Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Removal of SPFS for FP entities**	**Meeting**	AASB April 2019 (M170)
Topic:	**Options for transitional requirements and Approach A: Provide no additional relief**	**Agenda Item:**	6.1
		Date:	16 April 2019
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Objective of this agenda item

1 The objective of this agenda item (comprising a series of interrelated papers) is for the Board to **decide** on its proposals regarding the transitional requirements for Phase 2 of the For-Profit Financial Reporting Framework Project that is adopting the IASB's revised *Conceptual Framework for Financial Reporting* and solving the special purpose financial statements (SPFS) problem for for-profit private sector entities. Specifically, the Board needs to **decide**:

(a) whether to provide transitional relief beyond that already available through AASB 1053 *Application of Tiers of Australian Accounting Standards* (in particular, that already available through AASB 1 *First Time Adoption of Australian Accounting Standards*[1]), for for-profit private sector entities mandatorily transitioning from SPFS to general purpose financial statements (GPFS) – Tier 2 as part of Phase 2 of the For-Profit Financial Reporting Framework project; and

(b) if the answer to (a) is yes, what transitional relief to propose.

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1 Consistent with the Board's preliminary discussions at the February 2019 meeting, this agenda item only considers providing transitional relief in addition to that provided in AASB 1. The current option to transition via AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (available in AASB 1053 paragraph 18A) would remain. The core transition principle in AASB 108 is fully retrospective transition, unless impracticable.

Reasons for bringing this agenda item to the Board

2 The Board considered the feedback on its Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statements Problems* at its February 2019 meeting, and noted many (but not all) respondents said that, for the purpose of facilitating mandatory transition from SPFS to revised GPFS-Tier 2, the transitional relief available in AASB 1[2] was either not enough or they were unsure whether or not it was enough[3].. Respondents noted particular concern with consolidation and equity accounting. We note that this feedback was received in the context of the then existing thresholds 'defining' large proprietary companies, which have since been doubled (see paragraph 28 below).

3 At its February 2019 meeting the Board considered a staff analysis of the current relief provided by AASB 1, with particular focus on the relief already provided for consolidation and equity accounting[4]. In light of the feedback on ITC 39 and with regard to the existing transitional requirements in AASB 1, the Board instructed staff to undertake further research and outreach to determine what additional transitional relief might be needed to help ensure the mandatory transition from SPFS to revised GPFS-Tier 2 is not unduly burdensome. In addition to the additional research referred to in paragraph 22 below, the Board directed staff to particularly consider:

(a) the preparation of consolidated financial statements and the application of equity accounting for the first time; and

(b) whether comparative information is required in the year of transition.

Attachments and structure of this agenda item

4 Staff have prepared a series of agenda papers, with each paper considering different possible transitional requirements/relief. Broadly there are two approaches that the Board could follow – Approach A: provide no additional transitional relief, or Approach B – provide additional transitional relief.

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2 The questions in ITC 39 focussed on the transitional provisions of AASB 1, and did not reference the allowed alternative provided by AASB 1053 (ie the option to not apply AASB 1 and instead apply AASB 108, which requires a much greater level of retrospectivity than AASB 1).

3 Refer to Agenda Paper 4.1 of the February 2019 meeting, paragraphs 52-79 (Specific Issue 4), which summarises the comments and staff analysis of the feedback received in relation to transition. In summary, as noted in that agenda paper, of the 36 respondents to ITC 39, 20 explicitly commented on the suitability of AASB 1 – 9 said 'unsuitable', 4 said 'unsure about suitability' and 7 said 'suitable'. More than 80% of Roundtable participants said 'unsuitable' or 'unsure about suitability'. In relation to the Preparer Survey 65% said 'unsuitable' or 'unsure about suitability'. Staff do not intend providing further extracts from the agenda paper, except where pertinent to the transitional options explored in this agenda item.

4 Agenda Paper 4.1 of the February 2019 meeting noted that AASB 1 provides mandatory and voluntary exceptions and exemptions from the retrospective application of other aspects of Australian Accounting Standards (AAS), but did not analyse those in detail, as that paper was primarily informing the Board of the relief available for consolidation and equity accounting.

5 The structure of the series of agenda papers is as follows:

Approach A – provide no additional relief to entities mandatorily transitioning from SPFS to revised GPFS-Tier 2

Agenda Paper 6.1 (this agenda paper) Option A: do not provide any transitional relief in addition to what is already available in Australian Accounting Standards (AAS).

Approach B – provide additional transitional relief to entities mandatorily transitioning from SPFS to revised GPFS-Tier 2 (presented in 'preferential' order)

Agenda Paper 6.2 Option B1: Relief in the form of 'allowing acquisition date fair values used in group reporting packs as a basis for deemed cost' (referred to in this paper as 'push-down relief') for subsidiaries of an IFRS/AAS-compliant parent entity

Agenda Paper 6.3 Option B2: Relief from restating and presenting comparative information.

Agenda Paper 6.4 Option B3: Relief from recognising 'deemed goodwill' (which is a current requirement of the relief provided by Appendix C of AASB 1) for parent entities required to prepare consolidated financial statements for the first time.

6 Approach A is mutually exclusive of Approach B – if the Board chose to proceed with one of the options in Approach A, it would not adopt any of the options in Approach B. However, if one or more of the options in Approach B were to be adopted, consideration would need to be given to whether the additional relief provided would have any implications on the operative date of Phase 2 (with the expectation that the greater the relief provided, the earlier it is reasonable to expect Phase 2 could be implemented).

7 The relief options in Approach B are discussed independently of each other as the Board could decide to propose one, two or all three of those potential reliefs. Staff cannot envisage any circumstances where there could be potential for conflict between any of the contemplated reliefs.

Summary of Staff recommendation

8 In light of the revision to the large proprietary company thresholds, staff recommend the Board propose no transitional relief in addition to what is already available in AASB 1053 and AASB 1 for entities that would be required to transition from SPFS to the revised GPFS-Tier 2 framework.

9 However, if the Board does not agree with this recommendation, staff have presented three possible options that could be considered as a basis for providing additional transitional relief. Based on our analysis of these options, if the Board disagrees with our recommendation in paragraph 8, then we recommend the Board:

(a) as a first preference, propose option B1 – 'push-down' accounting for entities that are subsidiaries of an IFRS and/or AAS compliant parent in more circumstances than AASB 1 currently allows;

(b) as a second preference, propose option B2 – not require entities to restate and present comparative information in the year of transition; and

(c) not propose option B3 – parents to write-off 'deemed goodwill' (calculated in accordance with Appendix C of AASB 1) immediately to retained earnings.

10 The options and recommendations are also summarised in Table A of this paper.

Structure of this Agenda Paper 6.1

11 This agenda paper is structured as follows:

(a) the scope of the transitional issues considered in this agenda item (paragraphs 12-16);

(b) why the Board might or might not consider granting additional transitional relief (paragraphs 17-34), including consideration of the revision to the large proprietary thresholds (paragraphs 27-30);

(c) Approach A: Provide no additional transitional relief (paragraphs 35-48);

(d) Table A: Summary of transitional relief options analysed and staff views;

(e) Table B: Transitional relief options put forward by some constituents, considered by staff but not analysed in detail;

(f) effective date and early adoption (paragraphs 50-57);

(g) next steps and timeline (paragraph 58);

(h) Appendix A – Statistics of entities affected by Phase 2 following the revision of the large proprietary thresholds; and

(i) Appendix B – Comparison of distribution of size of entities following revisions to large proprietary thresholds.

