

9 November 2018

Ms Kris Peach  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

*Via website: [www.aasb.gov.au](http://www.aasb.gov.au)*

Dear Kris

## **Submission on Consultation Paper: Applying the IASB's Revised Conceptual Framework and solving the reporting entity and special purpose financial statement problems, Phase 2 – (medium-term approach)**

Thank you for the opportunity to comment on the above consultation paper ("ITC 39").

We agree that the Australian financial reporting framework would benefit from simplification and clarification and that this consultation is an important step on the path to achieving this reform. We are therefore appreciative of the effort that the AASB has gone to in researching its proposals, communicating them to all stakeholders and providing a range of opportunities for wider discussion.

This submission expands on the preliminary views on Phase 2 of ITC 39 that we expressed in our submission on Phase 1 (short-term approach) of that consultation, dated 10 August 2018. These views still do not support the AASB's planned direction for Phase 2.

We note that since the AASB issued ITC 39, it has decided to defer consideration of the reform proposals it contains relating to the not-for-profit (NFP) sector to a subsequent consultation. We support the need for such a separate NFP consultation, which we see as a critical part of the overall reform package. We therefore encourage the AASB to continue working with the significant NFP regulators, and with the sector itself, to develop consistent national reform proposals for them.

However, as discussed in more detail below, our preference would be for the AASB to prioritise progressing this work ahead of any further advance of the for-profit standard setting reforms. We believe NFP reporting is the area of greatest need and that the outcomes from the board's NFP reform work could positively inform the approach we see as needed for the for profit (FP) sector reform. This will then allow the final development of a suitable, but consistent, framework for both sectors. Accordingly, while we have limited our comments in this submission to the planned FP sector reforms, we have included references to NFP issues where they are relevant.

### **Conceptual Framework adoption options**

As detailed in our submission on Phase 1 of ITC 39, we supported the AASB's choice of Option 1 for that

phase as the most pragmatic approach to resolve the challenge posed by the IASB's new definition of the 'reporting entity'. The need to maintain international harmonisation of our framework means it is important to make the IASB's revised Conceptual Framework (RCF) available as soon as possible to support the general purpose financial statements of those entities that are already IFRS compliant, and wish to remain that way.

## Application of Option 1 to Phase 2

However, as foreshadowed in our previous submission, our support for the implementation of Phase 1 of Option 1 does not extend to the AASB's implementation plans for Phase 2 of this option.

While we support financial reporting reform for entities that do not have public accountability, we do not consider that the AASB has sufficiently developed the case for the direction it proposes to take in this phase, or that its response will adequately address the financial reporting 'problem' it is seeking to resolve. Therefore we cannot support either of the AASB's current proposals for Phase 2. Our reasons for this and our views on an alternative way forward are set out below.

## Our reasoning

The decision not to support the AASB's Phase 2 proposals is based on our members' concerns that they are likely to result in an expansion of the application of general purpose financial reporting in Australia to a level that is far in excess of what users need, and without adequate examination of the relative costs and benefits of that change. Both of the alternatives put forward in ITC 39 do not offer a suitable 'one size fits all' reporting framework for entities that are not publicly accountable or provide a solution that could adequately address user needs without accompanying regulatory reform. These concerns are dealt with in more detail in our responses to questions 12 and 13.

Attempting to 'fix' the reporting framework using standard setting alone defers two important questions:-

- which entities should have to publicly report – a matter for the relevant policy makers, legislators and regulators and
- what they should report – a matter for these policy makers, legislators and regulators as well as the standard setters

Clear answers to both these interdependent questions are essential to the development, and subsequent enforcement, of an effective financial reporting regime that will support our economy without imposing unnecessary regulatory burden. Obtaining such answers requires the involvement of all the above bodies and the sectors themselves and the final solution must remain focused on an evidence based assessment of user needs and be capable of ongoing effective enforcement.

