

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 29, 30 & 31 May 2007

Question: bet 72 (AASB)

Topic: Tier Three – Numbers & the Impact on Companies

Hansard Page: E27/28

Senator WONG asked:

Can you give us some sense of impact? Who would have fallen into the third tier? Are there significant numbers of small companies that are not exempt because they are not small proprietary companies that would now have to apply the SME standards? Do we have some sense of the numbers involved here?

Prof. Boymal—We do. Unfortunately, I do not have the numbers with me. It is quite difficult to answer. The reason is that, under these new proposals, there are some companies who currently would be regarded as reporting entities and, therefore, would have to follow the full suite of standards and who would fall down into the SME standard. So they would be getting relief. There are other companies who would claim not to be reporting entities, who are still lodging their numbers and who are producing bits and pieces in terms of accounts where following the SME standard would be a greater burden. Some companies will have a greater burden and some will have a lesser burden coming out of these new proposals, but the difference will be that every company who has to lodge its numbers with ASIC will have a set of accounting standards to follow. Whereas the current regime has a situation where there are a group of companies who claim not to be reporting entities who lodge their numbers with ASIC and who do not have an accounting standard regime to follow.

Senator WONG—This will resolve that?

Prof. Boymal—This will resolve that.

Senator WONG—I would like to go back to the issue I raised. I realise it might be difficult to ascertain, but from a public policy perspective it would be useful for us to get some sense of what the impact of the decision is.

Prof. Boymal—We do have some information on that.

Senator WONG—From my perspective, I would like to know broadly what sorts of numbers we are talking about in each of the tiers. More importantly, I would like to know the number of companies that will be impacted by a decision not to establish a third tier and which sectors are they in? In other words, whether or not they not-for-profits? I do not need a detailed analysis. I am not clear in my own head whether those outside of the small proprietary company exemption will now be picked up in the SME tier and whether that is a shift. That is the practical impact of this decision that I would like to get a handle on.

Prof. Boymal—It is somewhat difficult to quantify. We toyed with the question of a third tier but we did not pursue it. We never actually defined the companies that could potentially fall into a third tier. The cut-off, if it was to be a size cut-off, was never struck. Obviously, the number of companies that would fall into that tier would depend upon what size cut-off we

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would create. There is a bit of guesswork, because we never actually got to the point of saying what the size cut-off would potentially be.

Senator WONG—I am happy to get any answer on notice, with the caveats that you have outlined.

Answer:

In May 2007, the Australian Accounting Standards Board (“AASB”) issued Invitation to Comment ITC 12 “Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*” (“ITC 12”).

ITC 12 contains proposals as to which types of Australian entities would be able to apply the International Accounting Standards Board’s proposed accounting standard “International Financial Reporting Standard for Small and Medium-Sized Entities” (“the proposed SME standard”).

The Australian Securities and Investments Commission (“ASIC”) prepared this information in response to a request from the AASB for certain information as to the numbers of entities required to prepare financial reports under Chapter 2M of the Corporations Act 2001 (“Chapter 2M entities”) that would be affected by the AASB’s proposals.

It is not the purpose of this document to compare the different accounting standards requirements or assess their relative costs or benefits.

At present, Chapter 2M entities that are reporting entities must comply with all requirements of the accounting standards in full. Accounting standards define a “reporting entity” as:

“An entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.”.

ASIC Regulatory Guide RG 85 “Reporting requirements for non-reporting entities” outlines ASIC’s view that Chapter 2M entities that aren’t reporting entities must comply with:

- (a) The recognition and measurement requirements of accounting standards;
- (b) Those disclosure requirements of the accounting standards that apply to all Chapter 2M entities; and
- (c) Those disclosure requirements necessary to give a true and fair view.

Under the AASB’s proposals, the proposed SME standard could be applied by Chapter 2M entities other than:

- (a) entities that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;

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- (b) entities that hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity;
- (c) for profit private sector entities that exceed either of the following size tests:
 - (i) consolidated revenue for the financial year of \$500m; and
 - (ii) consolidated assets at year end of \$250m; and
- (d) not-for-profit private sector entities and public sector entities that exceed either of the following size tests:
 - (i) consolidated revenue for the financial year of \$25m; and
 - (ii) consolidated assets at year end of \$12.5m.

Entities that would not be eligible to apply the proposed SME standard, or which choose not to do so, would be required to comply with the existing accounting standards in full.

There were 1,574,342 companies, registered schemes and disclosing entities at 30 June 2007. The table immediately below shows the current accounting standards requirements that apply to the approximately 30,905 unlisted Chapter 2M entities. The 1,912 listed Chapter 2M entities would be subject to the requirements of existing standards in full under both the current and proposed requirements.