The scope of the transitional issues considered in this agenda item

12 This agenda item (ie all of the agenda papers under Agenda Item 6) explores what we have identified as feasible transitional options for entities that would be required to change the type of financial report being prepared from SPFS to the revised GPFS-Tier 2 framework due to the AASB removing the ability for for-profit entities to prepare SPFS when required

by legislation or otherwise to prepare financial statements in compliance with AAS[5]. Specifically, consistent with the scope of Phase 2, an entity within the scope of this agenda item is any for-profit private sector entity that meets all of the following criteria:

(a) had a legislative requirement or otherwise to comply with AAS in the most recent reporting period before the removal by the AASB of the ability to prepare SPFS in accordance with AAS;

(b) has a legislative requirement or otherwise to comply with AAS in the first reporting period after the removal by the AASB of the ability to prepare SPFS in accordance with AAS;

(c) does not have public accountability;

(d) does not elect to apply GPFS-Tier 1 (ie transition to revised GPFS-Tier 2 only); and

(e) prepared the financial statements referred to in (a) above in the form of SPFS and:

   (i) is an individual entity without any subsidiaries, and has not applied, or only selectively applied, the recognition and measurement requirements of AAS in those SPFS; or

   (ii) is a parent and:

      (A) has, consistent with paragraph 2(a) of AASB 10[6], prepared consolidated financial statements but has not applied, or only selectively applied, the recognition and measurement requirements of AAS in those consolidated SPFS; or

      (B) has, inconsistent with AASB 10, not prepared consolidated financial statements, regardless of whether or not the entity has applied, or only selectively applied, the recognition and measurement requirements of AAS in those unconsolidated SPFS.

13 Whilst this scope might seem obvious (given it aligns with the scope of Phase 2), because of the complexity of this project staff consider it is worthwhile restating it here to make it clear that:

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5 The Board decided on the scope of entities to include in the application paragraph for AAS in order to implement Phase 2 of this project for for-profit private sector entities in February 2019 – see Action Alert No. 196.

6 Paragraph 2(a) of AASB 10 states “To meet the objective … this Standard … requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements”.

(a) many of the existing transitional requirements in AAS are not being reconsidered as part of this project, in particular the transitional requirements of AASB 1053[7]; and

(b) any additional transitional relief contemplated in this agenda item is not intended to be extended to other types of first-time adoption of AAS/GPFS (ie it is not intended to be 'standard' relief for first-time adoption of GPFS-Tier 2). This includes where entities prepare GPFS-Tier 2 for the first time in future periods due to having a statutory requirement or otherwise to comply with AAS for the first time, even where they had previously prepared an 'SPFS'. The reasons entities within the scope of this agenda item are regarded as different from other entities are set out in paragraph 19.

14 Although within the scope of this agenda item as outlined in 12 above, entities with a non-legislative requirement to prepare financial statements in accordance with AAS (eg, trusts required to comply with AAS only due to their trust deed or other compliance document) have not yet been considered in detail and are not within the scope of this paper. The Board decided at its February 2019 to conduct further research to assess whether it is appropriate to provide 'grandfathering'-type relief (which is even greater relief than the types of relief being contemplated in this agenda item) for such entities. That research has not yet been finalised, and is expected to be brought to the Board in June 2019.

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[7] Pertinent features of AASB 1053 that would be unchanged include:
(a) when applying (or resuming) Tier 2 for the first time, an entity would only be eligible for transitional relief where the entity had not complied with at least some R&M requirements of AAS in its most recent SPFS; and
(b) entities identified in (a) immediately above would have the option to apply either all of AASB 1 or transition directly through AASB 108.

Question for Board members: Scope Of Any Additional Transitional Relief

Q1 Does the Board agree that, consistent with the scope of Phase 2, the scope of any additional transitional relief if proposed by the Board should be limited to for-profit private sector entities that:

(a) had a legislative requirement or otherwise to comply with AAS in the most recent reporting period before the removal by the AASB of the ability to prepare SPFS in accordance with AAS;

(b) has a legislative requirement or otherwise to comply with AAS in the first reporting period after the removal by the AASB of the ability to prepare SPFS in accordance with AAS;

(c) does not have public accountability;

(d) does not elect to apply GPFS-Tier 1 (ie transition to revised GPFS-Tier 2 only); and

(e) prepared the financial statements referred to in (a) above in the form of SPFS and:

(i) is an individual entity without any subsidiaries, and has not applied, or only selectively applied, the recognition and measurement requirements of AAS in those SPFS; or

(ii) is a parent and:

(A) has, consistent with paragraph 2(a) of AASB 10[8], prepared consolidated financial statements but has not applied, or only selectively applied, the recognition and measurement requirements of AAS in those consolidated SPFS; or

(B) has, inconsistent with AASB 10, not prepared consolidated financial statements, regardless of whether or not the entity has applied, or only selectively applied, the recognition and measurement requirements of AAS in those unconsolidated SPFS.

Relief from disclosure (and potentially presentation) requirements that would be available to all entities adopting GPFS-Tier 2 for the first time

15 Staff note a cross-cutting issue that, as part of the project to revise the GPFS-Tier 2 framework, the Board will prescribe the disclosure requirements upon first-time adoption of GPFS-Tier 2 (based on the disclosure requirements of first time adoption of the *IFRS for SMEs*, and replacing the disclosure requirements in AASB 1). These requirements would be

8 Paragraph 2(a) of AASB 10 states "To meet the objective … this Standard … requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements".

applicable to all first time adopters of that framework that transition via AASB 1, including entities within the scope of this agenda item. Staff are not considering this in further detail in this paper, as it is an issue related to the broader requirements of the revised GPFS-Tier 2 framework, rather than only to those entities within the scope of this paper. Staff expect that the Board will consider this at its June 2019 AASB meeting.

16 The current Tier 2 - reduced disclosure requirements (RDR) framework also provides relief from only one presentation matter, which is the requirement to present a third statement of financial position (a 'third balance sheet') where required by AASB 101 or AASB 1[9]. Whilst the Board has already decided that the revised GPFS-Tier 2 framework would continue to not require the presentation of a third balance sheet where it would have been required by AASB 101 (as the revised framework will replace AASB 101 with the relevant section from the IFRS for SMEs), the Board has not decided (nor considered in detail) whether it will also make this reduction to presenting a third balance sheet in AASB 1[10]. Staff expect the Board to also make that decision in June 2019.

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9 See AASB 1.RDR21.1.

10 The Board has made a general decision that the methodology of the revised GPFS-Tier 2 framework will not consider presentation requirements. However, Staff consider that the Board should consider making this further reduction, given that (1) the presentation requirements of AASB 1 and the presentation standard of the revised GPFS-Tier 2 framework would be at conflict, (2) that the RDR framework had already reduced the presentation requirement, and (3) this reduced presentation requirement would be consistent with the IFRS for SMEs section relating to first-time adoption. In any case, AASB 1.RDR21.1 does not amend the date of transition to AAS, and hence arguably does not provide substantial relief (ie only presentation relief).

Why the Board might or might not consider granting additional transitional relief

17 Staff note the Board had previously concurred (via adoption of AASB 1, which is consistent with IFRS 1) that AASB 1 met its objective of reducing the cost of adopting AAS, so as not to outweigh the benefits of adopting AAS. This therefore calls into question how the Board might justify proposing yet further transitional relief in addition to that already provided for the specific entities identified in the scope of this paper (see paragraph 12 above).

Consideration of the standard-setting framework

18 Paragraph 29 of *The AASB's For-Profit Entity Standard-Setting Framework* (the standard-setting framework) outlines scenarios where the Board could justify moving away from IFRS. Some of the relevant factors to this project are issues such as user needs and public interest issues, balanced against the costs and efforts for preparers.

