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Financial Reporting Requirements Applicable to For-Profit Private Sector Companies

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AASB Research Report Series

The AASB Research Centre promotes thought leadership in external reporting standard-setting and policy making through in-depth analysis of financial reporting issues and related empirical work.

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Contents

Contents	iii
Executive summary	v
Introduction to the for-profit sector in Australia	v
For-profit private sector companies – the reporting challenges.....	v
Where to from here?.....	viii
Australian Financial Reporting Framework for For-Profit Private Sector Companies.....	1
Introduction	1
Background to the financial reporting requirements for for-profit entities	2
Financial reporting requirements for for-profit companies that publicly lodge financial statements.....	3
Who must lodge financial statements in Australia?	7
Lodgement requirements in other jurisdictions	7
When is a company ‘publicly held’?	8
Which non-public companies lodge?	9
Consolidated wholly owned subsidiaries	11
What financial statements do companies lodge?.....	12
Special purpose financial reporting.....	15
Concluding comments	17
Appendix A: Australian financial reporting requirements	18
Overview.....	18
Who must lodge financial statements?	18
What financial statements do companies lodge?.....	21
General purpose financial statements	21
Special purpose financial statements	23
Rationale given for the requirements.....	23
Exemptions from having to lodge financial reports in Australia.....	25
Assurance requirements.....	26
Public companies	26
Proprietary companies.....	27
Companies limited by guarantee	27
The assurance practitioner	27
AUASB standards	28
Appendix B: Selected international financial reporting requirements	29
Canada	29
Overview	29
Who must lodge financial statements?	29



What financial statements do companies lodge?.....	30
Hong Kong	31
Overview	31
Who must lodge financial statements?	31
What financial statements do companies lodge?.....	31
New Zealand	32
Overview	32
Who must lodge financial statements?	32
What financial statements do companies lodge?.....	33
Singapore	35
Overview	35
Who must lodge financial statements?	35
What financial statements do companies lodge?.....	35
South Africa	37
Overview	37
Who must lodge financial statements?	37
What financial statements do companies lodge?.....	38
United Kingdom	39
Overview	39
Who must lodge financial statements?	40
What financial statements do companies lodge?.....	40
United States of America.....	42
Overview	42
Who must lodge financial statements?	42
What financial statements do companies lodge?.....	42



Executive summary

Introduction to the for-profit sector in Australia

- 1 Financial statements, especially those that are publicly lodged, form the cornerstone of a transparent and accountable financial system. However, significant concerns have been raised about the complex and confusing financial reporting requirements for companies in Australia, which support a major part of the Australian economy and related activities. In particular, prior research¹ highlighted that there is ‘no level playing field’ when it comes to financial reporting and that significant judgement is involved when entities self-assess whether they are required to prepare general purpose financial statements (GPFS) or may instead prepare special purpose financial statements (SPFS).
- 2 In Australia, and internationally, determining which for-profit entities must publicly lodge financial statements and what they are required to lodge is an important regulatory issue. This is especially true in Australia given the government’s focus on reducing regulatory burden. Requiring public lodgement and compliance with financial reporting standards does impose significant costs on entities. However, these costs should be outweighed by the benefits of increased access to, and comparability of, financial information for investors, creditors and other users.
- 3 The objective of this Research Report is to provide a better understanding of the current Australian requirements, the basis on which the requirements were developed and how these compare internationally. The report documents the requirements in some international jurisdictions. That information can be used as a benchmark and as input for future discussions about options for overcoming criticisms of the current financial reporting framework.
- 4 Subject to certain thresholds and provisions, for-profit companies that operate in Australia are generally required by the *Corporations Act 2001* to lodge financial statements with the Australian Securities and Investments Commission (ASIC).

For-profit private sector companies – the reporting challenges

- 5 The research shows that there are a number of issues with the current financial reporting regime for for-profit private sector companies in Australia:
 - (1) The reporting entity concept – unique to Australia
A company self-assesses whether it is a reporting entity, as defined in Australian Accounting Standards. If it concludes that it is not a reporting entity, the company effectively can determine its own financial reporting framework for its publicly lodged financial statements, resulting in a lack of comparability between companies. This reporting entity concept is unique to Australia.
 - (2) Private companies publicly lodging financial statements
The Corporations Act thresholds for identifying large proprietary companies, which are required to their financial statements on the public record, are arbitrary and may be considered onerous in comparison with other jurisdictions that do not require private companies to publicly lodge financial statements. For example, similar thresholds for medium-size UK companies, which have reduced reporting requirements, are significantly higher than the Australian thresholds. However, the

1 [AASB Research Report No. 1](#) *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements*.



28,000 companies required to publicly lodge financial statements with ASIC² amount to a little more than 1% of the 2,238,299 active Australian businesses as at 30 June 2017³ and of the 2.5 million registered companies in Australia². Furthermore, only about 2,000 of the 28,000 companies that lodged financial statements with ASIC were listed companies⁴ and therefore required to prepare Tier 1 general purpose financial statements.

(3) Limited reporting tiers available

Simplified reporting requirements in Australia (Tier 2) for companies without public accountability (as defined in Australian Accounting Standards) provide reduced disclosures, but retain the underlying accounting recognition and measurement requirements. In some other jurisdictions, simplified reporting tiers incorporate simplified recognition and measurement requirements in addition to disclosure reductions. Those simplified requirements could reflect that all companies are required to report publicly, even very small ones (the UK case), or that new reporting requirements were established for companies not previously required to report publicly.

6 The following table addresses these issues, giving some additional details that evidence and explain the issue.

	Issues in Australia	Evidence
1	The reporting entity concept	
1(a)	Unique to Australia	Australian Accounting Standards define the term 'reporting entity' differently to international standards. The reporting entity concept in Statement of Accounting Concepts SAC 1 <i>Definition of the Reporting Entity</i> is used as a basis for differential reporting in Australia by distinguishing reporting entities from non-reporting entities. Reporting entities must lodge GPFS and are required to apply Australian Accounting Standards. Non-reporting entities may lodge SPFS instead of GPFS. Internationally the notion of 'reporting entity' defines the boundary of what an entity should report, once it is required to prepare and publicly lodge financial statements.
1(b)	Inconsistent application and enforcement	Research ⁵ noted that the reporting entity concept in SAC 1: (a) is not well understood and is accordingly not applied consistently in practice; and (b) is too subjective for regulators to enforce effectively.
1(c)	No level playing field	For-profit entities that self-assess themselves as non-reporting entities can prepare SPFS instead of GPFS. ASIC RG 85 ⁶ notes that SPFS should apply all applicable recognition and measurement requirements specified in Australian Accounting Standards as well as the disclosure requirements in a small number of specified Standards. Australia is the only country to permit entities to self-assess what financial reporting is required when a regulator requires the public lodgement of financial statements. This can result in similar entities reporting quite differently, some preparing GPFS and others preparing SPFS.