## Our preferred way forward

We therefore encourage the AASB to work with Treasury in the for-profit sector, to achieve suitable legislative framework reform before it undertakes further reform via its standard setting mandate. This approach would mirror the approach the AASB has indicated it is already taking for the NFP sector, by working with regulators, and the sector itself, to formulate the appropriate financial reporting framework for that sector.

In order to further a more holistic solution, in conjunction with CPA Australia, we have written to Treasury seeking their review of the reporting thresholds in the Corporations Act 2001 as a matter of priority. Our letter

to Treasury is attached to this submission.

We recognise that framework reform needs to provide a consistent, comparable, transparent and enforceable structure for all the entities that are required to lodge financial statements on public registers. However that structure needs sufficient flexibility to appropriately address the varying needs of the users of those reports. We therefore surveyed our members to identify what reporting framework would more appropriately reflect user needs.

The outcomes of this research highlight a need for substantial statutory threshold reform and for the refinement, and better enforcement of, a reporting framework which is as firmly focused on identified users as SAC 1 currently is.

Their views on the exact nature of this framework vary, with significant support for the status quo, and mixed levels of support for well targeted reduced disclosure alternatives and for a reduced recognition and measurement framework. The clear message is a preference for reform to adopt a 'bottom up' approach to financial reporting, involving the specification of a suitable 'minimum reporting package' for lodging entities based on identified user needs, but only once appropriate lodgement threshold decisions have been taken. For larger non-publicly accountable entities whose users may demand more information than this minimum package provides, directors could 'add on' (from IFRS) in order to satisfy this need.

Developing this minimum package should include a more thorough consideration of a role for IFRS for SMEs (or a domestically developed SME package with a similar objective) as a means of reducing onerous recognition and measurement requirements in IFRS for smaller entities.

In light of this desired direction, we consider that it could be more beneficial to prioritise further work on the NFP sector reforms first as the learnings from that consultation process are likely to provide significant insight into what should constitute minimum lodgment requirements for the for-profit sector.

We anticipate that our survey findings, accompanied by the additional research the AASB has been conducting during the consultation period via its surveys of users and preparers and its investigations of regulatory data bases, should allow the board, in conjunction with the key regulators, to develop and re-expose a more evidence based and fit for purpose proposal. Such a solution, coupled with threshold reform and an appropriately recalibrated regulatory enforcement regime, is far more likely to produce a result that would be in the best interests of the Australian economy than the proposals currently contained in ITC 39. We also believe that a more evidence based articulation of the 'special purpose problem' and more evidence based solutions will reduce the current diversity in stakeholder views about an appropriate framework alternative.

We look forward to continuing to engage with the AASB and the relevant legislators and regulators on this important project.

In the meantime, there are three short term improvements to our existing framework that could be achieved via the AASB's standard setting mandate. These are:

- Providing a clearer definition of specific entities the AASB believes do have 'public accountability' to reduce the most pressing primary sources of concern about comparability of financial information on the public record.
- Renaming the reporting entity concept in SAC 1 to remove the impediment its existence presents to adoption of the IASB's RCF, while allowing it to continue to underpin the existing differential reporting

regime.

- Providing more guidance around SAC 1's expectations for the identification of user needs to ensure its fundamentally valued principle is better applied in practice.

Our responses to the specific and general matters on which the AASB requested feedback for Phase 2 are set out in Appendix A. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about our submission, please contact Jeanette Dawes, Senior Policy Advocate.

Yours sincerely



**Simon Grant FCA ACCA**

Group Executive, Advocacy and Professional Standing  
Chartered Accountants Australia and New Zealand



**Jeanette Dawes FCA**

Senior Policy Advocate - Reporting and Assurance  
Chartered Accountants Australia and New Zealand

## Appendix A

### A1: Specific matters for comment on Phase 2

Note: Questions 1-10 refer to Phase 1 of ITC 39 and were responded to in our submission dated 10 August 2018)

**Q11 – Do you agree with the AASB’s Phase 2 approach (described in paragraph 166?) Why or why not?**

We do not agree with the AASB’s Phase 2 approach that will impose a single reporting regime on all lodging entities that do not have public accountability.