19 Within that context, staff have identified some potentially relevant factors the Board could consider as justification for granting additional transitional relief for entities within the scope of this agenda item, but not for any other type of first time adopter. These include:

(a) the Board has an objective to revise the current Australian Financial Reporting Framework to a consistent, comparable, transparent and enforceable financial reporting framework. There is a particular impetus for the Board to do this in a timely manner, especially in light of recent regulatory matters including the banking royal commission, which called for the removal of exceptions in legislation[11], as well as identified concern in corporate due diligence more broadly. To facilitate timely reform and as the reform is likely to impact a cohort of entities at the same time, arguably the Board should focus on more generous transitional relief in isolation of other types of transition/first-time adoption, which might otherwise delay the Board's progress with the reform; and

(b) entities currently lodging SPFS have already established accounting policies, systems, processes and other methodology (and incurred related costs) for preparing their statutory financial reporting, which may be inconsistent with the recognition and measurement (R&M) principles of AAS, as permitted by the current financial reporting framework. Hence, unlike in other circumstances, the removal by the AASB of the ability for entities to prepare SPFS when required to comply with AAS by legislation or otherwise, could require entities currently preparing SPFS to exert cost and effort to revise policies and processes.

20 Staff note that outcomes of any additional transitional relief would deviate from outcomes under IFRS. However, for the reasons outlined above and to facilitate a long-term objective of a higher quality financial reporting landscape, pragmatic solutions to reduce costs and efforts to preparers arguably should be at least considered to better understand whether the reduced costs would outweigh the loss of benefits to users, and hence could be justified under the standard-setting framework.

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[11] Staff consider that the option for non-reporting entities to not conform fully with AAS is an 'exception in legislation' similar to those addressed by the banking royal commission.

User needs

21 The AASB's User Survey outlined that on average 93% of primary users and over 95% of other users said comparability, transparency, comprehensibility and consistency are what is most important to them when reading financial statements. This suggests that significant divergences from the requirements of current AAS (including AASB 1) could be inconsistent with user needs.

Outcome of our further outreach with preparers to date

22 As noted in paragraph 3 above, the Board directed staff to undertake further outreach in relation to practical transitional issues, including in relation to consolidation.

23 To date, staff have received informal feedback from only one entity that had recently transitioned from SPFS that applied all the R&M requirements of AAS but did not consolidate, to SPFS that applied all the R&M requirements and consolidated. That entity noted that it did not restate and present comparative information in its opening consolidated financial statements, as it considered the costs to prepare and audit the information would outweigh the benefits for its users (the entity also noted that it had only one non-employee shareholder). That entity suggested to AASB staff that "a specific transition paragraph permitting no disclosure of comparatives and exemptions (as currently permitted under AASB 1) may be worthwhile".

24 Staff have contacted accounting firms to assist in identifying other entities that have recently transitioned from SPFS to GPFS-Tier 2, but at the date of drafting this paper (16 April 2019), have not yet been able to obtain further insight into the practical challenges they faced, or understand how useful the transitional relief options contemplated in this agenda item might be.

25 Staff have however received some limited feedback on the specific transitional requirements (rather than broader information about transition from SPFS to GPFS-Tier 2) that are contemplated in the series of agenda papers in this agenda item. The specific papers for which limited feedback was received is noted in the appropriate paper.

26 Staff will provide the Board with a verbal update on the status of this outreach at the April 2019 meeting.

Thresholds for what constitutes a large proprietary company

27 In assessing whether additional relief could be justified under the standard-setting framework (see paragraphs 18-20 above) in light of any insights constituents will provide in due course into the practicality of transition (see paragraphs 21-25 above), it is relevant to consider the number and types of entities that might be affected by Phase 2's mandatory transition.

28 In that regard, it is relevant to note that Treasury has recently doubled the thresholds for what constitutes a large proprietary company[12]. This means that a large proprietary company would now only have an obligation to prepare and lodge a financial report with ASIC if it meets at least two of the following three criteria:

(a) the consolidated revenue for the financial year of the company and any entities it controls is $50 (previously $25) million or more;

(b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls is $25 (previously $12.5) million or more; and

(c) the company and any entities it controls have 100 (previously 50) or more employees at the end of the financial year.

29 The rationale for the doubling is indicated by the following extracts from the associated explanatory statement (ES):

(a) "the requirement for large propriety companies to lodge financial reports was introduced in 1995 to focus regulation of reporting on the financial affairs of proprietary companies which have a significant economic influence" (9th paragraph of ES);

(b) "the financial reports of companies that have economic significance should be publicly available because of their size and potential to affect the community and the economy. The larger the size, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making economic decisions" (10th paragraph of ES);

(c) The increased thresholds provided in the Regulations will ensure financial reporting obligations are targeted at economically significant companies, while reducing costs for smaller sized companies that will no longer be required to lodge audited financial reports with ASIC" (13th paragraph of ES); and

(d) "approximately one third of proprietary companies that lodged audited financial reports with ASIC for the 2017-18 financial year will no longer be required to lodge financial reports under the increased thresholds. Average access rates for the financial reports of these proprietary companies through ASIC is significantly lower than the average access rates for the remaining large proprietary company reporting population" (14th paragraph of ES).

30 With the doubling of thresholds and the underlying rationale for that doubling there might be less justification for more generous transitional relief for the remaining, fewer, entities, considering the loss of benefit to users – particularly if it is reasonable to expect that the

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12 The doubling of the thresholds occurred before constituents who commented on transitional issues to the AASB were aware of the doubling. Therefore their comments may not be as strident now that the number and type of entities that would be affected are significantly reduced.

companies now required to report have sufficient skills and resources to cope with the transitional challenges within the current requirements.

An analysis of the number of entities that would be eligible for transitional relief

31 Appendix A to this paper provides a detailed presentation on the statistics relating to how many entities would fall out of the scope of the large proprietary thresholds following the doubling, as well as whether they currently prepare GPFS (Tier 1 or Tier 2), SPFS, or whether that was unclear. Staff have only presented a brief summary in this section.

32 Based on the data received from data aggregators, which provides information on all entities that lodged financial statements with ASIC as at 30 June 2018, staff have assessed that the doubling of the thresholds has the following effect on the population of entities:

(a) a maximum total of 5,371[13] entities currently lodging SPFS with ASIC would be required to transition to GPFS for the first time – which is a significant drop from 7,032[14] entities under the superseded thresholds. The revised number is a maximum total as it assumes a 'worst case' that all 452 unreadable financial statements are SPFS, however realistically many of these are likely to be GPFS (Tier 1 or Tier 2); and

(b) of those 5,371 entities, a maximum of approximately 1,289 (24% of 5,371)[15] would be eligible for any additional transitional relief the Board might decide to propose, as this would be the number of entities not currently complying with the R&M of AAS, compared to 1,687 previously (24% of 7,032).

33 Further, to assist the Board to identify how the characteristics of the population of large proprietary companies that would be required to transition from SPFS to GPFS-Tier 2 would change as a result of doubling the thresholds, staff have provided comparative charts that outline the number of large proprietary companies that fall within the bands of employees, revenue and assets outlined in the horizontal axis. These charts are presented in Appendix B. Some key staff observations from those charts are outlined below:

(a) 50% of the revised population has revenue of over $100m, compared with only 30% in the superseded population; and

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13 5,371 entities = Large proprietary [2,179 large pty + 452 unreadable], unlisted public [954] and small foreign companies [1,786]

14 7,032 entities = Large proprietary [4,283], unlisted public [954] and small foreign companies [1,786]

15 This is based on academic research which has indicated that, of the population of entities currently lodging SPFS with ASIC, 76% of entities comply with all R&M (including 66% clearly stating compliance with R&M), 10% of entities do not comply with R&M (including 0.5% clearly stating non-compliance with R&M), and the remaining 14% of entities were unclear whether they apply R&M requirements in their financial statements (see agenda item 3, expected in 2nd mail-out [23 April 2019] [ASIC-research] of this April 2019 Board meeting for further information).

(b) 67% of the revised population have assets of over $50m, compared with only 43% in the superseded population.

This reinforces the expectation to staff that the revised population is substantially more economically significant than the previous population that the Board has considered.

34 It is apparent from the above discussion of:

(a) the standard-setting framework;

(b) user needs;

(c) preparer feedback during outreach;

(d) the doubled thresholds for large proprietary companies; and

(e) the number of entities that would now be affected by transition;

that the case for additional relief was stronger before than after the doubling of the thresholds. At this stage, there is no compelling evidence to suggest that additional transitional relief is warranted. Accordingly, the next section of this paper considers the case for providing no additional transitional relief. For completeness, the section after that considers the case for providing additional relief.

