

**DRAFT**

# **AASB Research Report No. X**

## **Thresholds for Public Lodgement of Financial Statements – Private Sector, For-Profit Entities**

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# Thresholds for Public Lodgement of Financial Statements – Private Sector, For-Profit Entities

## Introduction

### Australian Financial Reporting Framework

- 1 A number of entity structures in Australia are required to publicly lodge financial reports with their respective regulator. For example, subject to certain thresholds and provisions, companies that operate in Australia are generally required to lodge financial statements with the Australian Securities and Investments Commission (ASIC). In addition, some Australian States have regulatory provisions in place to require incorporated associations to publicly lodge financial reports, again subject to certain thresholds and provisions.
- 2 The establishment of the Australian Charities and Not-for-profits Commission (ACNC) introduced public lodgement requirements for the entities it regulates, adding more thresholds and provisions into the Australian financial reporting environment.
- 3 Recent media coverage<sup>1</sup> has highlighted the complexity of this environment, and in some cases questioned the outcome of its operation. Some of this coverage notes that some business operations equivalent to those of listed entities are not subject to the same financial reporting rigour as those listed entities, highlighting potential shortcomings in the Australian Financial Reporting Framework.

### Australian Accounting Standards Board Research Centre

- 4 The Australian Accounting Standards Board (AASB) Research Centre operates within the broad long-term strategy of the AASB. One facet of that strategy is to proactively inform policymakers on, and aim to participate in, the development of the Australian Financial Reporting Framework.
- 5 Accordingly, in 2015 the AASB directed the Research Centre to conduct research into the Australian Financial Reporting Framework, beginning with an assessment of the thresholds that require entities to publicly lodge financial reports.
- 6 Initially, the AASB Research Centre will compare Australian thresholds to those in comparable jurisdictions in a “benchmarking” process, which is the aim of this report.
- 7 This report forms part of the AASB Research Centre’s activities in this area. Future research reports will address other aspects of the Centre’s research.

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1 For example: *Sydney Morning Herald*, “Coles boss hits out at Aldi’s ‘unequal’ tax” (23 June 2015), “ASIC fines Rinehart companies over tardy filings” (11 August 2015) and “Big Tobacco comes clean every time” (17 August 2015).

## Purpose of the Research Report

- 8 This Research Report outlines findings of research into the thresholds adopted in various jurisdictions that determine when an entity is required to publicly lodge financial statements. In addition to Australia, the jurisdictions investigated are:
- (a) Canada;
  - (b) Hong Kong;
  - (c) Japan;
  - (d) Korea;
  - (e) Malaysia;
  - (f) New Zealand;
  - (g) Singapore;
  - (h) South Africa;
  - (i) the United Kingdom; and
  - (j) the United States of America.
- 9 At its July meeting, the AASB decided that the above jurisdictions should provide a reasonable base for comparison to Australia. These jurisdictions are relatively comparable in terms of regulatory rigour as well as including jurisdictions that are traditionally compared to Australia in terms of financial reporting issues.

## Scope of the Research Report

- 10 The scope of this research report is limited to regulations that require private sector, for-profit entities to publicly lodge financial reports. These regulations might also exempt some of the applicable entities from lodgement subject to thresholds or other provisions.

## Publicly Lodged Financial Statements

### Introduction

- 11 Companies in Australia are the primary preparers of publicly lodged financial statements. Even so, of the 747,579 companies in active business as at 30 June 2014,<sup>2</sup> only 28,000 were required to lodge financial statements with ASIC.<sup>3</sup>

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2 Australian Bureau of Statistics, 2015, *Counts of Australian Businesses, Including Entries and Exits*, cat. no. 8165.0, viewed September 2015, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0>

3 Australian Securities and Investments Commission, 2014, *Annual Report 2013-2014*, viewed September 2015, <http://asic.gov.au/about-asic/corporate-publications/asic-annual-reports/>

- 12 Of the 28,000 companies that lodged financial statements with ASIC, 2,252<sup>3</sup> were listed and therefore preparing Tier 1 general purpose financial statements. Of the remaining 25,748 unlisted companies that lodge financial statements, roughly 59% prepared special purpose financial statements.<sup>4</sup>
- 13 All financial statements lodged with ASIC are available for the general public to access, subject to a fee, and therefore it could be argued that all such financial statements should be general purpose in nature. However, as noted in paragraph 12, roughly 59% of unlisted companies are lodging special purpose financial statements.
- 14 As the research findings below will illustrate, the concept of a special purpose financial report lodged on the public record is a uniquely Australian concept. All other jurisdictions investigated provide a clear framework for general purpose financial reporting that is tiered depending on various thresholds and provisions.




