologies writes down intangible assets* and 22-053MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-053mr-oliver-s-real-food-announces-a-decrease-in-asset-values-following-asic-review/) *Oliver's Real Food announces a decrease in asset values following ASIC review)*.
- *Use of fair value*: ASIC has inquired with three entities where the recoverable amount for impairment testing is based on fair value. In two of the matters, we have raised questions about discounted cash flow approaches which appear to be largely dependent on management's inputs. In the other matter, the entity uses its market capitalisation as an estimate of fair value.

3. **Provisions**

ASIC has made inquiries of two entities about the adequacy of its restoration provisions and the related disclosures. In one instance, the entity only recognised a contingent liability for rehabilitation due to the terms of its lease agreement and in the other, the issue related to possible under-recorded provisions for site clean-up.

ASIC had previously inquired with Woodside Petroleum Limited about the adequacy of its restoration provisions on the future decommissioning of offshore oil rigs and associated infrastructure, as part of the review of its 31 December 2020 financial report. Woodside made an adjustment in their 31 December 2021 financial report, as highlighted in 22-027MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-027mr-woodside-petroleum-increases-restoration-provision-and-enhances-associated-disclosure/) *Woodside Petroleum increases restoration provision and enhances associated disclosure*.

4. **Revenue recognition**

ASIC has made inquiries of two entities about revenue recognition. In one instance, we are inquiring about a licence arrangement and whether there are multiple performance obligations which may impact the timing of revenue recognition.

5. **Non-IFRS profits**

ASIC has made inquiries of two entities in relation to their use of non-IFRS profit measures. In one matter, the entity discloses a non-IFRS profit measure as a subtotal in the income statement and our inquiry is ongoing. In the other, we have raised questions about the disclosure of some specific items that have been removed from statutory profits to support the reported non-IFRS profit measure.

6. **Going concern**

ASIC has made inquiries into two matters related to the adequacy of the entity's disclosure about material uncertainties related to its ability to continue as a going concern.

7. **Leases**

ASIC made inquiries of two entities about their lease accounting. In one instance, we inquired about the entity's treatment and disclosure of a property lease, and in the other, we inquired about a lease which had been terminated early by the entity. Both inquiries have been resolved with no changes to the financial report following further information and explanations from the entities.

8. **Recoverability of deferred tax assets**

ASIC raised concerns with Collection House about the recoverability of a deferred tax asset following a review of the company's financial report for the year ended 30 June 2021, including the adequacy of its assessment of the probability of future taxable profits to recover carried forward tax losses.

As highlighted in 22-037MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-037mr-collection-house-adjusts-deferred-tax-asset/) *Collection House adjusts deferred tax asset*, Collection House made an adjustment in its interim financial report for the half-year ended 31 December 2021.

Background

ASIC's financial reporting surveillance program focuses predominantly on the financial reports of selected listed companies on a risk-basis to monitor compliance with the *Corporations Act 2001* and Australian Accounting Standards. The aim is to improve the quality of financial reporting and to ensure financial reports have been prepared in accordance with the law, supporting investor confidence and the integrity of Australia's capital markets.

The ASIC reviews of 31 December 2021 financial reports focussed on companies in the mining, property, and consumer finance industries. These industries represented over two-thirds of the total reviews and were selected based on our key focus areas of asset values and provisions. In addition, over half of the total reviews had been targeted due to going concern indicators.

Just over half of the reviews were of entities that had not been reviewed by ASIC in the last three years, and ten of the entities reviewed were new listings to the ASX since July 2020.

Editor's note:

On 24 June 2022, this media release was amended to remove an incorrect reference to negative adjustments to profit made by Woodside Petroleum.

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