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By email to: [reportingthresholds@treasury.gov.au](mailto:reportingthresholds@treasury.gov.au)

**Treasury Consultation: Reducing the financial reporting burden by increasing the thresholds for large proprietary companies - Corporations Amendment (Proprietary Company Thresholds) Regulations 2018**

Dear Ms O'Rourke

We refer to the Treasury initiative to increase the thresholds for large proprietary companies by amending the Corporations Regulations as incorporated in the exposure draft of *Corporations Amendment (Proprietary Company Thresholds) Regulations 2018*.

Since the existing thresholds have not changed for over 10 years, we generally consider this to be a progressive policy in relation to those proprietary companies who were previously small but, due to the passage of time, have subsequently become large.

We note that the Australian Accounting Standard Board's ('AASB') current project, *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* ('ITC 39') will likely increase the regulatory burden and costs for many entities preparing financial statements, and in this regard, Treasury's proposals will act to mitigate the population of companies to which those changes will apply through increasing the reporting thresholds for large proprietary companies.

That said, the doubling of the thresholds amounts to more than adjusting for inflation and therefore the proposals amount to a genuine loosening of regulatory policy. The Treasury documents indicate that the intention is to require statutory financial reporting for 'economically significant companies'. However, no definition of an 'economically significant company' exists and no rationale as to why the doubling of the current thresholds is considered appropriate is provided. This approach to policy making appears to continue a trend within financial reporting of setting regulation without sufficient rationale being provided (or even existing).

Therefore, rather than arbitrarily increasing the thresholds, we prefer that Treasury instead use this opportunity to consult on whether revenue, gross assets and employee thresholds contained in section 45A of the Corporations Act 2001 (the 'Act') remains an appropriate criteria for assessing whether a proprietary company is "large" and thus required to comply with Part 2M.3 of the Act to prepare and lodge director's report and audited financial statements. As part of this analysis, we believe that such considerations should dovetail into the AASB's project in determining what is to be contained within those financial statements that the Act with require.

Notwithstanding our comments, should Treasury consider that progressing with their proposals is in the best interests of corporate Australia, we comment as follows:

**Revenue: proposed increase from \$25 million to \$50 million**

We support the doubling of revenue.

**Gross Assets: proposed increase from \$12.5 million to \$25 million**

With the new accounting standard AASB 16 *Leases* requiring operating leases to be recognised 'on balance sheet', a significant number of companies will suddenly have inflated asset holdings as from 1 January 2019. Having regard to the potential effect of this accounting standard, we therefore suggest that the asset threshold figure be increased further (e.g. say to \$50 million) to ensure that Treasury's intention of red-tape reduction is not jeopardised.

**Employees: proposed increase from 50 to 100 employees**

We do not believe that this threshold should be increased as we consider that a company with 50+ employees can still be a significant entity where stakeholders would be interested in the company's financial statements. It must be considered that in the current era, technological advancement is leading to lower demand for labour resources. There is therefore a disconnect forming between corporate growth and employee numbers required.

Furthermore, we suggest Treasury should consider whether the "average number of employees during the financial period" rather than the "number at the reporting date" is more appropriate, given the labour force may change during the period due to factors such as seasonal variations.

Consequently, we propose a "50-50-50 rule" (two out of three to be satisfied) as follows:

Revenue	\$50 million
Gross Assets	\$50 million
Employees	50 full time employees

**Application date**

It is proposed that the current exposure draft become law for financial years beginning on or after 1 July 2019, which means small proprietary companies can only benefit from the red tape relief for financial statements for the financial year ending 30 June 2020 onwards.

We suggest the legislation be amended so that it becomes effective for financial years beginning on or after 1 January 2019 which would coincide with the application date of AASB 16 as referred to above. This would have the effect of bringing forward potential relief for reclassified small proprietary companies with December year ends by 12 months. There would be no change to companies with June year ends.

Should you wish to discuss any aspects of our submission, kindly contact Vik Bhandari on 02 9943 0201 or by email to [vik.bhandari@frs.com.au](mailto:vik.bhandari@frs.com.au) or Rob Mackay on 03 9028 2377 or by email [rob.mackay@frs.com.au](mailto:rob.mackay@frs.com.au).

Yours faithfully

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