### Who must lodge?

- 15 In Australia, companies are the only private sector, for-profit business structures that need to consider public lodgement of financial statements.
- 16 Table 1 below depicts the jurisdictions in which private sector, for-profit entities are generally required, unless exempted, to publicly lodge financial statements. As can be seen, companies are generally required to publicly lodge financial statements, except in the United States where a company must first become a Securities and Exchange Commission (SEC) registrant before such an obligation is imposed.
- 17 Also depicted in Table 1 is that Liability Limited Partnerships (LLPs), not to be confused with a limited partnership in Australia, are generally required to publicly lodge financial statements in the United Kingdom and Japan. Limited partnerships in Australia do not have lodgement requirements.

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4 Australian Accounting Standards Board, 2014, *AASB Research Report No. 1: Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements*, viewed September 2015, <http://www.aasb.gov.au/Research-Centre/Research-Reports.aspx>

**Table 1** General jurisdictional requirements for public lodgement of financial statements

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Malaysia	Hong Kong	Japan	Korea	United States of America
<i>Companies in general</i>										
✓	✗	✗	✓	✓	✓	✓	✗	✗	✓	✗
<i>Listed / Publicly Held Companies</i>										
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Liability Limited Partnerships (LLPs)</i>										
⊘	✗	✗	✓	✗	✗	✗	✗	✓	✗	✗
<b>Legend</b>  Lodgement generally required  Lodgement not generally required  Not applicable										

- 18 While Table 1 depicts the general requirements, there are often exemptions from public lodgement, and in some instances those exemptions are based on thresholds. This leads to the next question: when should an entity publicly lodge financial statements?

### When should they lodge?

- 19 Exemptions and thresholds play an important role in easing the regulatory burden for entities with particular characteristics or facing particular circumstances. Some jurisdictions completely exempt an entity from all financial reporting obligations, or otherwise do not require an entity to publicly lodge financial statements. Other jurisdictions require compliance with various financial reporting options that increase or decrease in complexity depending on specific characteristics or circumstances of the entity.
- 20 Given the findings in Table 1, this discussion will only consider the reporting obligations of companies in the investigated jurisdictions.
- 21 Where a jurisdiction requires all companies generally to publicly lodge financial statements, that jurisdiction might provide a threshold whereby any company that fails to meet the threshold is relieved from all financial reporting obligations (referred to herein as a “relieving threshold”). Table 2 below illustrates the jurisdictions in which such a threshold is operative for non-public companies.

**Table 2** Existence of relieving thresholds for non-public companies

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Malaysia	Hong Kong	Japan	Korea	United States of America
✓	⊘	⊘	✗	✓	✓	✗	⊘	⊘	✓	⊘

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**Legend**

✓ Relieving threshold exists

✗ No relieving threshold exists

⊘ Not applicable

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- 22 Canada, Hong Kong, Japan and the United States of America do not require companies to publicly lodge financial statements unless those companies are publicly held. Accordingly, relieving thresholds are not applicable in these jurisdictions.
- 23 New Zealand only requires public lodgement of financial statements for companies if they are a *FMC reporting entity* under the *Financial Markets Conduct Act 2013* (FMC Act) or are a large subsidiary, or branch of an overseas entity. These tests are considered further from paragraph 30.
- 24 The United Kingdom and Malaysia do not relieve companies from public lodgement obligations. In these jurisdictions all companies are required to publicly lodge financial statements regardless of the characteristics of the entity. However, as discussed later in this research report, these jurisdictions do generally operate a tiered financial reporting framework. The financial reporting requirements in these tiers vary in complexity and the tier an entity is required to apply depends on facts and circumstances of the entity.
- 25 Australia, South Africa, Singapore and Korea are the only investigated jurisdictions that provide a “relieving threshold” for companies. Table 3 below summarises the bases used in these jurisdictions for the relieving threshold.