2 Australian Securities and Investments Commission, 2017, [Annual Report 2016-2017](#).
3 Australian Bureau of Statistics, 2017, [Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017](#), cat. no. 8165.0.
4 Australian Securities and Investments Commission, 2014, [Annual Report 2013-2014](#).
5 [AASB Research Report No. 1 Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements](#).
6 [ASIC Regulatory Guide 85 Reporting requirements for non-reporting entities](#).



	Issues in Australia	Evidence
		Other jurisdictions have clear financial reporting requirements for all companies that must publicly lodge financial statements. Some jurisdictions permit only the application of their most rigorous financial reporting requirements while others offer a tiered structure that depends on a number of thresholds. Australia also uses a tiered structure.
1(d)	Significant judgement and risk	Applying SAC 1 to determine whether an entity is a reporting entity involves significant judgement since there are no objective, quantitative measures set out in Australian accounting pronouncements that can be used to identify readily the existence of a reporting entity. Accordingly, these reporting judgements are not straightforward and may be open to challenge, leaving directors and management (and accountants/auditors) open to potential disputes or even legal liability.
2	Private companies lodging publicly	
2(a)	Private companies are required to publicly lodge financial statements	All jurisdictions require listed and publicly held companies to publicly lodge financial statements. However, public lodgement requirements vary significantly across the jurisdictions for companies that are neither listed nor publicly held. Australian private companies, referred to locally as proprietary companies, are required to publicly lodge financial statements if they meet certain economic thresholds. It has been previously acknowledged in AASB Research Report No. 1 that the test to determine whether a proprietary company should lodge financial statements is arbitrary. However, the rationale as to why proprietary companies should be required to make financial information publicly available depends on the existence of users other than investors – such as credit analysts, creditors, employees and the general public – being interested in economically significant entities that have been granted the privilege of limited liability. Of the other jurisdictions considered, approximately half require private companies to some extent to publicly lodge financial statements. For example, the United Kingdom requires all companies to publicly lodge financial statements, whereas Canada, Hong Kong and the United States of America require only ‘publicly held’ companies to publicly lodge financial statements. Australian requirements sit between these two extremes. The intention, apart from the UK case, appears to be to require economically significant companies to report publicly.
2(b)	Test of economic significance in determining which companies publicly lodge financial statements is arbitrary	In Australia, a proprietary company is required to lodge if it meets any two of the following thresholds: <ul style="list-style-type: none"> • consolidated gross revenue of A\$25 million or more; • consolidated gross assets of A\$12.5 million or more; and • 50 or more employees. As noted above, this test was put in place without a particularly robust rationale. Internationally, of the three other countries investigated that require private companies to publicly lodge, only two apply an economic significance test to determine who must publicly lodge: <ul style="list-style-type: none"> • Singapore, which bases its test solely on the number of shareholders; and • South Africa, which takes into account a combination of the number of employees, third party liabilities, turnover and “members” of the company. The United Kingdom is unique in regard to private companies publicly lodging financial statements, in that it requires all private entities to do so.



	Issues in Australia	Evidence
		<p>It appears that Australia has a low, or more onerous, threshold for public lodgement, second to the UK, for private companies publicly lodging financial statements. It may also be more onerous than South Africa. For example, a company with A\$30m in consolidated gross revenue and 50 employees need not publicly lodge financial statements in South Africa if it has only a limited number of shareholders and minimal liabilities to third parties. On the other hand, a company in South Africa may be publicly lodging at a smaller size than an Australian proprietary company if these other economic significance factors are present.</p>
3	Limited reporting tiers available	
3(a)	<p>Determination of tiers – is public accountability the best option?</p>	<p>Once required to publicly lodge, Australian companies must determine what tier of financial reporting they may apply. In Australia, ‘public accountability’, as defined by the IASB, is used to determine whether an entity may use a less onerous tier of financial reporting.</p> <p>Public accountability was chosen as a determinant in Australia to align with the IASB’s basis for determining whether an entity can apply the <i>IFRS for SMEs</i> Standard.</p> <p>Whilst using public accountability is consistent with half of the jurisdictions investigated, some use a quantitative test of economic significance to determine the availability of reporting tiers.</p>
3(b)	<p>Limited number of tiers of GPFS are available for for-profit companies</p>	<p>AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> establishes only two tiers of GPFS (full GPFS – Tier 1 – and reduced disclosure requirements [RDR] GPFS – Tier 2), both of which might be considered too onerous for some entities even if they are above the current minimum reporting threshold.</p> <p>Internationally, the majority of jurisdictions investigated provide a tier which reduces recognition, measurement and disclosure requirements, whilst the Australian Tier 2 reduces only disclosure requirements. This suggests that it might be appropriate to develop a simpler tier of reporting, either in addition to Tier 2 as Tier 3, or to replace the existing Tier 2. However, the simplified tiers might reflect new requirements in jurisdictions for companies not previously reporting, and in the UK the tiers are required to cover financial reporting for all entities – large, small and micro.</p> <p>In Australia, only a very small percentage of companies are required to publicly lodge financial statements, including large proprietary companies based on tests of economic significance. Therefore, the Australian financial reporting framework incorporates reducing reporting requirements from the highest level (Tier 1) to a reduced-disclosure set (Tier 2) as the means of providing some relief to significant companies in some circumstances.</p>

Where to from here?

- 7 This report is part of a larger project by the AASB and the Auditing and Assurance Standards Board (AUASB) to assist in reforming the financial reporting framework in Australia for all sectors. The goal of the project is to achieve financial reporting that is clear, objective and comparable, balancing user needs and preparer costs. It also aims to reduce the burden on preparers by simplifying the requirements where appropriate and ensure the information they are required to provide is useful to them and their stakeholders.
- 8 Given the issues regarding reporting requirements noted above, a number of questions need to be addressed:



- Who are the users of publicly lodged financial statements?
 - What is the appropriate level of information that would meet users' needs?
 - Are the right entities preparing GPFS?
 - Is the unique concept of SPFS an appropriate way of reporting publicly?
- 9 Objective criteria should be determined to identify which entities must report publicly and what financial information must be reported publicly. This research is part of a process through which the AASB will work with regulators, users, preparers and other stakeholders to reach a clear, effective, broadly accepted framework for financial reporting in Australia.
- 10 Further, this Research Report presents these findings at a time when special purpose financial reporting is being reconsidered due to the IASB's revised *Conceptual Framework for Financial Reporting* addressing the 'reporting entity' notion differently from that in Australia. The findings from this research should assist efforts to clarify the issues and options for improving the Australian financial reporting framework.



