



**ASIC**

Australian Securities &  
Investments Commission

## **ASIC REACHES SETTLEMENT WITH APAC ON AMORTISATION POLICY**

The Australian Securities and Investments Commission (ASIC) today welcomed Australia Pacific Airports Corporation's (APAC) decision to change its lease premium amortisation policy, to amortise the lease premium in this year's accounts and thereafter on a straight line basis.

In view of APAC's undertaking to ASIC in this matter, ASIC has discontinued its Supreme Court proceedings against APAC.

APAC's new policy accords with ASIC's view about the requirements of the accounting standards and the Corporations Law

In its financial report for the year ended 30 June 1998, APAC stated its amortisation policy. "*Lease premium is being amortised over expected passenger traffic for the first 15 years and then written off over straight line for the remaining 84 years.*"

This method gives less amortisation in the early years and more amortisation in the later years than the application of a straight-line basis for the entire useful life.

APAC does not accept that this method breaches any accounting standard or law. APAC believes that its preferred methodology is consistent with the leasing standard AASB 1008 and reflects the pattern of benefit derived from the leased property.

However, ASIC believed that the accounts of APAC for the year ended 30 June 1998 did not comply with the Corporations Law.

In ASIC's opinion, the pattern of amortisation was not in accordance with accounting standard AASB 1021 "Depreciation" which requires such assets to be amortised in accordance with "the pattern in which the asset's future economic benefits are

ASIC Chief Accountant Jan McCahey said, in this case, APAC's right expires at a constant rate over the estimated useful life of the asset.

"In ASIC's view, this means that an equal amount of amortisation expense should be recognised in each financial year," she said.

APAC's changed amortisation policy has the result that the lease premium amortisation in the year ended 30 June 1999 increases by \$2,772,000 to \$6,683,000. ASIC believes that the 30 June 1998 loss would have been increased by a similar amount if the new policy had been applied then.

ASIC first raised with APAC its concerns about APAC's amortisation policy in March this year. Then in August ASIC applied to the Supreme Court for a

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declaration that APAC's 1998 accounts did not comply with the Corporations Law and an injunction restraining APAC from continuing to amortise the lease premium using the company's chosen basis.

APAC has now told ASIC that it will change its amortisation policy to amortise the right on a straight-line basis over its remaining useful life from 1 July 1998.

ASIC said that it was pleased with the final outcome.

Ms McCahey said that ASIC will work with companies to try and resolve differences of views about the requirements of the law in relation to financial statements.

"If, however, ASIC and a company cannot agree, ASIC will take Court action where ASIC considers there has been material non-compliance with the Corporations Law.

In this case, we resolved a dispute through discussion and we welcome this."

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**Issued by:**  
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