**Table 3** Bases for relieving thresholds

Jurisdiction	Assets	Revenue	Net profit	Liabilities	Employees	Other
Australia	✓	✓	✗	✗	✓	✗
South Africa	✗	✓	✗	✓	✓	✓
Singapore	✗	✗	✗	✗	✗	✓
Korea	✓	✗	✗	✗	✗	✗

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**Legend**

✓ Base **is** included in relieving threshold

✗ Base **is not** included in relieving threshold

- 26 Four jurisdictions provide relieving thresholds based on various bases. However, the amounts, or other requirements of these bases may vary depending on the circumstances of the company's operations in the jurisdiction.

### *Separate domestic companies*

- 27 As noted previously, some jurisdictions require all companies to publicly lodge financial statements but provide exemptions from this requirement in certain circumstances. On the other hand, other jurisdictions do not require public lodgement of financial statements but create an exception for listed or publicly held companies, which are thereby required to publicly lodge financial statements.
- 28 Where a jurisdiction provides a quantitative exemption from public lodgement of financial statements, Table 4 below lists the relevant quantitative thresholds for domestic companies that are neither consolidated nor foreign owned in that jurisdiction. Jurisdictions that require public lodgement by exception, or have a more elaborate set of requirements in place, are discussed following Table 4.

**Table 4** Domestic, non-consolidated and non-foreign-owned company quantitative thresholds

Base	Jurisdiction	Threshold
Assets	Australia	AUD 12.5 million
	Korea	KRW 14 million
Revenue	Australia	AUD 25 million
Employees	Australia	50

- 29 In the Australian context, once a proprietary company surpasses any two of the above three thresholds, the company must lodge financial statements with ASIC. In Korea, a company that surpasses the asset test must lodge financial statements.

### **New Zealand**

- 30 In New Zealand the test for a separate domestic company (one which is not foreign owned or a member of a consolidated group) is whether that entity is a FMC reporting entity, as defined in the FMA Act:
- (a) every person who is an issuer of a regulated product;
  - (b) every person who holds a licence under Part 6 (other than an independent trustee of a restricted scheme);
  - (c) every licensed supervisor;
  - (d) every listed issuer (but see section 351(1)(ab));
  - (e) every operator of a licensed market (other than a market under section 317 (overseas-regulated markets));
  - (f) every recipient of money from a conduit issuer;
  - (g) every registered bank;
  - (h) every licensed insurer;
  - (i) every credit union;
  - (j) every building society; and
  - (k) every person that is an FMC Reporting Entity under clause 27A of Schedule 1.
- 31 A domestic, locally owned company in New Zealand that does not meet any of the above criteria is not required to publicly lodge financial statements.



### **South Africa**

- 32 In South Africa, a public company must publicly lodge financial statements regardless of its size. For private companies, the requirement to publicly lodge financial statements depends on whether those financial statements must be audited, which follows the following set of requirements, in order. If a company meets any of the following thresholds, it must publicly lodge financial statements and does not consider any of the subsequent tests:
- (a) the company, in the ordinary course of its primary activities, holds assets exceeding ZAR 5 million in a fiduciary capacity for persons who are not related to the company;
  - (b) the company has a Public Interest score of more than 350; or
  - (c) the company has a Public Interest score of more than 100 and the financial statements have been internally compiled.
- 33 A company's Public Interest score is calculated annually as the sum of the following:
- (a) a number of points equal to the average number of employees of the company during the financial year;
  - (b) one point for every ZAR 1 million (or portion thereof) in third party liability of the company, at the financial year end;
  - (c) one point for every ZAR 1 million (or portion thereof) in turnover during the financial year; and
  - (d) one point for every individual who, at the end of the financial year, is known by the company:
    - (i) in the case of a profit company, to directly or indirectly have a beneficial interest in any of the company's issued securities; or
    - (ii) in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company.

### **Singapore**

- 34 Singapore legislation provides a lodgement exemption for "Exempt Private Companies". These companies must not have more than 20 shareholders. No corporation can hold, either directly or indirectly, a beneficial interest in an exempt private company.
























### **Canada, the United Kingdom, Malaysia, Hong Kong, Japan and the United States of America**

- 35 Canada, Hong Kong, Japan and the United States of America do not require companies to publicly lodge financial statements unless those companies are publicly held. On the other hand, the United Kingdom and Malaysia require all companies to publicly lodge financial statements.