Australian Financial Reporting Framework for For-Profit Private Sector Companies

Introduction

- 1 This Research Report is part of the AASB's Financial Reporting Framework project. The objective of the project is to clarify and simplify the Australian financial reporting framework applicable to all sectors by developing more consistent and operational criteria/thresholds grounded in sound principles that specify:
 - (a) who needs to prepare and lodge external financial statements on the public record;
 - (b) what needs to be reported (reporting requirements); and
 - (c) what level of assurance is appropriate (assurance requirements).
- 2 To achieve this objective the AASB is working in conjunction with Australian policymakers and regulators.
- 3 This report focuses on the financial reporting framework applicable to for-profit private sector companies, which underlie a major part of the Australian economy and contribute significantly to social, cultural and other activities.
- 4 This report outlines the findings of research into the thresholds adopted in various jurisdictions that determine when an entity is required to publicly lodge financial statements, and the level of reporting requirements applicable to those financial statements. In addition to Australia, the jurisdictions investigated are:
 - (a) Canada;
 - (b) Hong Kong;
 - (c) New Zealand;
 - (d) Singapore;
 - (e) South Africa;
 - (f) the United Kingdom; and
 - (g) the United States of America.
- 5 These jurisdictions have been selected to ensure consistency with the AASB Research Reports for the charities sector⁷ and the public sector⁸. These jurisdictions are relatively comparable in terms of regulatory rigour as well as including jurisdictions that are traditionally compared with Australia in terms of financial reporting issues.
- 6 The specific jurisdictional requirements identified in this report are listed for comparative and informational purposes only. This report does not consider the efficacy of those requirements or whether they would be useful in the Australian context.

7 [AASB Research Report No. 5](#) *Financial Reporting Requirements Applicable to Charities*.

8 [AASB Research Report No. 6](#) *Financial Reporting Requirements Applicable to Public Sector Entities*.



- 7 The scope of this Research Report is limited to legislation and other regulatory requirements that require for-profit private sector companies to publicly lodge financial statements. The legislative requirements might also exempt some companies from lodgement subject to thresholds or other provisions.
- 8 This Research Report does not consider other forms of for-profit private sector entities, such as registered schemes, co-operatives and disclosing entities that are subject to legislation that could require public lodgement of their financial statements. This report also does not consider companies limited by guarantee registered with the Australian Charities and Not-for-profits Commission (ACNC) or for-profit public sector corporations, as they are addressed in the AASB Research Reports for the charities sector and the public sector.

Background to the financial reporting requirements for for-profit entities

- 9 Various types of entities in Australia are required to publicly lodge financial statements with their respective regulator. For example, subject to certain thresholds and provisions, companies that operate in Australia are generally required by the *Corporations Act 2001* to lodge financial statements with the Australian Securities and Investments Commission (ASIC).
- 10 In December 2015 the Australian Government passed the *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015*. The Act introduces the concept of significant global entities (SGE), which are entities with consolidated global income of A\$1 billion or more. Any Australian entity that is a subsidiary of an SGE is deemed to be an SGE itself, regardless of its size or other characteristics. If an SGE has not lodged GPFS with ASIC, the Act requires the entity to lodge such statements (for the entity or a group that includes the entity) with the Australian Taxation Office, which will forward those financial statements to ASIC, so that they are on the public record.
- 11 In 2015, the Financial Reporting Council (FRC) reported on its investigation of the financial reporting framework⁹. The report noted that reporting obligations across Australian jurisdictions are complex and vary significantly. The report also noted that the reporting requirements do not appear to be based on a consideration of entity risk characteristics or public interest in the financial statements of the entities.
- 12 One possible contributing factor to the varied application of financial reporting options is the reporting entity concept in Australia. This subjective concept, which is set out in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and applied in Australian Accounting Standards, attempts to assist in identifying whether potential users of an entity's financial statements exist. The concept requires such a "reporting entity" to prepare GPFS. The following primary factors indicate that it is more likely that there will exist users dependent on an entity's financial statements for making and evaluating resource allocation decisions:
 - (a) greater separation of management from economic interest;
 - (b) greater economic or political importance/influence; or
 - (c) financial characteristics, such as larger size, greater indebtedness or allocated resources.
- 13 Each entity is required to self-assess whether it is a reporting entity and therefore whether it is required to prepare GPFS that comply with Australian Accounting

9 Report by Financial Report Taskforce [Financial Reporting – Issues, Recommendations and Summary of Observations](#).



Standards. An entity that concludes that it is not a reporting entity can elect to prepare “special purpose financial statements” (SPFS) instead, which would not comply with all of the Australian Accounting Standards. These SPFS can still be lodged with ASIC in satisfaction of legislative lodgement requirements.

- 14 Companies in Australia are the primary preparers of publicly lodged financial statements. All financial statements lodged with ASIC are available for the public to access, subject to a fee, and therefore it could be argued that all such financial statements should be general purpose in nature. These publicly lodged financial reports should satisfy the needs of a wide range of potential users, including shareholders, creditors, employees and the general public, who are unable to demand the financial information they require. Even so, of the 2,238,299 active businesses as at 30 June 2017¹⁰, only 28,000 were companies required to publicly lodge financial statements with ASIC¹¹. The lodgement requirements therefore apply only to about 1% of active businesses in Australia, and of the 2.5 million companies registered in Australia¹¹.
- 15 Of the 28,000 companies that lodged financial statements with ASIC, around 2,000 were listed¹² and therefore preparing Tier 1 general purpose financial statements. Of the remaining 26,000 unlisted companies that lodged financial statements, roughly 59% prepared special purpose financial statements (SPFS)¹³. For large proprietary companies, this percentage increased to nearly 80 per cent.

Financial reporting requirements for for-profit companies that publicly lodge financial statements

- 16 Australian financial reporting requirements are driven by the type of entity. In Australia, a company may incorporate as either a proprietary company or a public company or convert from one form to the other. This Research Report is predominantly focused on entities reporting under the *Corporations Act 2001*, which defines various categories of entities, their reporting requirements and their reporting deadlines. Figure 1 following presents the basic company types under the Corporations Act.

