

**Responding Letter to Public Consultation Exposure Draft Regulations on
Reduced Financial Burden for Proprietary Companies**

From



**Association of Chinese Accountants Australia (ACAA) – Technical & Tax
Committee**



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CC: reportingthresholds@treasury.gov.au;

Re: responses to this consultation on increasing the thresholds for large proprietary companies (“the proposed change”)

Dear Kate,

We have recently noticed that the Government has released for public consultation exposure draft regulations and an explanatory statement containing proposals to reduce the financial reporting burden for some proprietary companies by increasing the thresholds for determining what constitutes a large proprietary company under the Corporations Act 2001.

Currently, companies that meet the thresholds are required to prepare and lodge an audited financial report, a director's report and an auditor's report with the Australian Securities and Investments Commission each financial year.

The exposure draft regulations propose to increase the thresholds as follows:

- the consolidated revenue for the financial year of the company and the entities it controls from \$25 million to \$50 million;
- the value of the consolidated gross assets at the end of the financial year of the company and the entities in controls from \$12.5 million to \$25 million; or
- the company and the entities it controls having 50 employees to 100 employees at end of the financial year.

We welcome the initiative of the proposed change to reduce the compliance 'burden' of companies. However, we do not consider good financial reporting to a "burden" on preparers as it assists with the provision of useful information for users decision-making and the discharge of accountability by directors and management.

Furthermore in certain circumstances, companies are permitted to prepare special purpose financial statements for lodged with ASIC. Many of these have been of variable quality; disadvantaging users of financial statements.



We understand that it is necessary to develop the definition of large proprietary companies to match current Australian economy. To achieve these intentions as well as maintaining the fundamental purpose of the financial reporting requirements in Corporations Act, we have summarised our responding to the proposed change as below.

Summary of our suggestion:

1. We agree with the increase the threshold on revenue to \$50m and the threshold on total assets to \$25m. However, We suggest that the number of employee's condition remains the same as 50 employees;
2. that a company which meets *any one* of the three proposal conditions should be defined as large entities; and
3. The use of special purpose financial statements should be discontinued at the same time the threshold are increased.

Our observations and basis for our suggestion:

1. We observed that many companies (including existing large private companies and smaller public companies) are performing below expectation in compliance with financial reporting and Australian Accounting Standards requirements under Corporation Acts. Many small companies are not maintaining accounting book and prepare financial capable of producing financial reports in accordance with Australian Accounting Standards. The proposed change will further discourage good financial reporting and compliance practice and undermine adoption of Australian Accounting Standards in company's accounting book (we understand that the compliance with Australian Accounting Standard is required by the Corporations Act, even the lodgement of the financial report is not required).

2. The change will increase the competition of audit practitioners. The existing competition of auditors has been already intensive. The high competition has already undermined the audit quality due to high competition and lower fee. If the competition is even more intensive due to the proposed change, we are concerned financial reporting quality will be even worse.

3. The proposed change itself is very arbitrary and has no supporting research and data to justify the increased threshold is appropriate and reasonable to achieve its intentions. All thresholds are doubled without any research and analysis. For example, what is the reasoning behind increasing the threshold of number of employees to 100? Employees are key



stakeholders in a company. A company with more than 50 employees was considered as large company 17 years ago when the Corporation Act 2001 was effective. In fact, the same size business requires fewer number of employees due to the improved technology and efficiency.

4. Tax revenue may decline as the result of discouraged good financial reporting and compliance practice within existing and potential future large companies under current standards and likely increased non-compliance risk due to the lack of external audit supervision.

5. Reducing compliance requirements may harm the public's interest. The existing compliance requirements in financial reporting has protected the rights to know of consumers, investors, creditors and other stakeholders to some extent. Information disclosure helps stakeholders to make wised decisions.

6. The proposed change for the employee threshold does not work well in franchise arrangements and where casuals are employed. The employee threshold needs further consideration

Should have any queries on our responding letter, please feel free to contact myself on +61 450 377 258.

Your faithfully,

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