

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 101 (ASIC)

Topic: Paridian Property Development Fund Prospectus

Hansard Page: E81

Senator SHERRY asked:

I am talking about the issue of withdrawal of moneys. He sent me a copy of the prospectus. Do you know if ASIC oversighted the Paridian prospectus?

Mr Lucy—It would have been lodged with us. Whether or not we reviewed it—

Mr Cooper—It might or might not have been.

Senator SHERRY—I do not know. That is why I am asking.

Mr Cooper—You are quoting a newspaper article of this week.

Senator SHERRY—I am quoting a newspaper article but I am going to the actual prospectus.

Mr Lucy—We will have to take it on notice.

Mr Cooper—Yes. We will have to take all of this on notice. The point is that there must be 12,000 or 15,000 such products out there.

Senator SHERRY—I accept that. With respect to the Paridian prospectus and the investor, they have sought to withdraw their money from Paridian but cannot get it out, and their attention was drawn to a paragraph on page 79 of this prospectus, which is titled ‘Illiquidity’:

An investment in Securities in Paridian is not a liquid investment. There is no established market for the sale of Securities. Investors have no right to require Shares to be purchased by Paridian or to have their Shares redeemed.

I understand that is the disclosure sentence on which the investor has been denied redemption of their funds by Paridian. With respect to a disclosure such as this, what hope does the ordinary investor have of (1) understanding that sentence and (2) finding it in a prospectus of more than 100 pages?

Mr Lucy—They should rely on a licensed financial adviser, because a licensed financial adviser has a very clear responsibility, firstly, to know the circumstances of his or her client, which would include whether or not they have got investments in a company such as Westpoint and, secondly, to know the product. If that product has such a unique feature as you described then the licensed adviser should be aware of it and should bring that to the attention of their client.

Answer:

ASIC does not, as a matter of course, review all lodged prospectuses.

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The most recent Paridian Property Development Fund Limited prospectus (**the document**), the subject of this question, was lodged with ASIC on 21 April 2005.

The document makes two references to the term ‘illiquidity’.

1. The first is on page 3 of the document, as part of the narrative under the title ‘Important Notice’. The following statement is made at this point of the document:

‘...It is important to understand that this Offer has been designed for medium to long-term investment, and that participation involves risk to both capital and earnings. You should also be aware that an investment under this prospectus is illiquid as the ability to transfer securities is restricted by the absence of a market for these securities...’.

2. The second reference to the term ‘illiquidity’ is made at page 82 of the document, under the section titled ‘Additional Risks’. The following statement is made at this point of the document:

‘...An investment in Securities in Paridian is not a liquid investment. There is no established market for the sale of Securities. Investors have no right to require shares to be purchased by Paridian or to have their shares redeemed. The principal amount of Paridian Notes is not repayable until the maturity date which will be 3 years after the date of issue of the Paridian Notes (unless Paridian elects to repay early). An investment in Paridian should, therefore, be viewed as a medium to long-term investment...’.

The document was not the subject of review by ASIC at the time of its lodgement.