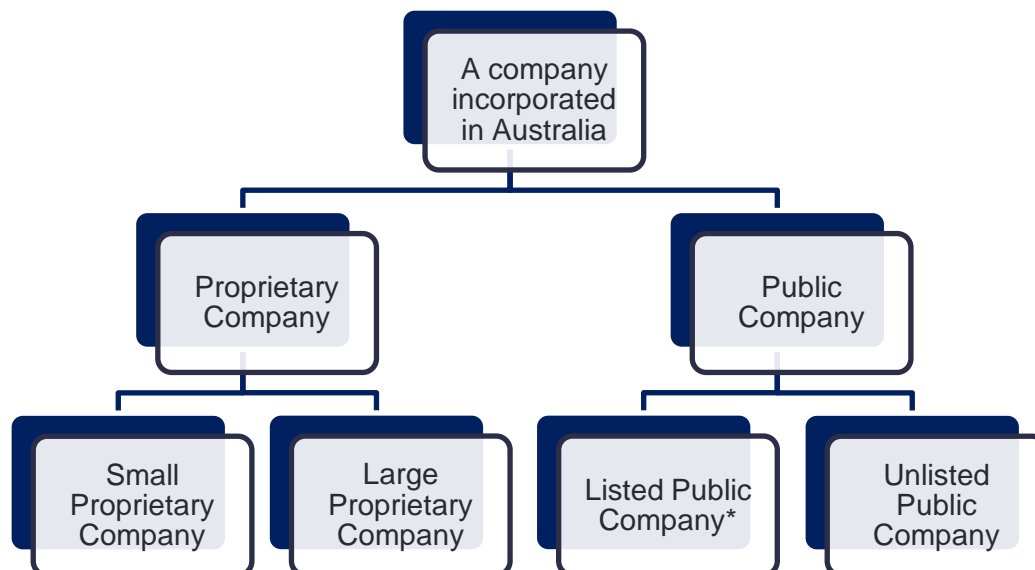
10 Australian Bureau of Statistics, 2017, [Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017](#), cat. no. 8165.0.

11 Australian Securities and Investments Commission, 2017, [Annual Report 2016-2017](#).

12 Australian Securities and Investments Commission, 2014, [Annual Report 2013-2014](#).

13 [AASB Research Report No. 1 Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements](#).

Figure 1. Types of companies in Australia

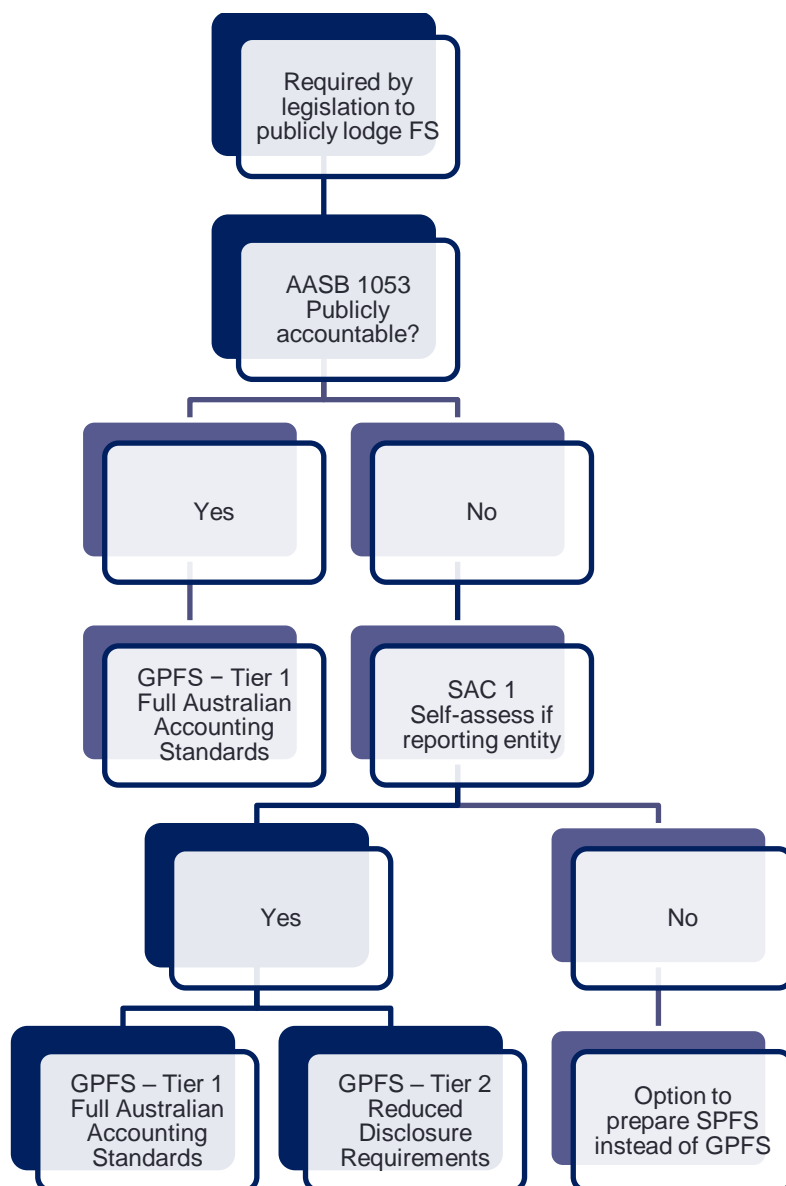


* Listed public companies are not discussed in detail in this paper as these companies are publicly accountable and required to prepare GPFS.

- 17 Sections 292 and 319 of the Corporations Act specify that the following entities are required to prepare financial statements and lodge them with the Australian Securities and Investments Commission (ASIC):
- disclosing entities;
 - public companies – including companies limited by guarantee (except for small companies limited by guarantee);
 - large proprietary companies;
 - registered managed investment schemes; and
 - small proprietary companies that are foreign-controlled and not included in financial statements that are lodged with ASIC by another entity.
- 18 Companies required to lodge financial statements with ASIC are required to comply with Australian Accounting Standards. However, only a few Standards apply expressly to entities that conclude they are not reporting entities. The process to determine the type of financial report (ie GPFS or SPFS) and the applicable financial reporting framework is summarised in Figure 2.
- 19 Table 1 (following Figure 2) provides an overview of the financial reporting requirements for for-profit private sector companies in Australia and the seven international jurisdictions selected. The table summarises which entities are required to publicly lodge financial statements, including the criteria for determining which non-publicly held companies should lodge, the number of financial reporting tiers available and the criteria for determining what should be reported.



Figure 2. Determining the type of financial statements to be prepared and the applicable financial reporting framework



Legend

AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>
SAC 1	<i>Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity</i>
GPFS	General purpose financial statements
SPFS	Special purpose financial statements

Table 1. Overview of financial reporting requirements for for-profit private sector companies

