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Regulator says investors need to know risks

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Article from: **Herald Sun**

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PEOPLE should be told how much they stand to lose in a worst-case scenario before they put money into investments, a corporate regulator said yesterday.

Citing the debacle surrounding road builder BrisConnections, [Australian Securities and Investments](#) Commissioner Greg Medcraft said product disclosure statements should include stress tests that put a dollar figure on possible losses.

Many investors bought [BrisConnections](#) units on the market for less than 1 each, not realising they were obliged to pay two instalments of \$1 apiece.

Mr Medcraft, who is leading ASIC's probe into BrisConnections, said the project's disclosure statements did not show potential investors what would happen if there was a sharp drop in traffic or if the \$4.8 billion toll road project ran into financial difficulties.

"I guess there's some regulatory outcomes there," Mr Medcraft said during a Future Summit panel discussion on regulation in Melbourne yesterday.

"I'd like, as a personal view - here's our stress test with our worst case.

"There's another aspect to this - perhaps the business model may not be suitable for retail investors."

As well as looking at product disclosure standards, Mr Medcraft is heading an ASIC taskforce doing a review of the BrisConnections debacle.

It is believed the taskforce is examining disclosures made when BrisConnections securities were first sold and while the securities were listed on the stock exchange.

It is also inquiring into the project's corporate governance standards.

Mr Medcraft said ASIC had already been heavily involved with BrisConnections, intervening in court actions in Victoria and Queensland.

"We're looking at it from a range of different viewpoints," he said.

"It's ongoing."

Mr Medcraft said the application of three principles would help investors in the future.

"One, investor comprehension; two, understanding the business model; three, stress-testing the business model," he said.

Mr Medcraft said there had already been progress on disclosure with partly-paid shares.

"On partly-paid the ASX has actually changed its rules in terms of disclosure - people have to sign a statement that they understand what their obligations are.

"It goes back to the principle I said before.

"It's important people understand the business model, and stress-testing the business model.

"If you take those two principles and apply them to BrisConnections, was it understood what the impact would be if the market reassessed the project . . . in terms of its value, which is what happened?

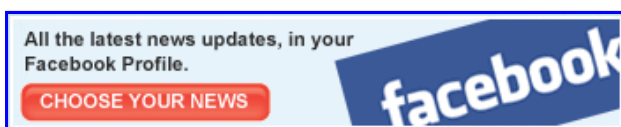
"If you applied those principles going forward, unintended consequences could be flushed out a little earlier."

Mr Medcraft said stress tests might help investors decide a business was not for them.

"Having something like a simple matrix of outcomes that might affect the outcome of the enterprise might assist investors a great deal, not just understanding the upside but understanding the downside."

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