



Australian Government

**Australian Accounting
Standards Board**

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

14 December 2018

Ms. Kate O'Rourke
Principal Adviser
Corporations Policy Unit
Consumer and Corporations Division
The Treasury
Level 5, 100 Market Street
SYDNEY NSW 2000

[Email: reportingthresholds@treasury.gov.au]

Dear Ms. O'Rourke

The Australian Accounting Standards Board (AASB) welcomes the opportunity to make comments on the *Reducing the financial reporting burden by increasing the thresholds for large proprietary companies* proposals (referred to throughout this submission as 'the threshold proposals').

The AASB is an Australian Government body under the *Australian Securities and Investments Commission Act 2001*. Under that Act, the statutory functions of the AASB are to:

- develop a conceptual framework for the purpose of evaluating proposed standards;
- make accounting standards under section 334 of the *Corporations Act 2001*;
- formulate accounting standards for other purposes;
- participate in and contribute to the development of a single set of accounting standards for worldwide use; and
- advance and promote the main objects of Part 12 of the *Australian Securities and Investment Commission Act*, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

The AASB's vision is to contribute to stakeholder confidence in the Australian economy, including its capital markets, and in external reporting. The AASB's mission is to develop, issue and maintain principle-based Australian accounting and external reporting standards and develop guidance that meets user needs and enhances external reporting consistency and quality; and contributes to the development of a single set of accounting and external reporting standards for world-wide use.

AASB's response to the threshold proposals:

1. **The AASB supports Treasury's review of the thresholds** for determining what constitutes a large proprietary company under the *Corporations Act 2001*.
2. **We note the proposals are integrally linked with the AASB's project on improving the Australian Financial Reporting Framework** which includes working with other regulators to:
 - Develop a simple, proportionate, consistent and transparent financial reporting framework setting out who should report, what the reporting requirements are, and what the appropriate level of assurance is; and
 - Remove the ability for entities that have a legislative requirement to prepare financial statements in accordance with Australian Accounting Standards (AAS) from self-assessing their reporting requirements and preparing special purpose financial statements – to reduce complexity and improve comparability, consistency and transparency.

As noted in AASB [Research Report No 7](#) *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies*, public lodgement of financial statements should only be required where there are users who cannot obtain the financial information they need for decision-making by themselves and who need general purpose financial statements. The Exposure Draft accompanying the threshold proposals (the 'ED') states that financial reporting requirements should be targeted at economically significant entities.

This is consistent with existing AAS guidance¹ that economically significant entities attract a higher level of public interest, not the least being interest in the level of tax paid. Accordingly, there are users who cannot command by themselves, the financial information they need. Our proposals in [ITC 39](#)² to remove an entity's ability to self-assess their reporting requirements are predicated on the assumption that the regulator requires public lodgement of financial statements that are comparable, consistent and transparent – to meet the needs of users.

¹ Refer to Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*.

² Refer to AASB's Invitation to Comment [ITC 39](#) *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

3. The AASB offers the following observations in an effort to further enhance the threshold proposals:
- a. **Thresholds based on transparent, clear and objective criteria** – the ED states financial reporting requirements should be targeted at economically significant companies. We encourage disclosure of a more detailed objective rationale of what constitutes economic significance. Consistent with our submission to the ACNC legislative review, this would not only help constituents understand why Treasury has proposed doubling the current thresholds, but also when future reviews of thresholds may be beneficial. For example under the threshold proposals, approximately 0.5%³ of Australian Securities and Investments Commission (ASIC) regulated trading entities will meet the proposed large proprietary company thresholds. Should Treasury consider it appropriate that the threshold be based on capturing approximately 0.5% of ASIC-regulated trading entities, articulating this would provide a clear and objective trigger to consider the thresholds again if there was a significant change in the number of trading entities reporting. The framework could also explain how the thresholds support proportionate reporting, and ensure the regulatory burden falls primarily on those with the greatest number of external users, public interest and economic significance.
 - b. **Impact of recent AAS on the asset threshold criterion** – we note that implementation of a number of new AAS in 2019/2020 will result in changes to the financial statements of companies. Specifically, implementation will likely result in recognition of more assets, and a greater level of total assets for the reporting period of, and periods after implementation of the proposed thresholds. For example, AASB 16 *Leases* in particular will result in more assets being recognised. Considering whether the relative proportion of the revenue and asset criteria takes into account the overall significant increase in total assets as a result of AAS changes since the last threshold review in 2007 is important in ensuring the objectives of the threshold review are achieved and remain sustainable in the near future.

³ Data based on the number of large proprietary companies lodging financial statements with ASIC using information sourced from [Illion Data Registries](#), which the AASB had purchased as part of its current research project on ASIC-regulated entities.

- c. **Thresholds based on a rolling average of more than one reporting period** – consistent with our submission to the ACNC legislative review, we note that achieving the objectives of the threshold review would be enhanced by entities having to exceed the thresholds in more than one consecutive reporting period. This would avoid the current “cliff” impact of an entity exceeding the thresholds at a particular point in time, and having to prepare financial reports when an unusual or one-off event occurs.
- d. **Submission of financial statements in a machine readable form** – publicly lodged financial information in a machine readable form is important for users and regulators (including the AASB) for decision-making. It would enable more effective data analysis across companies, industries etc. We note the current lack of lodged information in machine readable form because the use of XBRL is currently voluntary. Consistent with [our submission](#) to the [Modernising Business Registers and Director Identification Numbers legislation](#) consultation, we encourage consideration of whether raising reporting thresholds, either now or in the future, could be done in conjunction with mandating submission of machine readable financial statements with ASIC.

The AASB will continue to work closely with Treasury, ASIC, the Auditing and Assurance Standards Board (AUASB), in consultation with our stakeholders, to further improve the Australian Financial Reporting Framework to ensure that it is simple, proportionate, consistent and transparent.

If you have queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@asb.gov.au) or me.

Kind regards,



Kris Peach
AASB Chair