Transitional Approach A: provide no additional transitional relief

The purpose of this section (paragraphs 35-48) is to analyse whether the Board should propose to provide no additional transitional relief.

The Standard-Setting Framework

35 As implied in paragraph 18 above, the AASB's Standard-Setting Framework is predicated on the presumption that IFRS Standards are appropriate as a base for all entities (not only publicly accountable entities)[16], and that like transactions should be accounted for in a like manner if the economics of the transaction are the same (transaction neutrality).

36 A strict application of that principle would mean that no transitional relief in addition to what is already provided in AASB 1053 and AASB 1 should be available for entities transitioning to AAS and preparing GPFS-Tier 2 for the first time, however the Standard-Setting Framework does set out justifiable circumstances for when the Board may move away from that presumption[17].

37 Notably, the Board has, through AASB 1053, previously made exceptions to IFRS Standards for non-publicly accountable entities adopting the GPFS-Tier 2 framework for the first time by:

(a) not allowing them to apply AASB 1 if they had complied with all applicable recognition and measurement requirements of AAS, even if they had not complied with all the disclosures. (A strict application of AASB 1 would require an entity to state compliance with all requirements of IFRS/AAS including disclosures before falling out of its scope, except some limited circumstances where an entity is resuming GPFS in accordance with AAS/IFRS[18]); and

(b) allowing an entity transitioning to GPFS-Tier 2 to transition using AASB 108 rather than AASB 1, on the basis that for some Tier 2 entities retrospective application in accordance with AASB 108 would be more appropriate on cost benefit grounds[19]. Whilst AASB 1 anyway provides the option of retrospective application in most cases (subject to limitations on the use of hindsight), the option to transition via

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16 See paragraphs 24-25 of the Standard-Setting Framework.

17 Paragraph 40 of the Standard-Setting Framework states: 40 The AASB assesses the following when deciding whether the identified FP issue is so significant that specific Australian standards and/or guidance is warranted: (a) the quantitative and qualitative significance of a transaction, event or circumstance on an entity's financial statements taken as a whole, and the likely impact on a user's decision making ability; (b) the quantitative and qualitative significance of a transaction, event or circumstance on relevant sectors and the Australian economy as a whole and the likely impact on users' decision making ability; (c) whether a modification will increase or decrease internal consistency within IFRS Standards and/or Australian Accounting Standards, including the Conceptual Framework; (d) the costs of the specific change relative to the benefits; and (e) the qualitative and quantitative impact on publicly accountable entities, including comparability with international competitors and competitive disadvantage.

18 IFRS 1.BC4-BC6

19 AASB 2014-2.BC17

AASB 108 can cause differences as it does not require the mandatory exceptions to retrospective application in AASB 1 Appendix B, and also allows an entity to use the impracticability threshold to retrospective application.

38 These deviations from IFRS are the AASB's response to Australian specific issues and do not fundamentally change the R&M requirements of AAS. Furthermore, the presumption of the Standard-Setting Framework remains that the relief in AASB 1053 (as mentioned in paragraph 35 above) and AASB 1 would be considered appropriate for facilitating transition from SPFS to the revised GPFS-Tier 2, unless the costs incurred in doing so would exceed the benefits.

Appropriateness of existing relief in practice

39 It can also be argued that the application of AASB 1 and AASB 1053 has been appropriate for entities transitioning to GPFS-Tier 2 (RDR) since the implementation of that framework, as well as for many significant global entities (SGEs) that were recently required to begin lodging GPFS with the ATO[20]. Based on the data provided to the AASB by a data aggregator (as noted in Appendix A), we are aware that 1,883 entities lodged GPFS-Tier 2 RDR with ASIC at 30 July 2018. Hence, at some point, those 1,883 entities would have successfully applied the transitional provisions of AASB 1 or AASB 1053, since GPFS-Tier 2 RDR was only introduced by the AASB in June 2010, effective for annual reporting periods beginning on or after 1 July 2013, but with earlier application permitted for periods beginning on or after 1 July 2009.

40 However, staff do not have information on how well resourced those entities were, or the extent to which they had complied with the R&M requirements of AAS in their SPFS, both of which could have affected the burden of transition.

Large proprietary companies

41 As outlined in detail in paragraphs 27-25 above, Treasury has removed the financial reporting obligations for at least 1,690 of 4,283 formerly large proprietary companies that were preparing SPFS or where it was unclear whether they were preparing SPFS or GPFS. Now, large proprietary companies would once again have legal financial reporting obligations because they are 'economically significant' (as was the case in 2007 when the thresholds were last considered). AASB staff expect the population of large proprietary companies falling above the doubled thresholds would now consist of, on average, much better-resourced entities, with users who would most benefit from high quality financial reporting that is consistent with the first-time adoption procedures (ie AASB 1 or AASB 1053) of other entities, including (but not limited) SGEs that have recently transitioned to GPFS-Tier 2.

Small foreign controlled companies and unlisted public companies

42 Despite there being no decrease in the number of small foreign controlled companies and unlisted public companies that would continue to have financial reporting obligations, it is

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20 Required by section 3CA of the *Taxation Administration Act* 1953

also arguably not as necessary to provide additional transitional relief for such entities moving from SPFS to GPFS-Tier 2 as:

(a) **Small foreign controlled companies:** Under section 292(2)(b) of the Corporations Act, a small foreign controlled company is not required to comply with the financial reporting obligations if such a small foreign controlled company is included in consolidated financial statements lodged with ASIC by a registered foreign company.

Additionally, *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204* provides further relief to small foreign controlled entities – even if they are not consolidated by a registered foreign company lodging with ASIC – by requiring them to lodge financial statements with ASIC only if directed to do so by shareholders or ASIC or if they are part of a large group in Australia.

The requirement for small foreign controlled companies to lodge financial statements if they are part of large group is designed to prevent foreign-controlled companies disaggregating their Australian activities into smaller companies to avoid financial reporting obligations[21]. In light of this context of the Australian public interest, staff consider that there appears to be no justification for small foreign controlled entities to be provided transitional relief beyond that already provided in AASB 1 and AASB 1053; and

(b) **Unlisted public companies**: The population of unlisted public companies is already relatively small, with only 954 of 3,109 (30%) (see Appendix A) unlisted public companies lodging SPFS with ASIC, with the remainder lodging some form of GPFS (ie Tier 1 or Tier 2). Based on the as yet unpublished academic research into compliance with R&M in SPFS lodged with ASIC, approximately 76% of those 954 entities would be complying with R&M, leaving only 229 unlisted public companies that would be eligible for any contemplated transitional relief. Staff also couple this with an expectation that these 229 entities would have at least not insubstantial 50 non-employee shareholders (ie external users) and have the ability to offer shares to the public[22].

Feedback from constituents

43 As noted in paragraph 2 above, 7 of 20 respondents to ITC 39 argued that the transitional relief in AASB 1 is sufficient to facilitate the transition from SPFS to GPFS-Tier 2, despite 9 of 20 respondents claiming that AASB 1 was insufficient. Notably, feedback was mixed within stakeholder groups that would presumably have similar interest in the requirements of accounting standards – for example, the views of professional services firms were not consistent on this matter.

44 Staff have requested and encouraged constituents to provide practical examples and detailed explanations of the issues faced with the current transitional reliefs available,

21 AASB Research Report No. 7, paragraph A44.

22 AASB Research Report No. 7, paragraph 80.

however have not received any further feedback of this type to date. Further, as noted in paragraph 22 above, staff have attempted to find entities that have moved from SPFS to GPFS-Tier 2 recently to interview them on the specific challenges, but have not yet been able to have such conversations.

