

14 December 2018

Ms Kate O'Rourke
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The Treasury
Level 5, 100 Market Street
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Via Email: reportingthresholds@treasury.gov.au

Dear Ms O'Rourke

Exposure Draft – Corporations Amendment (Proprietary Company Thresholds) Regulations 2018

Thank you for the opportunity to provide a submission on the *Exposure Draft Corporations Amendment (Proprietary Company Thresholds) Regulations 2018* (the **Exposure Draft**).

The Australian Institute of Company Directors (**AICD**) has a membership of more than 43,000 including directors and senior leaders from business, government and the not-for-profit (**NFP**) sectors. The mission of the AICD is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society.

Executive Summary

The AICD strongly supports the review and update of the financial reporting thresholds for proprietary companies which will relieve some of the compliance burden for smaller entities. These thresholds were last updated in 2007 and at a minimum have not kept up-to-date with current economic conditions.

We consider that a more comprehensive review of the quantum of the thresholds is needed, rather than the proposal to simply double the thresholds. This review should be focused on determining what is economically significant. Our preliminary position is that the minimum financial thresholds should be \$100 million in revenue and \$50 million in assets.

In addition, the AICD considers that as a matter of priority, a review needs to take place of the thresholds applying to companies limited by guarantee which have not been reviewed since 2007.

We also propose that thresholds are subject to a regular five yearly review, so they can be kept up-to-date.

More comprehensive review needed

The AICD considers that a more comprehensive review is needed for determining the appropriate financial reporting thresholds for proprietary companies, for the following reasons:

- As stated in the explanatory memorandum, the thresholds are intended to ensure financial reporting obligations are targeted at economically significant companies. The AICD notes that this current review does not provide any empirical analysis on where the current thresholds should be set to meet the economically significant criteria. Further, the review undertaken in 2006, when the last increase in thresholds was consulted on, also did not provide any empirical analysis for consideration.
- The updating of financial reporting thresholds is critically needed at this time, as the Australian Accounting Standards Board is also reviewing the Australian financial reporting framework. In this review (*Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*), the AASB is proposing to remove the ability for companies to lodge ‘special purpose financial reports’ and instead require ‘general purpose financial reports’ for all entities that are required to prepare accounts in accordance with Australian accounting standards. Such a requirement will increase the reporting burden on many organisations – public companies, proprietary companies and many NFP organisations. Therefore, determining what is economically significant in the population of companies that exist by providing appropriate data and analysis so that commentators can respond in an informed manner, is needed as part of the wholesale review of financial reporting requirements.
- Consideration should be given to the Senate Standing Committee on Economics report on *Corporate Tax Avoidance – Part III: Much heat, little light so far*, released in May 2018. This report recommended that all companies, trusts and other financial entities with income above a certain threshold should be lodging general purpose financial statements with ASIC. In making this recommendation, the committee believed that consideration should be given to aligning the threshold for requiring mandatory general purpose financial statements with thresholds used by other transparency measures, such as the \$100 million income threshold for the *Report of entity tax information* (required by Section 3C of the *Taxation Administration Act 1953*). This was suggesting a wholesale review of thresholds, in light of other thresholds that already exist, rather than simply doubling the thresholds.

In considering the above matters, the AICD position is that the minimum financial thresholds should be \$100 million in revenue and \$50 million in assets. Such levels are more reflective of the revised level of employees of 100, considering average salary levels of employees and appropriate margins on earnings. The \$100 million revenue would be consistent with the Commonwealth government modern slavery reporting levels (*Modern Slavery Act 2018*), although still below the proprietary company tax transparency measure of \$200 million income (required by Section 3C of the *Taxation Administration Act 1953*).

Review of Not-for-profit thresholds is also required

In 2007 the Government consulted on the need for differential reporting, through the application of thresholds, for unlisted public companies. A differential reporting regime was introduced for companies limited by guarantee that applied from 1 July 2009. The thresholds set for NFP companies limited by guarantee were subsequently used in providing the basis for the charity reporting thresholds in the *Australian Charities and Not-for-profits Commission Act 2012*. This was done on the basis that many companies limited by guarantee were also charities.

Recommendation 12 in the final report into the *Review of Australian Charities and Not-for-profits Commission (ACNC) legislation* tabled on 22 August 2018 recommended an increase in reporting thresholds for charities.

The AICD considers that any review of charity reporting thresholds should be carried out in conjunction with a review of the thresholds for NFP companies limited by guarantee, given it is nine years since these thresholds were first introduced, and to maintain parity between charity reporting thresholds and broader thresholds relevant to companies limited by guarantee.

Next steps

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 028248 6635 or at khicks@aicd.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

LOUISE PETSCHLER
General Manager, Advocacy