## Consolidated wholly owned subsidiaries

- 36 Table 5 below indicates whether a consolidated wholly owned subsidiary company is required to publicly lodge financial statements.

**Table 5** Consolidated wholly owned subsidiaries required to publicly lodge financial statements

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Malaysia	Hong Kong	Japan	Korea	United States of America
<i>Domestic-owned</i>										
									tbd	
<i>Foreign-owned</i>										
									tbd	
<b>Legend</b>										
 A wholly owned company <b>must</b> publicly lodge financial statements										
 A wholly owned company <b>may not be</b> required to publicly lodge financial statements subject to certain conditions / thresholds										
 A wholly owned company <b>is not</b> required to publicly lodge financial statements										

- 37 Australian companies that are required to lodge financial statements with ASIC may obtain relief from this requirement by utilising ASIC Class Order CO 98/1418 *Wholly-owned entities*. This Class Order generally requires a number of legal undertakings between the parent and the subsidiary, among other conditions, in order to exempt the subsidiary from the requirement to lodge.
- 38 In New Zealand a domestic company is not required to publicly lodge financial statements if it is not a FMC reporting entity and its parent is also a New Zealand company. However, if the parent is a foreign company, the New Zealand subsidiary will be required to publicly lodge financial statements if it is large, which is defined as assets in excess of NZD 20 million or revenue in excess of NZD 10 million.
- 39 The United Kingdom, Singapore and Malaysia require all companies to publicly lodge their financial statements, including those of subsidiaries.
- 40 On the other hand, Canada, Hong Kong, Japan and the United States of America only require public lodgement of financial statements for companies that are publicly held. Consequently, wholly owned subsidiaries are not required to publicly lodge financial statements.
- 41 South Africa applies the same public interest score requirement to all companies, including subsidiaries, resulting in the indication in Table 5 that lodgement depends on a threshold.

## What should they lodge?

42 For those companies that are ultimately required to publicly lodge financial statements, some jurisdictions provide a tiered financial reporting framework. This type of framework provides reporting options for qualifying companies that either increase or decrease in complexity depending on a number of criteria relating to the company.

43 Table 6 below summarises the options available to companies in a jurisdiction.

**Table 6** Financial reporting options available

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Malaysia	Hong Kong	Japan	Korea	United States of America
<i>General purpose financial statements – number of tiers available</i>										
2	tbd	tbd	5	tbd	tbd	tbd	tbd	tbd	tbd	tbd
<i>Special purpose financial statements</i>										
✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗

**Legend**

⊘ The financial reporting framework is not tiered

✓ Companies may lodge special purpose financial statements subject to certain conditions

✗ Companies cannot lodge special purpose financial statements

44 Australian companies may publicly lodge special purpose financial statements provided the company determines that it is not a reporting entity. Such financial statements are required to comply with the following Australian Accounting Standards:

- (a) AASB 101 *Presentation of Financial Statements*;
- (b) AASB 107 *Statement of Cash Flows*;
- (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (d) AASB 1048 *Interpretation of Standards*; and
- (e) AASB 1054 *Australian Additional Disclosures*.

45 Further to the above mandatory Standards, ASIC Regulatory Guide RG 85 *Reporting requirements for non-reporting entities* argues that compliance with the presentation and disclosure requirements of the above Standards, as well as qualitative requirements specified in the *Corporations Act 2001*, necessitates application of all

applicable recognition and measurement requirements of Australian Accounting Standards.

- 46 Beyond the requirements outlined in paragraphs 44 and 45, company directors have discretion to tailor their financial statements to suit the needs of their identified user groups. This leads to significant inconsistencies across special purpose financial statements and also resulted in AASB Research Report No. 1 stating that special purpose financial statements usually contain materially less financial information than general purpose financial statements.
- 47 The availability of special purpose financial statements as a public lodgement option is unique to Australia; no other jurisdiction permits companies to publicly lodge special purpose financial statements.

*Note:* Table 6 and this section is not complete. The content above is intended to provide an indication of what will be included in this section.

The discussion following Table 6 will highlight the tiers that might be available in a jurisdiction and also provide a high-level indication of the criteria for applying one tier over another. For example, in Australia an entity may apply Tier 2 if it is not publicly accountable whereas the 5 UK tiers are based on whether a company is listed as well as various size thresholds.

## **Conclusion**

[to be prepared]

## **Appendix A**

[if needed]

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