Type of entity	Australia	New Zealand	South Africa	Singapore	Canada	United States	United Kingdom	Hong Kong
Listed/publicly held entity required to publicly lodge?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of public shareholders required to be 'publicly held'	51	50	n/a (combined criteria for private companies)	51	1 public-offer shareholder	1 public-offer shareholder or 500 private-offer shareholders	n/a (all companies must publicly lodge)	51
Other criteria for 'publicly held'	n/a	n/a	n/a	n/a	n/a	<ul style="list-style-type: none"> Assets 	n/a	n/a
Other entity types required to publicly lodge financial statements	<ul style="list-style-type: none"> Large proprietary companies Small proprietary companies that are foreign-controlled Medium/large companies limited by guarantee Significant global entities 	<ul style="list-style-type: none"> Large companies Large overseas companies Financial Market Conduct reporting entities 	<ul style="list-style-type: none"> Private companies meeting specific thresholds 	<ul style="list-style-type: none"> Private companies 	None	None	<ul style="list-style-type: none"> All companies 	None
Criteria for determining which other entities must publicly lodge	<ul style="list-style-type: none"> Assets Revenue Employees 	<ul style="list-style-type: none"> Assets Revenue Shareholders 	<ul style="list-style-type: none"> Revenue Liabilities Employees Shareholders 	<ul style="list-style-type: none"> Shareholders 	n/a	n/a	n/a	n/a
Number of financial reporting tiers available	<p>3</p> <ul style="list-style-type: none"> Tier 1 (full IFRS GPFS) Tier 2 (RDR GPFS) SPFS 	<p>2</p> <ul style="list-style-type: none"> Tier 1 (full IFRS GPFS) Tier 2 (RDR GPFS) 	<p>2</p> <ul style="list-style-type: none"> IFRS IFRS for SMEs 	<p>2</p> <ul style="list-style-type: none"> Singapore Financial Reporting Standards (modified IFRS) SFRS for Small Entities (IFRS for SMEs) 	<p>1</p> <ul style="list-style-type: none"> IFRS 	<p>1</p> <ul style="list-style-type: none"> US GAAP or IFRS 	<p>6</p> <ul style="list-style-type: none"> EU-IFRS FRS 101 FRS 102 FRS 102 RDR FRS 102 Small Entities FRS 105 	<p>1</p> <ul style="list-style-type: none"> HKFRS (equivalent to full IFRS)
Able to lodge SPFS	Yes	No	No	No	No	No	No	No
Criteria for determining what should be reported	<ul style="list-style-type: none"> Public accountability Reporting entity 	<ul style="list-style-type: none"> Public accountability 	<ul style="list-style-type: none"> Public accountability 	<ul style="list-style-type: none"> Assets Revenue Employees Public accountability 	n/a	n/a	<ul style="list-style-type: none"> Assets Revenue Employees 	n/a



- 20 The following sections of this report address the requirements summarised in the overview table, Table 1. Details of the requirements are included in Appendix A (Australia) and Appendix B (other jurisdictions).

Who must lodge financial statements in Australia?

- 21 Although all companies should keep financial records to ensure they understand how their operations are faring, some types of companies need to keep financial records for the purpose of preparing financial statements that are to be lodged with ASIC.
- 22 The different types and classifications of entities defined in and governed by the Corporations Act determines, for example, whether the entity is required to prepare a financial report under the Corporations Act and, if so, whether it has to be audited and lodged with ASIC.
- 23 As noted in paragraph 17, section 292 of the Corporations Act requires the following entities to prepare financial reports:
- (a) disclosing entities;
 - (b) public companies – including companies limited by guarantee (except for small companies limited by guarantee);
 - (c) large proprietary companies;
 - (d) registered managed investment schemes; and
 - (e) small proprietary companies that are foreign-controlled and not included in financial statements that are lodged with ASIC by another entity.
- 24 Public companies are required to prepare annual financial reports that are audited and lodged with ASIC within four months of the end of the financial year. However, if the public company is a disclosing entity, it is required to lodge the annual report within three months, and is also required to prepare and lodge a half-year financial report. Public companies that are wholly owned subsidiaries (and not a disclosing entity) do not have to prepare financial reports in some circumstances.¹⁴
- 25 Public companies that are companies limited by guarantee (but not small companies limited by guarantee) are required to prepare annual financial reports that are either audited or reviewed (depending on various criteria) and lodged with ASIC.
- 26 Proprietary companies are also required to publicly lodge financial statements if they meet certain size thresholds, subject to a range of exceptions. Large proprietary companies must prepare and lodge a financial report for each financial year. The financial report must be audited unless ASIC grants relief. Some small proprietary companies may have to lodge financial reports in certain circumstances. (Further discussed in paragraph 51.)

Lodgement requirements in other jurisdictions

- 27 Table 2 depicts jurisdictions in which for-profit private sector companies are generally required, unless exempted, to publicly lodge financial statements. As can be seen, listed companies are consistently required to publicly lodge financial statements. However, there is considerable variation across the jurisdictions in respect of non-listed companies, where exemptions from public lodgement are provided in most cases, based on various thresholds.

14 [ASIC Corporations \(Wholly-owned Companies\) Instrument 2016/785](#)

Table 2. General jurisdictional requirements for public lodgement of financial statements

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
<i>Listed / Publicly Held Companies – lodgement</i>							
✓	✓	✓	✓	✓	✓	✓	✓
<i>Number of public shareholders in order to be ‘publicly held’</i>							
51	50	1 “public offer”	⊘	⊘	51	51	500 “private” or 1 “public”
<i>Other conditions for ‘publicly held’</i>							
✗	✗	✗	✗	✗	✗	✗	✓
<i>Companies in general – lodgement</i>							
✓	✗	✗	✓	✓	✓	✗	✗
<i>Existence of relieving thresholds for non-public companies</i>							
✓	⊘	⊘	✗	✓	✓	⊘	⊘
Legend							
✓	Lodgement generally required / Conditions or relieving thresholds exist						
✗	Lodgement not generally required / Conditions or relieving thresholds do not exist						
⊘	Not applicable						

When is a company ‘publicly held’?

- 28 Table 2 clearly indicates that listed and publicly held companies in every jurisdiction must publicly lodge financial statements. However, publicly held companies are not necessarily listed companies. The table indicates shareholder number thresholds in the jurisdictions that explicitly classify a non-public company as publicly held. In the United States of America, there is a further condition of meeting an asset threshold in order for a company to be treated as publicly held, which is noted below.
- 29 The main restrictions on an Australian proprietary company are that it cannot have more than 50 non-employee shareholders, nor can it engage in fundraising that would ordinarily require a disclosure document, such as a prospectus. Proprietary companies that do not meet these restrictions are treated as public companies under the Corporations Act and are required to publicly lodge financial statements.



