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By email: reportingthresholds@treasury.gov.au

Dear Ms O'Rourke

Corporations Amendment (Proprietary Company Thresholds) Regulations 2018

While I am sure that preparers will support the proposed increase in thresholds, the proposals fail to fully consider:

- alternatives to reducing the financial reporting burden
- the costs of the proposals by removing the financial information from public availability.

I expand on these issues below.

I support an increase in thresholds of assets and revenue of around 30% to represent the CPI increase from 2007. If the increase in thresholds is just to reflect increase in inflation, then there is no need to adjust the employee threshold. I include further discussion below.

I also suggest that Treasury focus on the thresholds for not-for-profit entities, in particular companies limited by guarantee, whether registered with the ACNC or not. These thresholds are considerably below those of for-profit proprietary companies.

I urge Treasury to consider alternatives to reduce the financial reporting burden that I have outlined below. Implementation of changes similar to what I have proposed will reduce costs to businesses, and allow the continuation of financial information to the public.

The availability of financial information will improve if the government complies with its Open Data policy and allows free access to financial reports lodged with ASIC. Given that financial reports are free from the ACNC, there is no reason why they cannot also be free from ASIC. I hope that this will be the outcome of the consultation under the Modernising Business Registers and the review of registry fees.

I believe that the changes to thresholds should commence for financial years ending on or after 30 June 2019, not a year later for financial years beginning on or after 1 July 2019. I discuss the transition to the thresholds below.

Yours faithfully

David Hardidge

Reducing the financial reporting burden

I agree that the AASB's proposals under ITC39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, Consultation Paper (May 2018).

However, there are ways to reduce the financial reporting burden. I include suggestions in my Queensland Audit Office blog article at:
https://www.qao.qld.gov.au/blog/developing-simpler-and-better-reporting-framework

Over 80 countries have adopted IFRS for SMEs which was developed by the International Accounting Standards Board. IFRS for SMEs is based on IFRSs as they were in 2005 and simplified to approximately 250 pages. Many countries that have not adopted IFRS for SMEs have adopted a simplified reporting system.

I suggest that Australia adopt a modified version of IFRS for SMEs to overcome objections by the AASB to its adoption. One major change would be to include requirements for not-for-profit entities.

I also suggest other modifications and fixes to the measurement requirements we currently use, or soon to use, including:

- Capital grants (not-for-profits). An oldie, but a goodie. The mismatch of recognising upfront revenue, and expanses over time still does not make sense to many people.
- Peppercorn leases (not-for-profits). This is starting to cause a lot of grief with many not-for-profits being told that they need to go and get valuations for the introduction of the new standard next year. While the AASB has recently proposed a temporary deferral of the requirements, why not make the deferral permanent?
- AASB 16 *Leases* and putting operating leases on balance sheet. Does it make sense to recognise an asset for the leases of office and retail space? Does it make sense to change an entity's profit with this accounting? How much time and effort will be spent explaining the new rules to non-accountants?

Costs of the proposals by removing the financial information from public availability

The current thresholds represent economically significant businesses. The failure of a business that just meets the existing thresholds, can have a significant effect to its creditors and employees.

The requirement for lodging public financial information has been the traditional trade-off for entities forming as companies and shareholders having limited liability.

Reducing the financial information available publicly will increase the costs to entities trading with those businesses, including subcontractors. Particularly those trading entities that are smaller, and do not have the power to demand the necessary financial information to assess the trading relationship.

The government has introduced changes to redress trading imbalances, including simplified contracts, and retailing codes of conduct. Increasing the thresholds beyond what is needed for economic changes since 2007 would contradict these initiatives.

Implementing a simpler reporting framework, and changes similar to what I have proposed, will reduce costs to businesses. This will allow the continuation of financial information to the public at a reasonable cost to business using the benefit of limited liability. I hope that accessing this information will soon to be free for the public under the government's Open Data policy.

Threshold increases

The threshold increases are significantly more than the increase in economic growth since the thresholds were last increased from the June 2007 financial year.

If using the CPI, the index has increased approximately 30% from November 2007 to November 2018.

Historical CPI levels are available at:
http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6401.0Main%20Features7Sep%202018?

86.7 Level at September 2006, used for when the Corporate and Financial Services Regulation Review – Proposals Paper was issued in November 2006.

113.5 Level at September 2018, used for when the Exposure Draft of the Corporations Amendment (Proprietary Company Thresholds) Regulations 2018 was issued in November 2018.

Increase is 113.5 / 86.7 - 1 = 30.9%

The CPI has increased by approximately 83% since the thresholds were introduced in 1995:

61.9 Level at June 1994, used for when the First Corporate Law Simplification Bill - Exposure Draft was issued in July 1994.

113.5 Level at September 2018, used for when the Exposure Draft of the Corporations Amendment (Proprietary Company Thresholds) Regulations 2018 was issued in November 2018.

Increase is 113.5 / 61.9 – 1 = 83.4%

There are arguments that the thresholds should be increased to cater for the additional assets to be recognised under the forthcoming AASB 16 *Leases* standard. If my suggestions for reducing the financial reporting burden by introducing a simplified reporting system, including not adopting AASB 16, then such an additional increase will not be required.

Transition to increased thresholds

The transition requirements mean that the changes will only apply for financial years beginning on or after 1 July 2019.

I believe that increasing the thresholds should be applicable for financial years ending 30 June 2019 and onwards.

The last increase in thresholds applied to the current financial year. Specifically, the Corporations Legislation Amendment (Simpler Regulatory System) Act 2007 was:

- Based on proposals issued in November 2006 in Corporate and Financial Services Regulation Review – Proposals Paper.
- Introduced into Parliament 24 March 2007
- Passed both houses 21 June 2017
- Received Royal Assent 28 June 2017

Under the 2007 Act, items 16 to 19 (increasing the thresholds) commenced via item 231 to a financial year that ends on or after the day on which those items commence (which is the date of Royal Assent). Consequently, the changes applied to financial years ending on or after 30 June 2007.