The proposed approach is a short cut solution to the more complex issue of which for-profit entities should report and what information the users of such reports actually need, but cannot directly access for themselves. Both these issues need to be resolved first, otherwise the result will be an onerous reporting burden on many preparers which provides no demonstrable benefit to users of that information, and which potentially could decrease their perception of the usefulness of those financial statements. It could also lead to entities choosing to restructure as trusts, rather than companies, in order to avoid onerous reporting requirements, which may not be in the public interest.

A broader approach to reform is needed and, as noted earlier, in conjunction with CPA Australia, we have already written to Treasury to ask them to prioritise and conduct a review of the reporting thresholds in the Corporations Act 2001. That letter is attached to this submission.

**Q12 – Which of the AASB’s two GPFS Tier 2 alternatives (described in paragraphs 167–170) do you prefer? Please provide reasons for your preference.**

We do not believe that either option is appropriate to meet the needs of users of the wide range of entities that are not publicly accountable. We do not consider that the AASB has adequately demonstrated how either option meets user needs in this regard.

We therefore encourage the AASB to work collaboratively with Treasury, and use the research that it has been conducting since we lodged our Phase 1 submission to develop a more suitable proposal that better addresses the broader issue of what financial reporting is actually required, before addressing a narrower standard setting solution.

To assist, we have also performed our own research, consulting our membership for their views on suitable reporting alternatives. Feedback from that research is discussed further in our response to question 18 and emphasises the importance of evidence-based user needs as the foundation for any reform. The feedback also suggests that such a reform path should include a more thorough consideration of a role for IFRS for SMEs (or a domestic SME package with a similar objective) as a means of reducing onerous recognition and measurement requirements at the smaller end of the reporting spectrum while still meeting user needs.

**Q13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS – RDR or the new Alternative 2 GPFS – SDR described in paragraphs 167–170)? Why or why not?**

Until the issues of who should lodge financial statements on the public record, and what the users of those financial statements actually need are considered and identified, it is inappropriate to impose GPFS on all lodging entities. These entities range in size and complexity, and their users are primarily concerned with the measurement of performance in a format that is readily understood by the primary users i.e. management and owners, employees and creditors, rather than the making of investment allocation decisions.

Therefore the financial statements of these entities need to ensure that this performance is clearly and effectively disclosed, through fit for purpose financial reporting requirements, and not obscured by unnecessary and unhelpful reporting. What these disclosures are requires careful consideration of entities at the smaller end of the scale from a cost benefit perspective, given the limited resources available to these entities and their significance to the economy.

Bearing this in mind we are of the view that that the application of the current RDR to all the current 'non-reporting entities' would result in financial statements disclosures that are substantially in excess of this need since it is designed for entities at the larger end of the public accountability to lodging entity continuum. However, our members have expressed support for RDR as a conceptual reporting alternative, if it was to be better targeted to the smaller end of the lodgment spectrum.

They also view RDR more favourably than SDR as an alternative for these entities. While disclosure would be less than under RDR, it would also result in the inclusion of a range of disclosures which are unsuitable to these types of entities, demonstrated by the fact that these disclosures are already eliminated in the RDR package for these standards. SDR also excludes standards for which we believe there would be user needs for relevant disclosures and these are detailed in our response to question 17.

In light of the above, we believe that a more suitable approach is to adopt a 'bottom up' approach to reporting requirements for entities that are not publicly accountable. Legislators should be responsible for defining suitable criteria for lodgment, placing numerical thresholds on the key aspects of public accountability at both the upper and lower ends of the lodgment scale, in the interests of comparability. Having identified expected users, the accounting standards should then set minimum financial reporting requirements for acceptable financial statements to meet those needs, providing clear lodgment expectations which regulators can then require and enforce.

**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.**

While we acknowledge that IFRS recognition and measurement is widely used by non-publicly accountable entities, we believe that this is partly because a modified recognition and measurement option (such as IFRS for SMEs) has never been seriously offered as an alternative. It has also been unnecessary whenever SAC 1 allows smaller non publicly accountable entities measurement choice in order to effectively meet their user needs.

