



24 August 2007

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007
email: standard@asb.com.au

Dear Mr Boymal

Bridging Capital Pty Ltd welcomes the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft – Proposed International Reporting Standard for Small and Medium-sized Entities (SMEs) and the revised Differential Reporting Regime for Australia.

This submission is prepared having regard to the above Exposure Draft as well as to the following:

- The Treasury – Discussion paper of June 2007 entitled “*Financial Reporting by unlisted Public Companies*”;
- Comments of the Institute of Chartered Accountants in Australia (Institute) as included on its web site and comments from members as contained in the Institute's “*Charter*”;
- Issues as we see confronting SMEs and in particular, Bridging Capital Pty Ltd.

Bridging Capital is a small private company with assets below \$12.5M, revenue well below \$25M, two fulltime employees, three independent non executive directors and ten shareholders.

Bridging Capital is in the business of providing funds secured by way of real estate mortgage mainly to businesses that are in need of short term funding that otherwise would generally be funded by the commercial banks, but for their ability to meet the quick response time required by these businesses. Bridging Capital's lending criteria is based on a commercial bank taking over the transaction after of two to three months. Bridging Capital's funding is obtained through an Australian financial services licensed holder from sophisticated investors.

Bridging Capital's main concern is that as the company assets and revenue grow, we will be restricted by our ability to raise capital from the “no more than 50 non employee shareholders” and retain our propriety company status, as required in Section 45A(1) of the Corporations Act.

Recently the Corporations Act was changed in that Section 45A(2), the small company thresholds, were significantly increased for gross assets from \$5M to \$12.5M and gross operating revenue from

\$10M to \$25M while retaining employees at fewer than 50. In keeping with these threshold increases and the growth of the Australian economy in recent years, it is recommended that S45A(1) be amended to increase the “no more than 50 non employee shareholders” to “no more than 100 non employee shareholders”.

Another minor but important issue in this respect is that employee shareholders that leave the company but retain their shareholding, will immediately be classified as a non employee shareholder which may cause the company to inadvertently breach this section. It is recommended that some timing relief be provided for the company to deal with such an issue.

Bridging Capital has made submissions to the Corporations & Financial Services Division of the Department of Treasury and ASIC in regard to the above issues.

Bridging Capital applauds the proposals of the IASB in “IFRS for SMEs” which are generally supported by the: Australian Accounting Standards Board (AASB); the Institute; and business in general, in particular to reduce the disclosure requirements from around 3000 as contained presently in IFRS, to approximately 400 in the proposed “IFRS for SMEs”.

However there are still some concerns as to these proposals which were highlighted in the Institute’s August 2007 issue of “*Charter*” which included the following:

- At a recent Institute forum in Melbourne attended by representatives of AASB (Boymal) FRC (Macek), ASIC, the three accounting bodies, AICD, practitioners from large, small and medium firms, CAs in business and academics, it was reported “the requirements of the ED were still too complicated and needed to be simplified in terms of measurement/recognition and disclosures”;
- An article by Keith Reilly FCA which has a “call to save the reporting entity”.

Bridging Capital is comfortable with meeting the ASIC Guide “Reporting for non reporting entities” (July 2005) including the audit and other requirements and in particular, as stated in the Guide:

The following accounting standards apply in full to all entities required to prepare a financial report in accordance with Chapter 2M of the Act, whether they are reporting entities or not:

- AASB 101 – Presentation of Financial Statements;
- AASB 107 – Cash Flow Statements;
- AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors; and
- AASB 1048 – Interpretation and Application of Standards.

For a company of our size and profile it is considered that the proposals as contained in “IFRS for SMEs” will add significantly to the costs of preparing such financial reports and is contrary to the Government’s Red Tape Reduction Policy.

Bridging Capital’s future plan includes becoming a small unlisted public company should this be necessary as a result of having to raise additional capital, in order to meet the internal prudential capital adequacy requirements, from more than the non employee shareholders, as prescribed in Section 45A(1) of the Corporations Act.

In summary it is recommended that:

- 1 Small unlisted companies that meet the small company test in S45A(2) of the Corporations Act, be excluded from the requirements of the proposed "IFRS for SMEs" but continue to report in accordance with the reporting requirements as contained in the ASIC Guide (July 2005).
- 2 The measurement, recognition and disclosure requirements as presently contained in the proposed "IFRS for SMEs" be further simplified.

Submitted in accordance with a resolution of the board of directors of Bridging Capital Pty Ltd dated 23 August 2007.

Yours sincerely

A handwritten signature in black ink, appearing to read "G. Paige", is written over a faint, dotted watermark of the Bridging Capital logo.

Graham Paige
Chief Executive Officer