

Mr David Sullivan
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia
By Email: corporations.joint@aph.gov.au

6 June 2007

Dear David,

Grant Thornton Association Inc (Grant Thornton Australia) appreciates the opportunity to provide comments to the Parliamentary Joint Committee on the Corporations and Financial Services' Inquiry on the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007.

Grant Thornton Australia's response reflects our position as auditors and business advisers both to listed companies and privately held businesses. Comments on Sections 2 (Company Reporting Obligations) and Section 3 (Auditors Independence) follow.

Grant Thornton Australia would also appreciate the opportunity of meeting with the Parliamentary Joint Committee on Corporations and Financial Services if convenient to discuss our specific comments, as we believe that the Bill should be supported as it will simplify and streamline corporate reporting obligations.

If you require any further information or comment, please contact Keith Reilly.

Yours sincerely
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Section 2: Company Reporting Obligations

(a) Accounting Standards requirements for executive and director remuneration.

Grant Thornton Australia supports one set of disclosures for executive and director remuneration, and the proposal in the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 (Bill) to put all of these provisions in the Corporations Act does achieve this objective of removing duplication. However our concern is that there needs to be an acceptance that changes to these provisions which will occur over time, need to be able to be quickly incorporated into Australian requirements, and the Australian Accounting Standards Board (AASB) is in Grant Thornton Australia's view, the better place to have such disclosure requirements.

(b) Increase in the thresholds for Large Proprietary Companies

Grant Thornton Australia is strongly supportive of the need to increase the thresholds for Corporations Act reporting. The particular increase in the thresholds for large proprietary companies is particularly welcomed. However our concern is that the AASB may inhibit the thrust behind these amendments by requiring Companies that are in excess of the proposed thresholds to adopt more complicated reporting due to the proposed change in the Accounting Standards Framework resulting from the AASB's consideration of the International Accounting Standards Board's (IASB) proposed Accounting Standard 'IFRS for SMEs'. Whilst this is not specifically related to consideration of this Bill, Grant Thornton Australia would appreciate the Committee monitoring the debate on the AASB's proposals. A copy of a recent Grant Thornton Australia Client NewsLetter (FastTrack May 2007) is attached as Appendix A for the Committee's reference.

It should be noted that this increase in the thresholds only impacts large proprietary companies. Grant Thornton Australia believes that foreign companies should also be able to apply the thresholds, as indeed should non-listed public companies. Anecdotal evidence indicates that a significant number of non-listed public companies, and in particular sporting and social clubs have revenues and assets that sit well below the existing thresholds, and the production of annual audited financial reports that are required to comply with International Accounting Standards and the Corporations Act makes little sense as that is not the information that users need. Grant Thornton understands that the Government is considering a Proposal to apply thresholds to the non-listed public companies, and similar thresholds that would also apply to foreign companies would be welcomed by Grant Thornton Australia.

(c) Other proposed amendments

Grant Thornton Australia supports the other amendments contained Section 2 of the Bill.

Section 3: Auditor Independence

Grant Thornton Australia supports the proposals in the Bill and we particularly appreciate Treasury's public consultations with stakeholders that have resulted in the various amendments proposed.

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Financial Accounting-Standards & Technical

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Significant changes ahead for SME financial reporting

The 'good news' is the Government's simpler regulatory bill that was introduced into Parliament on 24 May 2007. The key provision for SMEs in this Bill is the increase in the size tests for large proprietary companies by a 2.5 times factor. It is expected that this Bill will become an Act in late June and will therefore eliminate the need for around 30% of current large proprietary companies to prepare audited financial reports for 30 June 2007.

However if any such companies are grandfathered (not required to lodge financial details with ASIC), consideration needs to be given as to whether the companies might later exceed the size tests and hence need an audit to continue to satisfy future grandfathering. The new size tests for large proprietary companies (2 out of 3) are: Consolidated Gross Revenue \$25 Million or more, Consolidated Gross Assets \$12.5 Million or more, and 50 or more employees.

The 'not so good news' for many SMEs is the Australian Accounting Standards Board's (AASB) Invitation to Comment on the IFRS for SMEs Exposure Draft that has the potential if not significantly changed, to add increased complexity and costs to the larger SMEs and non-listed public companies who are required to produce audited financial reports.

Simpler regulatory bill

Apart from the increase in the threshold tests for large proprietary companies, the other significant reform that is expected to apply by 30 June 2007 is a default option for companies to make their annual reports available on the internet unless a shareholder requests a mailed printed copy.

Other reforms contained in the bill include:

- reducing the costs involved in providing financial advice for small-scale investments
- various compliance reductions in the areas of shareholder approvals and fundraisings
- refining auditor independence requirements
- the ability to pay the annual return fee for up to 10 years and
- streamlining requirements for disclosure of executive and director remuneration.