45 Further, the AASB preparer survey results noted that 28% of respondents considered AASB 1 would not be helpful, 37% were unsure whether it would be helpful, and 35% considered it would be helpful. Also, 80% of the respondent at the AASB's roundtables in September considered that the transitional relief in AASB 1 was either not enough or they were unsure whether it was enough.

46 As noted above, feedback from constituents to date was all obtained prior to the recent doubling of the thresholds for large proprietary companies. It is arguably reasonable to expect that with the doubling of the thresholds, concerns about transitional relief could be substantially mitigated.

Summary of arguments for and against providing no additional relief

Advantages of no additional relief (Approach A)	**Disadvantages of no additional relief (Approach A)**
Compliance/consistency with IFRS R&M (ie this approach would be the most consistent with the FP standard-setting framework principles). No chance of unintended consequences for future IFRS compliance.	Feedback from many constituents (albeit not all, and prior to the revision of the large proprietary thresholds) suggests that current transitional provisions are onerous – this approach would not provide any relief for entities beyond that provided in AASB 1.
Transitional support materials already exist and would not need to be amended.	Likely to receive adverse feedback from some constituents about costs of current transitional requirements, except to the extent that concerns raised by constituents in response to ITC 39 were related to the proprietary companies that would no longer fall into the definition of a 'large proprietary company' (which could be significant).
If practically achievable by entities, this approach maximises the satisfaction of user needs in a timely manner.	Providing additional transitional relief could facilitate an earlier effective date. Users of financial statements would receive consistent, comparable, transparent and enforceable financial reporting sooner.
Acknowledges feedback from some constituents that the current transitional relief is sufficient	Timing may not be realistically achievable given the comments the Board has received on transitional complexities
AASB 1 was developed by the IASB and adopted by the AASB to provide transitional provisions to ensure the costs to users do not outweigh the	

Advantages of no additional relief (Approach A)	Disadvantages of no additional relief (Approach A)
benefits. Consultation to date has not provided specific examples of where this objective has not been met.	

Staff recommendation

47 Based on the above discussion that:

(a) the Standard-Setting Framework arguably supports maintaining the current level of transitional relief;

(b) the current level of transitional relief has not been demonstrated to be inappropriate in practice;

(c) large proprietary companies are now considered more economically significant (since the thresholds were doubled), and have provided relief from preparing financial statements in accordance with AAS to at least 1,690 less economically significant proprietary companies that were preparing SPFS, leaving 2,179 large proprietary companies producing SPFS, plus a portion of the 452 unreadable population. Applying the findings that only 24% of SPFS do not comply with the R&M requirements of AAS, the number of large proprietary companies that would be eligible for transitional relief would be less than 631 (2,179+452*0.24) more economically significant proprietary companies, compared to 1,027 (4,283*0.24);

(d) current financial reporting requirements for small foreign controlled companies can be rationalised from an Australian public interest perspective, and unlisted public companies are not significant in number and users would benefit from conformity with current AAS; and

(e) feedback from constituents has not presented compelling reasons, evidence or other justification as to why the current significant transitional relief provided in AAS is not sufficient to facilitate transition (particularly in light of the doubling of the large proprietary company thresholds);

staff consider there is no persuasive or otherwise compelling evidence, at least at this stage, that additional transition relief would be warranted.

48 Accordingly, in the absence of evidence to the contrary, staff recommend the Board propose Approach A – no additional transitional relief. This would have the advantage of getting the Board's proposals out earlier than if the project were to be delayed by further pre-ED outreach. The ED could be drafted in such a way as to seek constituents' explicit comments on the need for additional transitional relief (including outlining the reliefs the Board considered in the Basis for Conclusions – see agenda papers 6.2-6.4) and their rationale and supporting evidence. In this way the project continues to progress in a timely way, whilst doubling as a vehicle for the outreach that might have otherwise been undertaken pre-ED.

Question for Board members: Issue ED as soon as possible proposing no additional relief, seeking evidence to the contrary

Q2 Does the Board agree with the staff recommendation to not propose any additional transitional relief for for-profit private sector within the scope of Phase 2, or would the Board prefer to defer addressing that question until it has deliberated on the options under Approach B (see Table A and Agenda Papers 6.2-6.4)?

Q3 Does the Board agree to use the Exposure Draft process to gather further feedback on whether there are compelling reasons supported by evidence to provide additional transitional relief following the revisions of the large proprietary company thresholds?

Options if the Board disagrees with the staff recommendation and decides to consider additional transitional relief

49 In case the Board decides to propose additional transitional relief, or at least consider options for what transitional relief may look like, staff have included the three additional options considered as Agenda Papers 6.2-6.4 (and summarised in Table A on the following page).

Table A: Summary of transitional options considered by Staff and Staff recommendations

	Approach A – no additional transitional relief.	Approach B – provide additional transitional relief. The Board could choose any combination of the options in Approach B.		
	Agenda Item 6.1	Agenda Item 6.2	Agenda Item 6.3	Agenda Item 6.4
	Option A1– Nothing additional to AASB 1053 (ie option to apply AASB 1 unamended or AASB 108), 'short' effective date	Option B1 – Push-down accounting	Option B2 – Relief from restating and presenting comparative information	Option B3 – Relief from recognising 'deferred goodwill' if applying paragraph C4(j) of AASB 1.
Mechanics	Entities apply AASB 1053 (allowing AASB 1 or AASB 108) without amendment	Allow subsidiaries that are consolidating into an AAS or IFRS parent to recognise amounts reported in their reporting/consolidation pack (which would have been derived from acquisition date fair values) to be deemed cost in their individual financial statements (subject to requiring them to recognise only those assets and liabilities that qualify for recognition under AAS in the subsidiary's own financial statements).	- Option to not restate or present comparative information - Amend AASB 1 to specify that the date of transition is the start of reporting period (rather than the start of the comparative period) - Adjust carrying amounts through retained earnings on revised date of transition	If applying the relief from retrospectively accounting for business combinations in AASB 1 Appendix C in relation to previously unconsolidated subsidiaries, option to write off 'deemed goodwill' immediately in retained earnings, rather than recognise it and subject it to day 1 and annual impairment testing.
Staff view (incl hierarchy of recommendations)	**Recommend to propose not providing additional relief** As doubling of large pty coy thresholds has reduced the number of affected entities significantly, and made the population of entities transitioning more economically significant (and therefore it is more important that current relief is retained, to enhance consistency and comparability). Furthermore, there is an absence of evidence to support granting additional relief, and the Exposure Draft can be used as a vehicle to seek out whether such evidence exists.	**If Board decides to provide additional transitional relief, staff's first preference, as:** - may lead to cost saving for a significant proportion of transitioning entities - is arguably consistent with the principles under paragraphs D16(a) read with IG31, BC59-BC62 of AASB 1 - although it would result in recognised amounts being different from what they would otherwise be for the subsidiary, they are consistent with amounts recognised in the consolidated financial statements and therefore have a degree of consistency with IFRS R&M	**If Board decides to provide additional transitional relief, staff's second preference, as:** - no implications for ongoing R&M - significant cost savings - could facilitate more timely adoption But, not first preference of staff, as: - potential to have significant loss of information for users - revised population of entities are more economically significant	**Even if Board decides to provide additional transitional relief, staff do not recommend, as:** On balance, staff consider that the disadvantages outweigh the advantages of this option, in particular: - divergences from R&M principles of AAS – reduces comparability - could have significant loss of information about impairment for users and regulators

