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Mr Kevin Stevenson
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Dear Mr Stevenson

ED192 Revised Differential Reporting Framework

The Registry of Co-operatives & Associations, NSW Fair Trading, is the regulatory body for co-operatives incorporated under the NSW Co-operatives Act 1992 and incorporated associations incorporated under the NSW Associations Incorporation Act 1984. The Associations Incorporations Act 2009, which contains some significant changes to reporting requirements, particularly for larger associations (Tier 1), will be proclaimed shortly.

The Registry wishes to comment on the effect of the provisions of ED 192 as presently drafted which, it is considered, will have a serious cost effect on financial reporting by associations classified as Tier 1 under the NSW Associations Incorporation Act 2009 (the 2009 Act) and smaller co-operatives.

While all associations are currently required to lodge a copy of annual financial statements on the public register, only associations which meet the criteria for Tier 1 associations will be required to lodge financial statements when the 2009 Act is operational.

It is expected that the Associations Regulation 2010 will prescribe that Tier 1 associations will be defined as those with total revenue recorded in the income and expenditure statement in excess of \$250,000 or current assets, being assets other than real property or assets capable of being depreciated, in excess of \$500,000.

Section 43 (2) of the Associations Incorporation 2009 Act requires that, for Tier 1 associations:

"The financial statements must be prepared in accordance with the Australian Accounting Standards and must deal with such matters as are prescribed by the regulations".

This legislation had been in preparation for quite some time and was drafted taking into account the existing framework for financial accounting based on the current reporting entity concept used in Australia and the fact that most associations, including Tier 1

associations, would not be reporting entities and would prepare special purpose financial reports.

The Associations Incorporation Act 1984 has provision for the Minister to direct associations whose scale or nature of activities, value or nature of property or the extent or nature of dealings with the public are deemed to be inappropriate to become registered under the Corporations Act 2001 or Co-operatives 1992. Action with respect to these requirements has been taken in recent years where the scale of operations of an association has been assessed as not suitable for it to continue as an incorporated association. To date, almost all so identified associations have voluntarily undertaken to transfer incorporation to a company.

The Associations Incorporation Act 2009 includes a provision that the Director-General may order an association to apply for cancellation of its registration if he or she is satisfied that the association should no longer be registered because, among other reasons, of the Director-General's assessment of the nature and extent of the association's activities or dealings with the public. It is anticipated that, under the new legislation, the upper thresholds for consideration for taking this action will be \$2 million for both income and assets. As an alternative to such a cancellation, an association can undertake a transfer of registration under a corresponding law.

Based on current available data, at least 2,500 Tier 1 associations (or approximately 7.6% of all incorporated associations) would come under the reporting requirements of ED 192. There would also be an effect on a significant number of co-operatives.

The Co-operatives Regulation 2005 essentially applies, with some minor variations, the financial reporting requirements of the Corporations Act 2001. All co-operatives are currently required to lodge financial statements on the public register and, again, a substantial number of smaller co-operatives (based on measurement of income and assets), being both for-profit and not-for-profit entities, would be classified as non-reporting entities under the reporting entity concept.

The intention of the both the Associations Incorporation Act 2009 and the Co-operatives Act 1992 was not to subject entities, which would under the current framework be non-reporting entities, to the full suite of accounting standards, of even the requirements of ED 192. The Registry's view is that co-operatives which are classified as non-reporting entities should prepare financial reports in accordance with ASIC Regulatory Guide 85: Reporting requirements for non-reporting entities. The Registry also considers that this Guide is a suitable framework for reporting by Tier 1 associations under the new legislation.

The Registry's experience is that current reporting by associations by way of detailed income and expenditure statements and balance sheets (with a statement of accounting policies in some instances) and the financial reports prepared by co-operatives which qualify as non-reporting entities provides the necessary information for users of the financial statements. The Registry is not aware of any significant problems or issues concerning provision of useful financial information to users of these financial statements.

Therefore, the Registry's view is that the effect of ED 192 on entities which are required to lodge financial reports on a public register will be to place an additional and significant cost burden on these entities which currently prepare special purpose financial reports under the current reporting entity framework without a demonstrated need for such changed reporting.

Representatives from the Registry would be pleased to discuss these concerns further.

Yours sincerely

Christine Gowland

Christine Gowland
General Manager
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