The Government is also expected to release a discussion paper proposing a similar concept of size tests for smaller non-listed public companies that will be particularly welcomed by the smaller sporting clubs and associations. However, such reforms will not apply until at least 2008.

IFRS for SMEs

The Australian Accounting Standards Board (AASB) at its 23-25 May 2007 meeting approved the International Accounting Standards Board's (IASB) February 2007 IFRS for SMEs Exposure Draft (ED) as an Invitation to Comment for Australian comment (due 1 September 2007).

Whilst there is no great surprise in the actual content of the ED given its global February 2007 release, what is challenging is the AASB's Invitation to Comment on the application of the ED with proposed amendments to the current differential reporting system which will significantly increase costs for many small to medium businesses, without in many cases for the smaller entities, providing any clear benefits!

ASX listed companies whom the IASB define as publicly accountable, will still be required to comply with the current International Financial Reporting Standards (IFRS) structure. However non-publicly accountable companies, such as not-for-profit companies and public sector entities have proposed size tests to determine whether it is IFRS or the proposed IFRS for SMEs standard that will be applicable. Non-reporting companies that file with ASIC will no longer have the benefit of a simplified reporting regime, including those wholly owned subsidiaries that are not ASIC class ordered.

It is not clear from the AASB's ED as to exactly what will happen to non-corporate non-reporting entities that do not prepare general purpose financial reports (i.e. financial reports are not on a public register or are not otherwise publicly available). Their fate presumably will be in the hands of the accounting bodies or more probably the 'independent' Accounting Professional Ethical Standards Board (APESB).

Timing of when these changes will occur is not clear, but given the controversy that the IASB's IFRS for SMEs ED has received overseas, one could expect that any standard would not be applicable before June 2009 balance dates at the earliest.

Initial thoughts

Global reaction to the ED has generally been supportive in principle for reporting entities that are currently required to comply with IFRS, but with the general view that the ED is pitched at too close a level to the existing IFRS system which is now acknowledged by the IASB as essentially a listed (capital markets) companies reporting regime.

Locally The Institute of Chartered Accountants in Australia (ICAA) has supported the IASB's ED for non-listed reporting entities, but questions the AASB's determination to eliminate the more simplified non-reporting entity reporting which has operated successfully for some 15 years. The ICAA has a draft submission on its website - [click here to view](#) - which argues that the ED will bring benefits to non-listed reporting entities, but the downside being that non-reporting entities will have a significant step up in reporting requirements if the current ED remains unchanged. Decreasing the disclosure requirements from some 3000 to 400 items will be welcomed, but there is minimal relief from the complex fair market value calculations that appear to have little relevance outside the capital markets.

Grant Thornton's initial analysis supports the ICAA's earlier (February 2007) thinking on the IASB's ED. Our view on the AASB's proposed application is generally not supportive. Grant Thornton continues to believe that applying even more simplified but still complex IFRS for SMEs rules such as fair (market) value measurements and even 400 disclosures for non-reporting entities is not able to be justified as it will significantly increase the costs of the preparation and where required, the audit of financial reports with no clear benefit to the users of those financial reports.

The AASB's proposals would also appear to be contrary to its own due process given the record 180 submissions that were made on an earlier 2006 ED 148 that raised the issue of the applicability of the reporting entity concept (96% of the submissions opposed any such extension).

What will be debatable is the thinking behind the AASB's decision that there is now a 'perceived' commonly held view that lodgment of a financial report on a public register or tabling of such a report in Parliament makes that financial report a general purpose financial report which would therefore fall within the scope of AASB standards.

The AASB's thinking can also be challenged on the arguments that the reporting entity concept has not been consistently applied in practice (it generally has in Grant Thornton's opinion), and is not internationally used (the IASB uses the reporting entity concept as its applicability of its accounting standards - IFRS for SMEs only applies to entities that are preparing general purpose financial reports - i.e. reporting entities).

The proposals also appear at odds with the Commonwealth Government's red tape reduction program which is designed to simplify financial reporting requirements for the SME market, and generally relieve most Australian businesses from unnecessary regulatory burden.

Non Corporations Act entities that are non-reporting entities are left in the uncertain position of just what future financial reporting requirements will apply to them. Whilst the AASB's proposals do not in theory apply to non Corporations Act entities (apart from the public and the not-for-profit sectors that prepare general purpose financial reports), the accounting bodies and their 'independent' APES board will need to re-consider their current approach if the AASB ditches the non-reporting entity concept, particularly given the over whelming opposition to the AASB's 2006 ED which argued questioned the abolition of the reporting entity concept.

We are encouraging clients to consider the Invitation to Comment and the ED and provide direct comment back to the AASB by the closing date of 1 September 2007 or provide feedback to Grant Thornton.

Further information

A copy of the IFRS for SMEs ED can be obtained from the AASB's website - www.aasb.com.au and more details on the simpler regulatory bill can be obtained from the Treasury website www.treasury.gov.au

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