However it does become a valuable alternative in the development of a consistent and transparent 'bottom up' solution to lodging entity reporting requirements. Its recognition and measurement principles are far more suited to the needs of smaller entities than IFRS, while remaining IFRS like, and its disclosure principles already underpin our reduced disclosure regime.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

While we do not support the introduction of either option, appropriate transitional relief needs to include consolidation relief that does not require retrospective application (see below).

**Q16 – What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB’s medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.**

Our concern is that requiring consolidation will result in the production of information that is expensive to produce for no demonstrable user need. If the AASB pursues this path, it needs to make the initial consolidation process as simple as possible, including not applying requirements retrospectively, not requiring comparatives and allowing deeming of cost as fair value for opening balances.

**Q17 – If the new Alternative 2 GPFS – SDR (described in paragraphs 167–170) is applied, do you agree that the specified disclosures would best meet users’ needs? If not, please explain why and provide examples of other disclosures that you consider useful.**

We do not agree that SDR provides a suitable reporting option. SDR leaves out standards that have some recognition, measurement and disclosure requirements that we feel users of the financial statements of entities without public accountability would find useful. These requirements include appropriate portions of:

- AASB 2 *Inventories*
- AASB 3 *Business Combinations* (particularly regarding goodwill)
- AASB 8 *Segment Reporting*
- AASB 9 *Financial Instruments* (part 1) and AASB 132 *Financial Instruments: Presentation* (particularly regarding classifications of debt and equity and provisions for doubtful debts)
- AASB 116 *Property, Plant and Equipment* (particularly depreciation)
- AASB 1023 *Borrowing Costs*
- AASB 138 *Intangibles*
- AASB 119 *Employee Benefits*
- AASB 137 *Provisions, Contingent Assets and Contingent Liabilities*

SDR also includes disclosures from its selected standards that are in excess of what users need for these types of entities, as evidenced by the reductions offered by the current RDR for these standards.

Developing a more suitable reporting alternative would involve the analysis of each standard individually to identify and include only appropriate minimum disclosures, using the principles inherent in IFRS for SMEs (and the existing RDR).

**Q18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).**

Our preferred solution initially involves a review of the lodging entity thresholds before any further changes are made. This is because a clear understanding of the reporting population is essential to setting cost effective requirements. Only then can informed decisions be taken on what that population should report and how it should report. Once this clear rationale for “who needs to lodge what”, the AASB could then develop a suitable ‘minimum financial reporting package’ for lodging entities.

The package could be based on IFRS for SMEs, mandating a minimum set of recognition, measurement and disclosure requirements that best meet user needs of lodging entities that are not publicly accountable. Where the user needs of entities at the larger end of that spectrum require more, directors could ‘add on’ from full IFRS in the interests of ensuring these needs are still met.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

Information about these activities can be important for users to obtain a clear understanding of the activities of some NFPs types, including charities. However charities and other NFPs are not a homogenous group. We therefore recommend that more detailed research and consultation with relevant stakeholders takes place to determine the users of charity and other not for profit reports, what information would be useful to them in making decisions and how these needs can be addressed through the reporting framework.

While we note the AASB has now limited this consultation to the for-profit space, our survey referred to in response to question 18 also sought preliminary feedback from members on options for NFPs which we would be happy to discuss further with the AASB at the appropriate time.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any legislation that refers to SPFS that might be impacted by these proposals. However, guidance documents regarding their acceptance of SPFS exist in ASIC and the ACNC and may also exist on relevant state/territory regulator websites.



## A2: General matters for comment on Phase 2

**Q21 – What are your views on whether *The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities (the Framework)* have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

We believe the AASB’s approach is using its standard setting mandate to resolve a problem that is better resolved by a joint legislative, regulatory and standard setting approach. As paragraph 6 of the Framework notes, it is legislators that set requirements for compliance with accounting standards. Therefore it is inappropriate for the AASB to extend the application of its standards without clear and demonstrable evidence that these changes are required by legislators and users of financial information. The Corporations Act thresholds have not been amended in over 10 years and there has been limited regulatory action to prosecute companies for non-compliance with ASIC’s Regulatory Guide RG 85 *Reporting requirements for non reporting entities*. These facts suggest that there is no pressing need for the AASB to take the action it is proposing and ITC 39 does not mount a clear and convincing case for reform achieved via standard setting in isolation.