	Option A1– Nothing additional to AASB 1053 (ie option to apply AASB 1 unamended or AASB 108), 'short' effective date	Option B1 - Push-down accounting	Option B2 – Relief from restating and presenting comparative information	Option B3 – Relief from recognising 'deferred goodwill' if applying Appendix C of AASB 1.
Questions to the Board in other papers **(included for Board reference)**	**Q2**: Does the Board agree with the staff recommendation to not provide any additional transitional relief for for-profit private sector within the scope of Phase 2? **Q3**: Does the Board agree with the staff recommendation to not specifically seek out further outreach on the transitional requirements, and instead use the Exposure Draft process to gather further feedback on whether there are compelling reasons to provide additional transitional relief following the revisions of the large proprietary thresholds?	**Q4:** Does the Board agree to provide additional transitional relief by explicitly allowing the use of amounts used in a subsidiary's consolidation reporting pack to its parent (which would be derived from acquisition date fair values) as a basis for deemed cost in the subsidiary's first mandatory GPFS-Tier 2 revised financial statements?	**Q5**: If the Board decides that some additional transitional relief should be provided, does the Board agree with the staff recommendation to not require entities to restate and present any comparative information in the year of transition from SPFS to mandatory GPFS-Tier 2 revised, as a second preference to the option to provide a practical expedient by way of 'push down accounting' (see Agenda Paper 6.2)? **Q6**: If the Board decides to discuss Appendix A during the meeting and, in response to question 5 above decides to propose this additional relief, does the Board agree with the Staff recommendations to: (a) specify that the relief from the restatement and presentation of comparative information is voluntary? (b) make no amendments in relation to the presentation of the most recent SPFS financial statements in the first GPFS-Tier 2 revised?	**Q7**: Does the Board agree with the staff recommendation that, even if the Board decides to provide additional transitional relief, parent entities that have not previously consolidated subsidiaries and who now apply the requirements of AASB 1 for consolidating such subsidiaries for the first time should not be allowed to immediately write off the amount of deemed goodwill determined in accordance with paragraph C4(j) of Appendix C in AASB 1 against retained earnings at the date of transition?

Table B: Transitional options considered but not analysed in detail

This Appendix sets out the reasons why some transitional options that were suggested or considered by staff were deemed to be not feasible, and hence were not considered in detail as part of this agenda item.

Feedback/possible relief	**Reason for not analysing further**
Relief for obtaining R&M numbers for consolidation purposes of subsidiaries that otherwise do not have statutory reporting obligations	As noted in Agenda Item 4.1 of the February 2019 meeting, for the purpose of consolidating for the first time in accordance with AASB 1 Appendix C, If a subsidiary was not previously consolidated, the assets and liabilities of the subsidiary in the parent's opening AAS consolidated statement of financial position are determined based on the amounts that would be recognised in the subsidiary's financial statements if the subsidiary were applying the R&M requirements in AAS. [Paragraph C4(j) of Appendix C to AASB 1]. In that paper, Staff acknowledged that this requirement may be burdensome if the subsidiaries did not otherwise have a requirement to prepare financial statements in accordance with AAS. Staff briefly considered the merits of providing relief from this requirement, but did not explore it in detail for the following reasons: • the subsidiaries are already able to obtain the carrying amounts of their assets and liabilities by using the exceptions and exemptions in AASB 1, ie they are already provided considerable relief; • the subsidiaries would also be provided with any additional transitional relief that the Board decides to propose in this agenda item; • any further transitional relief would pose too great a risk to the comparability of financial statements for users. Staff do not consider it feasible to provide such subsidiaries even greater transitional relief than what is provided in AASB 1, as this could risk materially misstating the consolidated financial statements, especially for larger subsidiaries; and • significantly inconsistent with IFRS.
Relief from difficult standards in their entirety, eg AASB 16 *Leases*	The Board has already made the decision to require full recognition and measurement requirements of AAS (see Action Alert Issue 196). Exempting entities from entire Standards would undermine this decision, as well as the overarching objective of the project.
Relief from consolidation in its entirety	The Board has already made the decision to require the application of AASB 10 (see Action Alert Issue 196). Exempting entities from entire Standards would undermine this decision, as well as the overarching objective of the project.

Question to the Board

Q8 Does the Board agree with the staff recommendation and rationale for not addressing the above-mentioned transitional relief in the above table?

Effective date and early adoption

50 Irrespective of any decisions made earlier in this paper, a question arises as to what the operative date should be.

Staff consideration for determining an effective date

51 Determining an effective date to propose can be challenging, especially in relation to transition from SPFS, as the effort required for entities to transition from SPFS to GPFS-Tier 2 could differ significantly within the population[23]. For example, some entities may be complying with practically all of the R&M requirements of AAS, and may only be required to make one small retrospective adjustment in accordance with AASB 108. On the other hand, some entities may be complying with practically none of the R&M requirements, calling for a much more complex transition.

52 In considering an appropriate effective date, staff note the following:

(a) the amendments to the tax law requiring SGEs to lodge GPFS with the ATO were issued in December 2015[24], and required lodgement to the ATO for 'income years' commencing on or after 1 July 2016. However, the ATO provided transitional concessions in the first year, whereby it allowed entities with reporting periods ending on 30 June 2017 to not lodge until 31 March 2018, and permitted foreign controlled entities to lodge financial statements in accordance with another GAAP rather than AAS (eg US GAAP);

(b) entities would be required to present a restated comparative period under this approach in accordance with both AASB 1 and AASB 108. Therefore, it could be helpful for the Board to issue an amending standard before the beginning of the comparative period, to provide entities sufficient notice that they should gather the information required to present comparative information, thus restricting the potential need for entities to use hindsight;

(c) the AASB issued the first principal version of AASB 1 in July 2004, prior to the effective date of full adoption of the Australian-equivalents to IFRS Standards of annual periods beginning on or after 1 January 2005. Staff note that the FRC provided the AASB with the directive to adopt IFRS Standards in 2002. Given that all entities would have applied AASB 1 on Australia's transition to IFRS Standards, this length of time is arguably indicative of how much time might need to be provided for a transition from SPFS to GPFS; and

(d) the *AASB Policies and Processes* outlines in paragraph 32 that "when determining the effective date of Standards the AASB seeks to ensure that

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[23] However, this could be addressed by permitting early adoption. See paragraph 57 for discussion of early adoption.

[24] *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015* was assented on 11 December 2015.

constituents have adequate time to prepare for their implementation. In normal circumstances the AASB will issue a Standard a significant time before its effective date, say, during the previous annual reporting period and generally permits entities to apply those requirements early should they wish to do so".

Staff recommendation

53 With regard to the points noted in paragraph 52 (above), staff recommend that if the Board decides not to amend the transitional provisions in AASB 1 (ie adopts the staff recommendation), the Board should issue the amending Standard that would remove the ability to produce SPFS at least one year before the date that the amendment would become effective. For example, if the Board issued a final Standard on 30 June 2020, the effective date of the amendments should be no sooner than annual periods beginning on or after 1 July 2021. Staff have applied judgement in making this recommendation, with particular considerations being:

(a) in comparable scenarios (Australian IFRS adoption and SGE requirements), the requirements were issued in the period directly preceding the first annual period for which it was effective. However, the expectation of IFRS adoption was notified earlier than the issue of AASB 1, and transitional relief was required in the first year of the SGE requirements. Hence, staff consider that perhaps slightly longer than the year before the effective date would be appropriate; and

(b) moving from SPFS to GPFS-Tier 2 would be a significant shift for some entities (albeit a minority of entities) that are not complying with R&M. Staff consider the recommended date is 'significant', especially with regard to the example of significant in the *AASB's Policies and Processes* being issuance during the period preceding the effective date.

54 Alternatively, the Board may feel that a later transition date would the warranted to provide entities additional time to prepare for the transition process, which may be challenging due to factors such as understanding and preparing for the requirements of AASB 1, designing systems and gathering/analysing the data needed for transition.

55 Staff have not considered recommendations for each permutation of possible transitional relief – ie staff have not made a recommendation in a case where only one, or a mixture of options B1-B2 are proposed by the Board. In those cases, staff recommend the Board consider the appropriate effective date verbally at the April 2019 meeting, with regard to the relevant considerations presented in relation to the effective date of other options (for example, as noted in Agenda Paper 6.3, a benefit of not requiring comparative information is that the effective date could be brought forward).

