



ASIC
Australian Securities &
Investments Commission

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Our Reference: CAS-23446-N8Q9Z7

25 June 2019

The Directors
iSignthis Ltd
456 Victoria Parade
East Melbourne VIC 3002

Attention: Todd Richards, Company Secretary

By email only: Todd.Richards@isignthis.com

Dear Directors

**iSignthis Ltd ACN 075 419 715 (the Company)
Financial report for the year ended 30 June 2018**

We refer to:

- our letter to the Company requesting information dated 7 November 2018;
- your emails and documents provided on 20 and 27 November 2018 responding to our request for information;
- our section 30 notice issued to the Company on 27 March 2019;
- your emails and documents provided on 18 and 23 April 2019 responding to our section 30 notice;
- our letter of preliminary concern dated 7 May 2019;
- your emails and letters on 24 May and 5 June 2019 responding to our letter of preliminary concern; and
- our meeting and additional information provided on 7 and 12 June 2019.

We have considered the information provided and the Company's response to our letter of preliminary concern. We continue to have concern with the accounting treatment of funds held on behalf of two merchants and that they do not meet the definition of an asset under the *Framework for the Preparation and Presentation of Financial Statements* (the Framework).

Background

At balance date the Company recognised \$8.7 million in funds held on behalf of merchants as current assets and current liabilities. These funds were held in the Company's subsidiaries' bank accounts and mainly comprised:

- \$6.3 million funds held on behalf of two merchants, OT Markets Pty Ltd (OT) and Ozifin Tech Pty Ltd (Ozifin) in current bank accounts (the Funds),
- \$1.2 million security and rolling reserve funds held on behalf of OT and Ozifin in term deposits (Term Deposit Funds), and
- \$1.2m security, rolling reserve and other funds held on behalf of other merchants.

Definition of an asset

The Framework defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Final Concern – funds held on behalf of two merchants

ASIC has a concern that the Funds do not meet the definition of an asset under the Framework as at 30 June 2018. This is because:

(i) ***Lack of control over the Funds due to court order***

Under normal operating conditions, the Company is entitled to manage, hold and utilise funds for its own purposes (including earning interests from the funds held on behalf of merchants). Unlike the normal operating conditions, the use of the Funds is restricted by court order as at year end. The Company can only deduct the fees for its services performed against the Funds and cannot use the entire or part of the Funds for its own operating, investing and financing activities. The ability of the Company to charge for its services performed does not entitle the Company to use the remaining funds for its own purposes,

(ii) ***Not entitled to interest income***

The Company is not entitled to the interest income or economic benefits (if any) derived from the Funds. In addition, we also note that the Company would not be able to reinvest the Term Deposit Funds after the deposit term expires after year end (due to the restriction of court order), and

(iii) ***Uncertainty over claim on termination penalties***

The Company has not commenced any legal proceedings or claims against the merchants for the early termination of contracts as at 30 June 2018. The claims are subject to negotiation with the merchants and may be challenged by the merchants. There is no certainty in relation to amounts to be claimed under the termination penalties or that there would be sufficient funds available for the Company to claim termination penalties after the court order is lifted.

Therefore, the Company should not record the Funds as the Company's asset as at 30 June 2018 and should only disclose the nature and terms of the Funds in the notes to the financial report (as required by paragraph 48 of AASB 107 *Statement of Cash Flows*).

Required Action


In order to address our concern, we require the Company to disclose the Funds in the notes to the financial report and not as an asset. The change can either be made by:


- A. Reissuing its financial report with appropriate amendments; or
- B. Presenting the amendments as prior period errors in the Company's June 2019 interim financial report. The requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should be complied with and disclosures should be prominent.

ASIC practice with respect to material adjustments following ASIC surveillance activity

It is ASIC practice to issue media releases where a Company materially changes its financial information following our enquiries.

Response

Your written response to our above concern is required by 15 July 2019 and should be sent by email to .

If you have any questions, please contact me on .

Yours faithfully



Shanny Chen
Financial Reporting and Audit

Legal disclaimer

Our review does not express a view on whether the company's financial report complies with all applicable Australian accounting standards and gives a true and fair view of the financial position and performance in accordance with the Corporations Act 2001. This letter is not intended to be a conclusive list of all the concerns that ASIC might have in relation to the financial report. Nor does this letter limit our ability to raise further concerns with the company or to take any action within its powers. This letter should also not be constructed as providing any assurance as to the correctness or appropriateness of the financial report.

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