As noted in our Phase 1 submission, we are also concerned that, under the current proposals, the definition of ‘publicly accountable’ is gaining increased significance as a determinant of reporting requirements without adequate consultation on whether this definition is fit for that purpose within the Australian context. In particular, its application in the ITC 39 proposals making “non-publicly accountable” lodging entities apply full IFRS recognition and measurement is not consistent with the IASB’s reporting expectations for entities that meet that definition. Those entities are permitted to apply reduced recognition, measurement and disclosure by way of IFRS for SMEs.

Australia has not had a debate about what the legislative term “compliance with accounting standards” should mean since IFRS was adopted. We believe it is inappropriate for the AASB to assume that this should mean only GPFS without clear evidence to support that assertion, especially when this is not the approach taken by the IASB (and other national standard setters) and was not the expectation when Australia adopted IFRS.

According to paragraph 29 of the Framework, user needs, public interest issues and cost benefit should be key factors in developing requirements for non-publicly accountable entities. We do not consider that the AASB has provided sufficient evidence of the user need that underpins its assumption that lodging entities need to prepare GPFS in accordance with either of the Phase 2 options. These options will likely increase regulatory burden without providing the affected entities appropriate accounting standards for their needs and the needs of their users as required by the AASB’s mandate (section 229 of the ASIC Act).

We therefore encourage the AASB to continue its research into user needs in order to find a more fit for purpose solution.

We also note that the Framework allows the AASB to deem entities as publicly accountable within the Australian context under paragraph 32. Better use of that power may eradicate the perceived misuse of the ‘non-publicly accountable’ definition in specific circumstances such as has occurred legislatively for Significant Global Entities, without imposing an unreasonable regulatory burden on entities that are clearly non-publicly accountable.

**Q22 – What are your views on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?**

We believe insufficient work has been done to understand the legislative impact of these changes and to mitigate an unrealistic red tape burden. We believe a more appropriate approach to the “problem” of special purpose reports is to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content for that report and then respond with the

Development of a minimum reporting framework that would support those entities.

**Q23 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?**

We believe the current Phase 2 proposals demonstrate an insufficient understanding of the needs of users, especially for entities that are not publicly accountable, which is where this reform proposes its biggest changes. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit. .

**Q24 – What are your views on whether the proposals are in the best interests of the Australian economy?**

We do not agree that the AASB has provided sufficient evidence to demonstrate that its current proposals are beneficial. We believe the Australian economy will gain a far greater long term benefit from a reform approach that is done holistically for the FP sector in the same way that the AASB is proposing to develop its proposals for the NFP sector. This holistic approach requires legislative and regulatory involvement to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content of that report.

**Q25 – Unless already provided in response to specific matters for comment above, what are your views on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

We reiterate our view that the AASB has insufficiently demonstrated why only GPFS meets the requirement of “financial statements prepared in accordance with accounting standards” and how the benefits to those users of implementing a Tier 1 or 2 only approach will exceed the substantial compliance burden it will present.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

22 October 2018

Mr Adam Bogiatzis  
Senior Advisor, Corporations and Consumer Policy Division  
The Treasury  
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PARKES ACT 2600

By email: [adam.bogiatzis@treasury.gov.au](mailto:adam.bogiatzis@treasury.gov.au)

Dear Adam

**Treasury Review Proposal - Australian Accounting Standards Board consultation on the conceptual framework and special purpose financial statements (ITC 39)**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia would like to jointly raise a matter with the Australian Treasury in relation to the above consultation currently being undertaken by the Australian Accounting Standards Board (AASB).