- 30 New Zealand companies that would otherwise be required to publicly lodge financial statements but have fewer than 50 shareholders, or less than 50 parcels of voting shares on issue, are exempt from the public lodgement requirement.
- 31 Canadian companies become publicly held as soon as they offer or sell securities to at least one member of the public. In this case, the company must register its offer, requiring the company to publicly lodge financial statements.
- 32 The United Kingdom requires all companies to lodge financial statements.
- 33 South Africa applies a 'public interest score' (PI score) calculation to determine which non-public companies are required to publicly lodge financial statements. These criteria include the number of shareholders, but it is not the sole determinant, which differs from most of the other jurisdictions. Therefore, South Africa is presented in Table 2 as having relieving thresholds, explained in the next section, rather than a shareholder number that determines publicly held status. Listed companies, and non-listed companies that exceed a certain PI score, are required to publicly lodge financial statements.
- 34 Some companies in Singapore may be classified as exempt private companies if they have fewer than 20 members and meet a number of other requirements. Exempt private companies are not required to publicly lodge financial statements.
- 35 Hong Kong has the same legislative provisions as Australia to distinguish public and private companies. Public companies are required to lodge financial statements but private companies are not.
- 36 In the United States, a company is required to register a public offering to one or more potential investors with the Securities and Exchange Commission (SEC), resulting in public lodgement requirements. The Securities Exchange Act of 1934 requires private placements to be registered if the company has (a) 2,000 or more 'accredited investor' shareholders or 500 or more non-accredited investor shareholders, and (b) total assets of more than US\$10 million. If a company meets both of these tests, the company is treated as 'publicly held' for legislative purposes. This requires the company to register its securities and lodge financial statements with the SEC. If a company with a registered offer, or offers, falls below these thresholds for three consecutive fiscal years, the company's lodgement obligations are suspended.
- 37 New Zealand, Singapore and Hong Kong have similar criteria to Australia for determining private companies to be treated as publicly held and required to publicly lodge. The US criterion of at least 500 private-placement shareholders represents a significantly higher threshold for treating a company as publicly held.

Which non-public companies lodge?

- 38 In Australia, proprietary companies are classified as small or large, based on a test of economic significance set out in the Corporations Act (see Appendix A for details). Large proprietary companies are required to publicly lodge financial statements with ASIC, whereas small proprietary companies generally are not required to do so.
- 39 Exemptions and thresholds play an important role in easing the regulatory burden for companies with particular characteristics or facing particular circumstances. Some jurisdictions completely exempt certain types of company from all financial reporting obligations, or otherwise do not require a company to publicly lodge financial statements. Other jurisdictions require compliance with various financial reporting options that increase or decrease in complexity depending on specific characteristics or circumstances of the company.



- 40 Where a jurisdiction generally requires all companies to publicly lodge financial statements, that jurisdiction might provide a threshold whereby any company that fails to meet the threshold is relieved from all financial reporting obligations (referred to herein as a ‘relieving threshold’). Table 2 illustrates the jurisdictions in which such a threshold is operative for non-public companies.
- 41 In New Zealand, the *Financial Markets Conduct Act 2013* (FMC Act) requires public lodgement of financial statements for companies only if they are either an FMC reporting entity, as defined in the *Financial Markets Authority Act 2011* (FMA Act), or a large subsidiary or branch of an overseas entity. These tests are considered further in Appendix B. Accordingly, relieving thresholds are not required in New Zealand.
- 42 Canada, Hong Kong and the United States do not require companies to publicly lodge financial statements unless those companies are publicly held. Therefore, relieving thresholds are not applicable in these jurisdictions.
- 43 The United Kingdom does not relieve companies from public lodgement obligations. All companies are required to publicly lodge financial statements regardless of the characteristics of the company.
- 44 Australia, South Africa and Singapore are the only investigated jurisdictions that provide a ‘relieving threshold’ for companies to exclude them from lodgement requirements. Table 3 summarises the bases used in these jurisdictions for the relieving threshold.

Table 3. Bases for relieving thresholds

Jurisdiction	Assets	Revenue	Net profit	Liabilities	Employees	Other#
Australia	✓	✓	✗	✗	✓	✗
South Africa	✗	✓	✗	✓	✓	✓
Singapore	✗	✗	✗	✗	✗	✓

‘Other’ bases are discussed further below for the respective jurisdiction

Legend

- ✓ Base **is** included in relieving threshold
- ✗ Base **is not** included in relieving threshold

- 45 The amounts or other requirements of the bases for relieving thresholds may vary depending on the circumstances of the company’s operations in the jurisdiction. For example, the thresholds applicable to a company might vary depending on whether the company is a wholly owned subsidiary and whether the parent is a domestic or foreign entity.
- 46 The quantitative thresholds for assets, revenue, liabilities and number of employees are detailed in Appendix A (Australia) and Appendix B (South Africa). The quantitative tests distinguish large and small proprietary companies in Australia, with large proprietary companies required to publicly lodge financial statements.
- 47 The quantitative tests in South Africa are combined into a public interest score that, based on several thresholds and criteria, determine whether a private company’s financial statements are required to be audited and therefore publicly lodged with the



regulator. In addition, a private company holding assets above Rand 5 million in a fiduciary capacity is also required to lodge audited financial statements.

- 48 In Singapore, the relieving threshold is whether a company is an exempt private company. Such a company must have no more than 20 members, with no corporation holding a beneficial interest in the company's shares.

Consolidated wholly owned subsidiaries

- 49 Table 4 indicates whether a consolidated wholly owned subsidiary company is required to publicly lodge financial statements.

Table 4. Consolidated wholly owned subsidiaries required to publicly lodge financial statements

	Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
<i>Domestic-owned</i>								
<i>Foreign-owned</i>								
Legend								
	A wholly owned company must publicly lodge financial statements							
	A wholly owned company is not required to publicly lodge financial statements							
	A wholly owned company may not be required to publicly lodge financial statements, subject to certain conditions / thresholds							

- 50 Australian public and proprietary companies that are wholly owned subsidiaries may obtain relief from the requirement to lodge financial statements with ASIC by utilising *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*¹⁵. This Class Order generally requires a number of legal undertakings between the parent and the subsidiary, among other conditions, in order to exempt the subsidiary from the requirement to lodge.

- 51 Small proprietary companies that are controlled by a foreign entity and not consolidated in a financial report lodged with ASIC are required to publicly lodge financial statements. However, such a small proprietary company can obtain relief from this lodgement requirement if it is not part of a 'large group', under *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*¹⁶.

15 Relieves wholly owned subsidiaries from the requirement to prepare a financial report and to have that financial report audited, provided certain conditions are satisfied.

16 Relieves foreign-controlled small proprietary companies from the requirement to prepare, audit and lodge a financial report in circumstances where a financial report is not lodged by the foreign parent entity or intermediate Australian parent entity, provided certain conditions are satisfied.



- 52 In New Zealand a domestic company is not required to publicly lodge financial statements if it is not a FMC reporting entity and its parent is also a New Zealand company. However, if the parent is a foreign company, the New Zealand subsidiary will be required to publicly lodge financial statements if it is large, which is defined as assets in excess of NZ\$20 million or revenue in excess of NZ\$10 million.
- 53 South Africa applies the same public interest score requirement to all private companies, including subsidiaries, resulting in the indication in Table 4 that lodgement depends on a threshold.
- 54 The United Kingdom requires all companies to publicly lodge their financial statements, including those of subsidiaries. Similarly, Singapore requires all companies (other than exempt private companies) to publicly lodge financial statements, which also applies to subsidiaries.
- 55 On the other hand, Canada, Hong Kong, and the United States of America only require public lodgement of financial statements for companies that are publicly held. Consequently, wholly owned subsidiaries are not required to publicly lodge financial statements.
- 56 A more detailed analysis of whether a consolidated wholly owned subsidiary company is required to publicly lodge financial statements, and the appropriateness of the current requirements, is currently being conducted by the AASB. This will be further addressed through a future publication.

