

Tabled Document No 12

By: TONY D'ALOSIO, ASIC

Date: 30/5/2007



ASIC

Australian Securities & Investments Commission

Statement on Australian Capital Reserve

By Mr Tony D'Aloisio, Chairman
Australian Securities and Investments Commission to the
Senate Standing Committee on Economics

Wednesday, 30 May 2007

This is a preliminary statement in relation to Australian Capital Reserve Limited (Administrators Appointed) (ACR). ACR is a property development financier that used a similar business model to that of Fincorp.

The key legal structure of ACR, and the securities it issued, is as follows:

- ACR raised money from the public through 'Deposit Notes'. Deposit Notes are unsecured notes issued by ACR, the repayment of principal and interest of which rank behind repayment of secured debt by ACR and equally with other unsecured loans owed by ACR.
- ACR on-lent the money it raised from the public to the Estate Property Group, which comprises over 26 companies. ACR's main asset is 'loan receivables' from the Estate Property Group, which was worth \$339 million as at 30 April 2007. The Estate Property Group in turn used the borrowings from ACR to develop properties and make property investments, mainly in the residential property market. ACR's loans to the Estate Property Group were secured by first or (more commonly) subsequent mortgages. Where a subsequent mortgage is taken, repayment priority of the ACR loan is behind the first-ranking mortgage loan. ACR would only lend, according to its prospectus, to the Estate Property Group up to 85% of the security value of the properties that secured the loan.
- Estate Property Group, which owns 21 property developments, raised first mortgages against up to 18 of those properties (e.g. from banks) as at May 2007. The mortgages have priority over repayment of borrowings from those companies to ACR.

What is ACR's status?

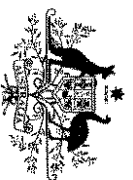
Administrators McGrathNicol were appointed on 28 May 2007. The administrators have advised that the first meeting of creditors will be held on 4 June 2007.

As at 30 April 2007, ACR had issued \$327.7 million in Deposit Notes.

The attached document is a preliminary outline of ASIC's involvement with prospectuses issued by ACR. You will see that ACR met ASIC's concerns up to the final stop order (which was appealed).

What happens next?

The strategies for the retail sector, which I outlined earlier, will also encompass ACR-type vehicles.



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Australian Capital Reserve Limited (Administrators Appointed) 2000–2007 (Source: ASIC)