Type of unlisted entity	Required to comply with all existing accounting standards in full ⁽¹⁾	Non-reporting entities complying with recognition and measurement requirements, and some disclosure requirements ⁽¹⁾	Total unlisted Chapter 2M entities at 30 June 2007
Unlisted public companies and non-grandfathered large proprietary companies ⁽²⁾	12,164	10,492	22,656
Unlisted registered schemes	4,483	64	4,547
Small proprietary companies ("SPCs") controlled by foreign companies ⁽³⁾ and SPCs lodging pursuant to ASIC request ⁽⁴⁾	Not requested ⁽⁵⁾	Not requested ⁽⁵⁾	1,970
Grandfathered large proprietary companies ⁽⁶⁾	Not available ⁽⁷⁾	Not available ⁽⁷⁾	1,714
Other unlisted disclosing entities ⁽⁸⁾	18	-	18
Total			30,905

Notes:

- (1) The numbers of reporting entities and non-reporting entities are based on samples of financial reports lodged with ASIC in the 12 months to 30 June 2007.
- (2) Excludes companies that wouldn't be required to prepare financial statements under revised size tests introduced by the Corporations Amendment (Simpler Regulatory System) Act 2007 ("SRS Act").

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- (3) Determined by reference to financial reports lodged with ASIC in the 12 months to 30 June 2007. The number of additional small proprietary companies controlled by foreign companies required to report under size tests introduced by the SRS Act isn't known because some companies will be able to take advantage of ASIC financial reporting relief.
- (4) No information is publicly available for small proprietary companies preparing financial reports pursuant to a shareholder request. These companies aren't required to lodge financial reports with ASIC.
- (5) This information wasn't requested.
- (6) Total number estimated by reference to proprietary companies still registered at 30 June 2007 that previously lodged a "grandfathering" notice and didn't lodge a financial report between 1 July 2006 and 30 June 2007.
- (7) Because these companies aren't required to lodge financial reports, there is no publicly available information as to which of these companies are treated as reporting entities. Nor is it possible to determine how many of these companies will no longer be required to report under revised size tests introduced for financial years ending on or after 28 June 2007 by the SRS Act.
- (8) Based on half-year financial reports lodged with ASIC in the 12 months to 30 June 2007.

The table below shows the accounting standards requirements that would apply to Chapter 2M entities under the AASB's proposals.

We have not been asked to obtain separate statistical information concerning:

- (i) Entities that hold assets in a fiduciary capacity for a broad group of outsiders, including mutual funds; and
- (ii) Public sector entities that operate through company structures.

For the purposes of this table we have been asked to categorise all unlisted registered schemes based on size. However, it would appear that most of these schemes would be required to comply with the existing accounting standards in full.

Type of unlisted entity	Required to comply with all existing accounting standards in full⁽¹⁾	Able to use proposed SME standard – For profit entities that don't have more than \$500m consolidated revenue and/or more than \$250m consolidated assets⁽¹⁾	Able to use proposed SME standard – Not for profit entities that don't have more than \$25m consolidated revenue and/or more than \$12.5m consolidated assets⁽¹⁾	Total unlisted Chapter 2M entities at 30 June 2007
Unlisted public companies and non-grandfathered large proprietary companies	3,204	10,522	8,930	22,656
Unlisted registered schemes ⁽²⁾	1,473	3,074	-	4,547
Small proprietary companies ("SPCs") controlled by foreign companies ⁽³⁾ and SPCs lodging	Not requested ⁽⁵⁾	Not requested ⁽⁵⁾	Not requested ⁽⁵⁾	1,970

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pursuant to ASIC request ⁽⁴⁾				
Grandfathered large proprietary companies ⁽⁶⁾	Not available ⁽⁷⁾	Not available ⁽⁷⁾	Not available ⁽⁷⁾	1,714
Other unlisted disclosing entities ⁽⁸⁾	Not requested ⁽⁵⁾	Not requested ⁽⁵⁾	Not requested ⁽⁵⁾	18
Total				30,905

Notes:

- (1) The numbers of profit and not-for-profit entities, and the public company consolidated revenue and consolidated assets, are based on samples of financial reports lodged in the 12 months to 30 June 2007. For the non-grandfathered large proprietary companies, consolidated revenue and assets is based on information provided by companies on the form that accompanies lodged financial reports.
- (2) As requested by the AASB, these entities have been classified based on size information. However, it would appear that most of these schemes would be required to comply with the existing accounting standards in full.
- (3) to (5) As for previous table.
- (6) Because these companies aren't required to lodge financial reports, no information is publicly available as to whether they are for profit entities or the amount of their consolidated revenue and consolidated assets.
- (7) & (8) As for previous table.

Some entities that would be permitted to apply the proposed SME standard could choose to comply with the existing standards in full. These entities may include companies controlled by another Chapter 2M entity that must apply the existing standards in full and which requires information on a consistent basis for preparing its consolidated financial statements.

As at 30 June 2007, the numbers of unlisted Chapter 2M companies that have provided details of ultimate Australian listed parent entities were:

Type of entity	Number with ultimate Australian listed parent
Unlisted public companies	1,356
Non-grandfathered large proprietary companies (based on post-SRS Act size test)	467