What financial statements do companies lodge?

- 57 For companies that are required to publicly lodge financial statements, some jurisdictions provide a tiered financial reporting framework. This type of framework provides reporting options for qualifying companies that either increase or decrease in complexity depending on a number of criteria relating to the company.
- 58 Table 5 summarises the financial reporting options available to for-profit, private sector companies required to publicly lodge financial statements.

Table 5. Financial reporting tiers available for public lodgement

Australia	New Zealand	Canada	United Kingdom	South Africa	Singapore	Hong Kong	United States of America
<i>General purpose financial statements – number of tiers available</i>							
2	2	1	6	2	2	1	1
<i>Special purpose financial statements</i>							
✓	✗	✗	✗	✗	✗	✗	✗
Legend							
✓	Companies may lodge special purpose financial statements, subject to certain conditions						
✗	Companies cannot lodge special purpose financial statements						

59 All research jurisdictions have their highest tier set as full IFRS (or US-GAAP) general purpose financial statements. Other tiers available are designed to be simplified to reduce the reporting burden on eligible entities. The general principle or bases for the simplified tiers are set out in the following table.

Table 6. Requirements of simplified tiers by jurisdiction

Jurisdiction	Requirements of simplified tiers
Australia	Tier 2 – reduced disclosure SPFS – minimal mandatory requirements
New Zealand	Tier 2 – reduced disclosure
United Kingdom	FRS 101, FRS 102, FRS 105 – UK GAAP with simplified recognition, measurement and disclosure
South Africa	<i>IFRS for SMEs</i> – simplified recognition, measurement and disclosure
Singapore	Modified <i>IFRS for SMEs</i> – simplified recognition, measurement and disclosure

60 Notably, the majority of other jurisdictions investigated offer a tier of reporting that reduces recognition, measurement and disclosure requirements. In comparison, the simplified tier of GPFS in Australia and New Zealand – Tier 2 RDR – only reduces the disclosure requirements.

61 The current Tier 2 reduced disclosure requirements (RDR) applied in Australia are based on the approach developed by the AASB in 2010. That approach uses the *IFRS for SMEs* Standard as the starting point. The current process for identifying Tier 2 disclosures is as follows:

- (a) draw directly on the disclosure requirements in the *IFRS for SMEs* Standard when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs* Standard; and
- (b) use the “user needs” and “cost-benefit” principles applied by the IASB in developing its *IFRS for SMEs* Standard when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs* Standard.

62 Although there is a need for GPFS to cater for the information needs of a wide range of users, the objective is to find a balance between the benefits of financial information to the users and the costs to the preparers of providing that information. There is also a need to ensure that the users are not overburdened with unnecessary information that would make financial statements less understandable.

63 The AASB conducted a post-implementation review of Tier 2 RDR, and identified:

- (a) that the current process for determining Tier 2 disclosure requirements had not delivered the outcomes expected; and
- (b) a need to refine the principles used in determining the reductions in disclosure requirements to achieve an appropriate balance between the benefits of financial information to the users and the costs to the preparers of providing that information.

64 In response to these findings, the AASB issued Exposure Draft ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* in January 2017, proposing to redefine the reduced disclosure requirement framework. The project is currently in redeliberation stages.



- 65 In relation to this, a 2016 analysis of the financial reporting practices of a sample of large proprietary companies in Australia lodging annual financial statements with ASIC¹⁷ identified that:
- (a) less than 10 percent of the total sample presented Tier 2 disclosures; and
 - (b) of those large proprietary companies sampled that prepared GPFS, around 20 percent presented Tier 2 disclosures rather than Tier 1 full disclosures.
- 66 A likely reason for this lack of Tier 2 adoption is that the general level of disclosure under Tier 2 is still viewed as burdensome. This calls into question whether the thresholds for reporting need to be revisited or a 'Tier 3' may be needed as part of the Australian Financial Reporting Framework. Whilst discussing this question is not in the scope of this Research Report, AASB Staff Paper *Comparison of Standards for Smaller Entities*¹⁸ (April 2018) provides a detailed analysis of the comprehensiveness and relative difficulty of selected tiers in alternate jurisdictions, such as *IFRS for SMEs*, and UK FRS 102 and FRS 105.

Threshold for tiered financial reporting

- 67 Where a jurisdiction allows publicly lodging companies to apply different tiers of financial reporting, it is common to find eligibility criteria set in place to limit the companies that can apply the less complex accounting requirements. Table 7 lists the jurisdictions that offer a choice of tiers to public lodgers (based on Table 5) and the bases used to assess a company's eligibility to apply different tiers.

Table 7. Bases for eligibility criteria for tiered financial reporting

Jurisdiction	Public accountability	Reporting entity	Assets	Revenue	Net profit	Liabilities	Employees	Public float
Australia	✓	✓	✗	✗	✗	✗	✗	✗
New Zealand	✓	✗	✗	✗	✗	✗	✗	✗
United Kingdom	✗	✗	✓	✓	✗	✗	✓	✗
South Africa	✓	✗	✗	✗	✗	✗	✗	✗
Singapore	✓	✗	✓	✓	✗	✗	✓	✗

Legend

- ✓ Base **is** included in tiered reporting thresholds
- ✗ Base **is not** included in tiered reporting thresholds

- 68 Australia adopts the IASB's definition of 'public accountability' in *IFRS for SMEs* in determining whether an entity should be required to prepare Tier 1 financial

17 Potter, B., Tanewski, G., and Wright, S., 2016, *Financial Reporting by Private Companies in Australia: Current Practice and Opportunities for Research*, paper presented at the AASB Research Forum, November, Sydney. The sample was a random sample of 394 large proprietary companies (with a 95 per cent confidence level).

18 AASB Staff Paper [Comparison of Standards for Smaller Entities](#).



statements or else permitted to prepare either Tier 1 or Tier 2 financial statements. A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

69 As noted in AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph BC25, the Board adopted this approach on the basis of consistency with international reporting requirements in the for-profit private sector. The Board noted that, since Australia has adopted full IFRS Standards, it would be logical to use the public accountability notion used by the IASB.

70 This approach is consistent with New Zealand and South Africa.

71 On the other hand, the United Kingdom and Singapore use tests of economic significance to determine the relevant tier of financial reporting. These countries apply asset, revenue and employee thresholds to determine when simplified tiers are available. Singapore also uses the notion of public accountability in addition to tests of economic significance.

72 Table 7 also shows that tiered financial reporting requirements in Australia are affected by the reporting entity concept. A large proprietary company that concludes it is not a reporting entity can prepare and lodge SPFS instead of GPFS. This is described in the next section. This approach is unique to Australia.