56 Staff also recommend that the Board ask a specific matter for comment in the ED outlining the Board's expectation for how long it will provide between issuing an amending standard and the effective date of that amending standard. Staff note that EDs do not always propose effective dates, however staff feel that it may be an

important consideration for entities that would be required to transition from SPFS to GPFS-Tier 2.

Early adoption

57 Regardless of which transitional option is proposed by the Board, staff recommend that early adoption be permitted of the amending Standard that will bring into effect the revised *Conceptual Framework for Financial Reporting* (RCF), and remove the ability for entities to prepare SPFS. Staff base this recommendation on:

(a) the proposed equivalent amending Standard for Phase 1 (ie the Revised Conceptual Framework for publicly accountable entities) permits early adoption;

(b) current non-reporting entities could anyway voluntarily apply GPFS-Tier 2;

(c) this would allow entities that apply practically all of the R&M requirements of AAS to adopt the RCF sooner, if they wish to do so; and

(d) the AASB's *Policies and Processes* paragraph 30 notes that the Board "generally permits entities to apply those requirements early should they wish to do so".

Questions for Board members

Q9 Does the Board agree that if the Board decides to provide no additional transitional relief, then an effective date should be proposed to be no sooner than 1 year following the issue of the amending Standard. For example, if an amending Standard is issued on 30 June 2020, an effective date of annual periods beginning on or after 1 July 2021 should be specified?

Q10: Does the Board agree to include a specific matter for comment in the ED outlining the Board's proposed effective date decided in Question 9 (directly above)?

Q11: Does the Board agree with the staff recommendation that early adoption should Bw permitted regardless of the transitional requirements the Board determines?

Next steps

58 Based on the Board's decisions arising from this agenda item, staff will proceed to draft any new transitional requirements to be included in the draft Exposure Draft, the timing of which will be discussed in Agenda Item 5.

Appendix A – Statistics of entities affected by Phase 2 following the revision of the large proprietary thresholds

A1 This appendix provides the Board with statistics of how the population of entities lodging financial statements with ASIC required to move from SPFS-GPFS as a result of this project would change as a result of the revision of the large proprietary thresholds.

A2 Based on data sourced from a data aggregator as at 30 July 2018, the Board was informed at the February 2019 meeting of the statistics below, which specifies the types of reports that were being lodged with ASIC, based on type of entity.

Legal Status of Entity	GPFS Tier-1	GPFS Tier-2 RDR	SPFS	Total
Large Pty	1495	1005	4283	6783
Unlisted Public	1728	427	954	3109
Small foreign	687	451	1786	2924
Total	**3910**	**1883**	**7023**	**12816**
% of total population	**30.5%**	**14.7%**	**54.8%**	

A3 As discussed in the February 2019 meeting, the information on whether an entity was preparing GPFS-Tier 1, GPFS-Tier 2 or SPFS was based on an assessment by a machine-reader. However, some of the financial reports could not be processed accurately by the machine, and hence an academic team conducted a manual assessment and extrapolation of what percentage of the 'unreadable' population were GPFS-Tier 1, GPFS-Tier 2 and SPFS (and that is what is reflected in the data above, after the academic extrapolation).

A4 Staff have some information on how the doubling of the large proprietary thresholds would change the statistics outlined above, however it is still subject to an unreadable population. Staff do not consider it appropriate to recreate the extrapolation of the unreadable population in the revised population, as we are concerned that the academic assumptions may not be appropriate to carry over to the revised population. Hence, the following two tables provide the Board with:

(a) the original data, including the unreadable population;

(b) the revised data, including the unreadable population; and

(c) a comparison of the original large proprietary population including the unreadable population, and the revised large proprietary including the unreadable population.

A5 Staff have outlined their conclusions on the data in paragraph 32 above.

Table: original data, including the unreadable population

Legal Status of Entity	GPFS Tier-1	GPFS Tier-2 RDR	SPFS	Unreadable	Total	Unreadable % of Total population
Large Pty (PREVIOUS)	1266	845	3869	803	6783	12%
Unlisted Public	1604	340	730	435	3109	14%
Small foreign	526	338	1494	566	2924	19%
Total	**3396**	**1523**	**6093**	**1804**	**12816**	
% of total population	**26%**	**12%**	**48%**	**14%**		

Table: revised data, including the unreadable population

Legal Status of Entity	GPFS Tier-1	GPFS Tier-2 RDR	SPFS	Unreadable	Total	Unreadable % of Total population
Large Pty (REVISED)	728	629	2179	452	3986	12%
Unlisted Public	1604	340	730	435	3109	14%
Small foreign	526	338	1494	566	2924	19%
Total	**2,852**	**1,307**	**4,403**	**1,453**	**10,019**	
% of total population	**29%**	**13%**	**44%**	**14%**		

Table: comparison of the original large proprietary population including the unreadable population, and the revised large proprietary including the unreadable population

Legal Status of Entity	GPFS Tier-1	GPFS Tier-2 RDR	SPFS	Unreadable	Total
Large Pty – PREVIOUS	1266 (19%)	845 (12%)	3869 (57%)	803 (12%)	6783 (100%)
Large Pty – REVISED	728 (18%)	629 (16%)	2179 (55%)	452 (11%)	3986 (100%)

Appendix B – Comparison of distribution of size of entities following revisions to large proprietary thresholds

B1 The purpose of this Appendix is to demonstrate to the Board how the characteristics (ie size, economic significance) changes between the population of entities within the scope of this paper before and after Treasury revised the large proprietary thresholds

B2 Some key points to assist the Board's understanding of the charts in this Appendix:

(a) comparative graphs are presented separately for revenue, assets and employees of the population of the superseded and revised populations of large proprietary companies;

(b) the populations between the comparative graphs are different – they each only contain the entities that would be above the respective thresholds (ie former and revised), and hence there are less entities in the population for the revised thresholds;

(c) some entities can still have one of the figures (ie revenue, assets, or employees) below the thresholds – for example there are still 404 entities with revenue below $50m. This is because those 404 entities would be a large proprietary company due to meeting both the asset and employee threshold;

(d) the graphs represent how many entities of the total population fall within each band outlined in the horizontal axis. For example, the first graph is demonstrating that 2,056 entities that were formerly large proprietary companies under the old thresholds had revenue below $50m.

(e) some of the data is missing in the statistics provided by the data aggregator – this is noted in the boxes next to each graph.

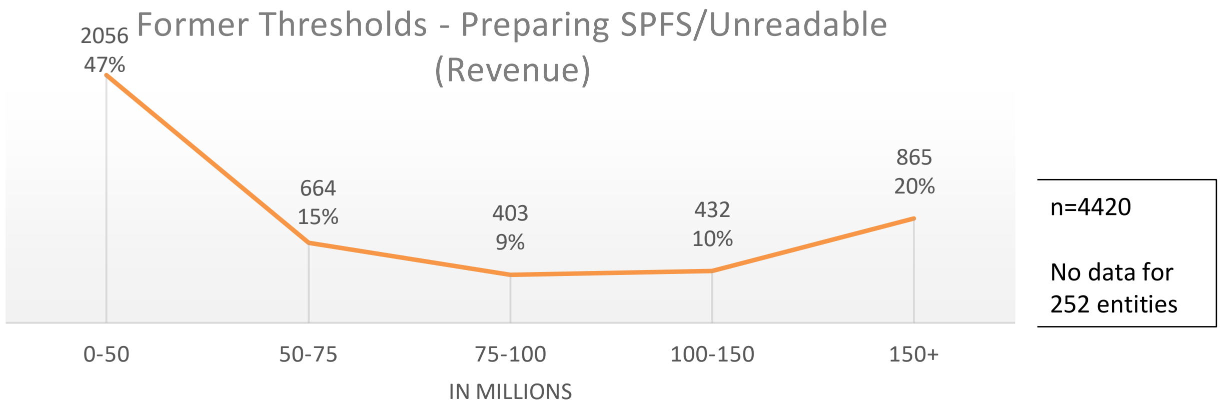
B3 As noted in paragraph 33, some key observations of staff in regard to the below tables are as follows:

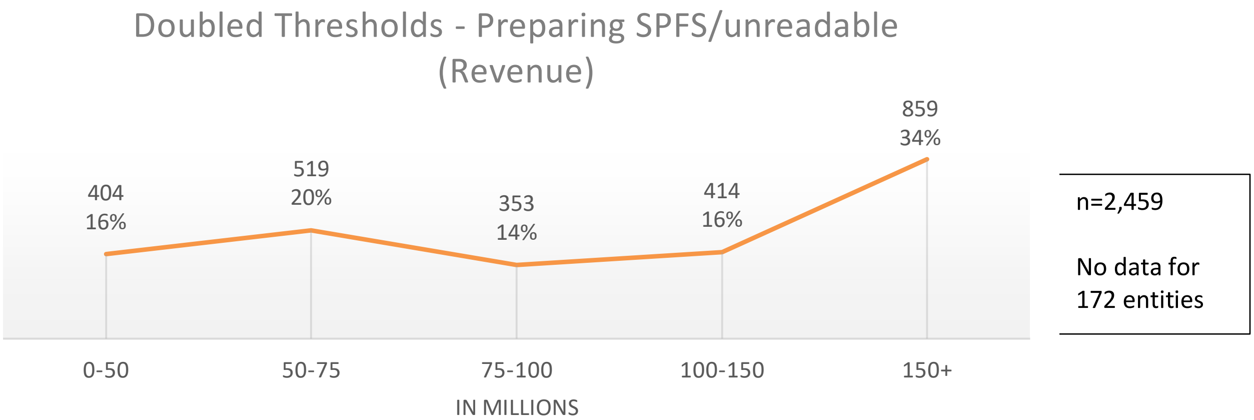
(f) 50% of the revised population has revenue of over $100m, compared with only 30% in the earlier population; and

(g) 67% of the revised population have assets of over $50m, compared with only 43% in the former population.

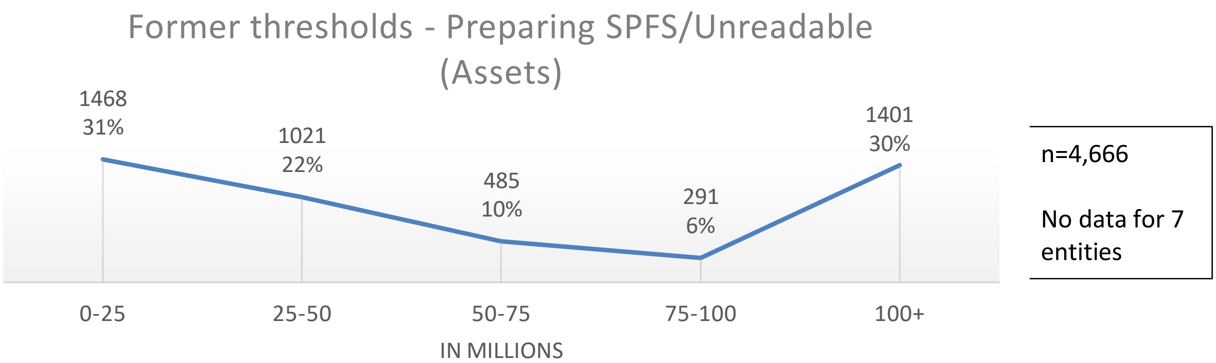
This confirms the expectation to staff that the revised population is significantly more economically significant than the previous population that the Board has considered.

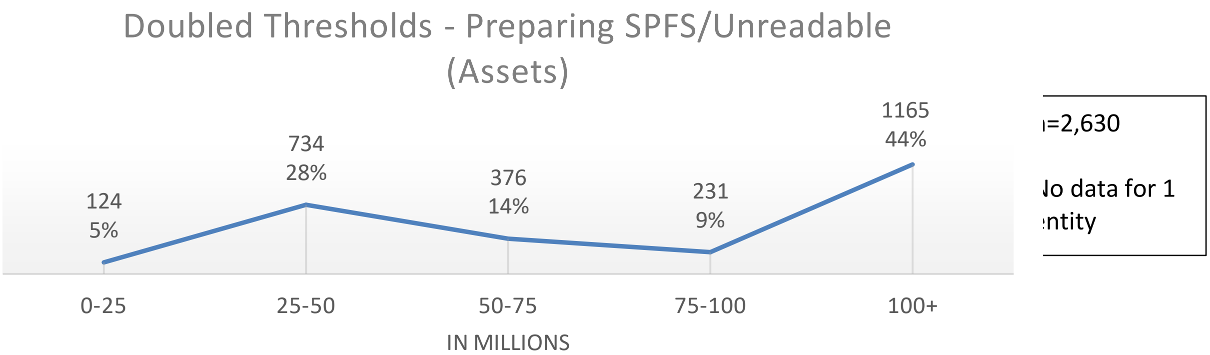
Comparison 1: Revenue – population of large proprietary companies preparing SPFS or unclear prior to revision of threshold VS population of large proprietary companies preparing SPFS or unclear after revision of threshold



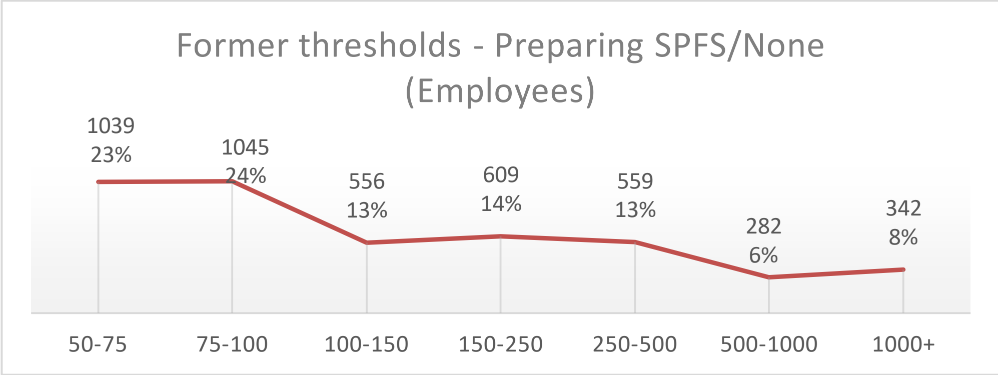


Comparison 2: Assets – population of large proprietary companies preparing SPFS or unclear prior to revision of threshold VS population of large proprietary companies preparing SPFS or unclear after revision of threshold



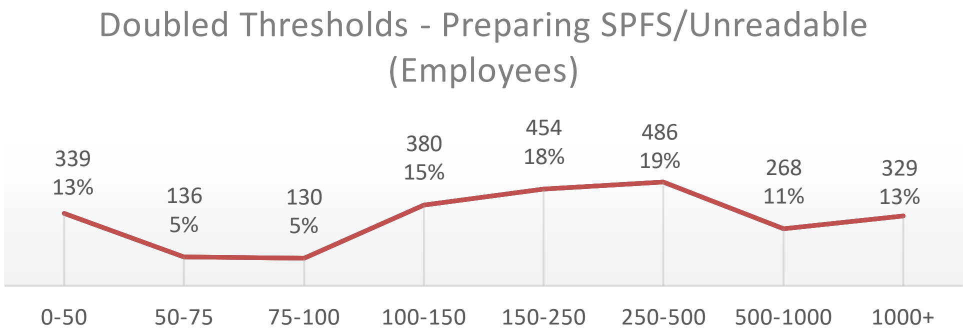


Comparison 3: Employees – population of large proprietary companies preparing SPFS or unclear prior to revision of threshold VS population of large proprietary companies preparing SPFS or unclear after revision of threshold



n=4,432

No data for 241 entities



n=2,522

No data for 103 entities