We are writing to you jointly to request that the Australian Treasury prioritise and conduct a comprehensive review of the financial reporting thresholds applicable to proprietary companies under section 45A of the Corporations Act 2001.

It is the long-held view of both Chartered Accountants ANZ and CPA Australia that these thresholds should be subject to a periodic and regular review to ensure that the regulatory framework they underpin is fit for purpose. Since improving the Australian financial reporting framework is the key objective of the AASB's current consultation, the issue of thresholds has once again been brought to the fore as we, and our members, give consideration to the content of the AASB's proposals. Our members work in diverse roles across public practice, commerce, industry, academia and the public and not-for-profit sectors throughout Australia and therefore have a significant interest and stake in the framework reform agenda.

We are concerned that the AASB's desire to unilaterally use its standard setting mandate to achieve financial reporting reform is only a partial solution to a more complex problem. In the context of companies and other entities regulated under the Corporations Act 2001, we believe that this problem needs to be addressed via consideration of both the lodgment thresholds and the AASB financial reporting framework. As noted in paragraph 67 of ITC 39, the AASB shares this view and while it

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indicates that legislative reform is being discussed as part of its Australian Financial Reporting Framework project, it has chosen to pursue an approach purely based on modifying its financial reporting framework for the private sector first.

We are strongly of the view that the AASB's reform of the Australian financial reporting framework should not occur in isolation but should coincide with a Treasury review of the financial reporting thresholds and associated requirements within the Corporations Act 2001.

We hold this view because one of the groups most impacted by the AASB's proposals will be large proprietary companies who have statutory reporting requirements under the Corporations Act 2001. These companies are the significant clients of, or employers of, many of our members.

In its consultation, the AASB is proposing to withdraw Statement of Accounting Concept 1 *Definition of The Reporting Entity* (SAC 1). If this occurs, all large proprietary companies will be required to prepare general purpose financial statements (GPFS). For those large proprietary companies nearer to the current reporting thresholds, this is likely to require the production of a level of financial information for which there is no clearly identified user need. The proposals include preparing consolidated financial statements that include their controlled entities, a substantial increase in the reporting burden. This information would be substantially in excess of what large proprietary companies currently produce and lodge now as special purpose financial statements.

We believe a Treasury review of thresholds now would be particularly timely for two reasons. These are:

- the financial reporting thresholds were introduced into the Corporations Act 2001 more than 10 years ago and have not been subject to a review since that time.
- current and ongoing research informing the AASB's reform project can be utilised by Treasury to review and reset the thresholds at an appropriate level that effectively meets user needs without imposing additional regulatory burden.

Without such a review, the AASB's proposals could result in an unreasonable regulatory burden being placed on smaller large proprietary companies for no other reason than that they fall within outdated thresholds. This burden is likely to increase further over time as new accounting standards, such as AASB 116 *Leases* operative for financial reporting periods beginning on or after 1 January 2019, bring onto the balance sheet assets and liabilities that were previously only disclosed as commitments. This makes it possible for an entity to breach the asset thresholds only due to a change in the accounting standards, rather than as a result of any changes in the underlying business or the user needs for their financial information.

We believe that a joint effort between the AASB and Treasury is necessary to produce a framework reform outcome for companies that will be in the best interests of all stakeholders. The result has the potential to provide all users of lodged financial statements with the information they need while ensuring that the reporting burden placed on preparers is not disproportionate. Such an approach is

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being adopted for reform in the not-for-profit sector, through the ACNC legislative review, and so we encourage Treasury to adopt a similar approach for the for-profit sector.

Chartered Accountants ANZ and CPA Australia are willing to engage with Treasury to explore possible options and assist with any deliberations. Please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Jeanette Dawes (Chartered Accountants ANZ) [jeanette.dawes@charteredaccountantsanz.com](mailto:jeanette.dawes@charteredaccountantsanz.com) or if you would like to discuss the contents of this letter.

Yours sincerely



**Simon Grant FCA**

Group Executive – Advocacy, Professional  
Standing and International Development  
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**Craig Laughton**

Executive General Manager  
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