Special purpose financial reporting

73 Special purpose financial statements (SPFS) are financial statements that are not general purpose financial statements (GPFS). SPFS can be prepared by large proprietary companies that conclude they are not a reporting entity and lodged with ASIC to meet their lodgement requirements under the Corporations Act. SPFS may also be prepared for non-Corporations Act purposes, such as a banking covenant compliance report, and may or may not comply with recognition, measurement, presentation and disclosure requirements of Australian Accounting Standards. This report does not address SPFS prepared for non-Corporations Act purposes.

74 Australian companies may publicly lodge SPFS (as opposed to GPFS) provided the company determines that it is not a reporting entity, as discussed earlier. The distinction between GPFS and SPFS is made in Australian Accounting Standards – the Corporations Act simply requires financial reports to comply with the accounting standards (s296). The ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities*¹⁹ (July 2005) (RG 85) lists specific Australian Accounting Standards that should be complied with:

- (a) AASB 101 *Presentation of Financial Statements*;
- (b) AASB 107 *Statement of Cash Flows*;
- (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

19 [ASIC Regulatory Guide 85](#) *Reporting requirements for non-reporting entities*.



- (d) AASB 1048 *Interpretation of Standards*; and
 - (e) AASB 1054 *Australian Additional Disclosures*.
- 75 Further to the above necessary Standards, RG 85 argues that compliance with the presentation and disclosure requirements of the above Standards, as well as qualitative requirements specified in the Corporations Act (including the requirement for financial reports to give a true and fair view), necessitates application of all applicable recognition and measurement requirements in all Australian Accounting Standards. However, as a regulatory guide, RG 85 is not a mandatory, enforceable pronouncement.
- 76 Section 1 of ASIC Regulatory Guide 85 states:
- 1.1 ASIC's reviews of financial reports have shown that some companies that claimed to be non-reporting entities should have been classified as reporting entities.
 - 1.2 Those reviews have also revealed that recognition and measurement requirements of the accounting standards have not been complied with by a number of companies. These requirements include those relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurement of inventories, and recognition and measurement of liabilities relating to employee entitlements.
 - 1.3 ASIC believes that there needs to be assurance for all companies whose financial reports are prepared in accordance with the requirements of the Act that the balance sheet reflects all, and only all, assets and liabilities, and that the profit and loss statement (income statement) reflects all, and only all, revenues and expenses.
 - 1.4 Key representatives of the accounting profession with whom ASIC has consulted in preparing this release share ASIC's concerns over the quality of financial reports.
 - 1.5 The purpose of this guide is to provide guidance on the application of accounting standards to entities which are required to prepare a financial report in accordance with the Act.
- 77 Section 2 of RG 85 goes on to say (in part):
- 2.1 The accounting standards provide a framework for determining a consistent meaning of 'financial position' and 'profit or loss' in financial reporting across entities.
 - 2.2 In the absence of any such framework, the figures disclosed in financial statements would lose their meaning and could be determined completely at the whim of the directors of individual entities. The profit or loss reported by an individual entity would vary greatly depending upon which individuals were responsible for the preparation of its financial statements.
 - 2.3 This would not be consistent with the requirements of the Act for financial reports to give a true and fair view (s297), prohibiting the giving of false and misleading information (s1308), and only permitting dividends to be paid out of profits (s254T).
- 78 AASB Research Report No. 1 found that 15% of companies (excluding companies limited by guarantee) lodging SPFS disclosed that the company had applied only the accounting standards listed in paragraph 74 and none other. Similarly, another 22% made no clear disclosure about the application of recognition and measurement requirements. Therefore, two-thirds of all companies lodging SPFS stated that they applied all applicable recognition and measurement requirements of the Standards.
- 79 Beyond the requirements outlined in paragraphs 74 and 75, company directors may tailor their financial statements as they consider appropriate, for example to suit the needs of their identified user groups. This leads to significant inconsistencies across special purpose financial statements. AASB Research Report No. 1 noted that SPFS usually contain materially less financial information than GPFS.
- 80 Further, as highlighted in AASB Research Report No. 1, unlisted public companies differ from proprietary companies in their capacity to have more than 50 non-



employee members and to offer shares to the public. Although they have similar characteristics as a listed public company, these unlisted companies are not included in the official list of a securities exchange. Given their ability to offer shares and raise capital from the general public, they are required to lodge audited financial statements to ensure that investors and shareholders can assess financial information for decision-making purposes. However, due to the reporting entity concept, these unlisted companies have the ability to self-assess their requirements in preparing financial statements because they may be able to conclude that they are not a reporting entity.

- 81 The availability of SPFS as a public lodgement option is unique to Australia – no other jurisdiction permits companies to publicly lodge financial statements on the basis of a subset of accounting standards and requirements determined by the entity itself.
- 82 However, some jurisdictions offer tiers in which companies are permitted to prepare financial statements in accordance with differing financial reporting frameworks – but frameworks established by the standard setter or other authority. Where this is permitted, smaller companies are generally permitted to prepare their financial statements in accordance with relatively less complex accounting requirements.

Concluding comments

- 83 The findings of this Research Report clearly indicate that the ability of companies in Australia to lodge special purpose financial statements on the public record in satisfaction of legislative requirements is unique among the investigated jurisdictions.
- 84 The ability of directors to select the accounting bases and the disclosures in their publicly available financial statements is not replicated in any other investigated jurisdiction. However, this does not imply that the financial statements resulting from that discretion would necessarily fail to meet a particular tier of financial reporting in another jurisdiction, such as the Small Entity tier in the UK or the Smaller Reporting Company tier in the United States.
- 85 The issue, however, is that of consistency and clarity of financial reports. There is no accepted minimum level of disclosure for SPFS, other than the Standards listed in RG 85, which might or might not be complied with. Ultimately, this detracts from comparability and adds to user confusion. Other jurisdictions have adopted clear requirements for all sizes of companies. Some jurisdictions require compliance with the highest standard of financial reporting for all companies that publicly lodge financial statements whereas other jurisdictions offer alternatives depending on company characteristics.
- 86 This Research Report considered two main financial reporting issues relating to for-profit private sector companies in each investigated jurisdiction: (1) which companies publicly lodge financial statements, and (2) what financial statements they lodge.
- 87 The findings of this Research Report should inform current discussions on which companies should publicly lodge and what they should lodge, in the context of the Australian Financial Reporting Framework.



Appendix A: Australian financial reporting requirements

Overview

Table A1. Overview of financial reporting requirements in Australia

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Public companies other than companies limited by guarantee	Greater than 50 non-employee shareholders	<ul style="list-style-type: none"> ▪ GPFS – Tier 1 (full IFRS) ▪ GPFS – Tier 2 (Reduced disclosure requirements) ▪ SPFS 	<p>To determine whether to prepare GPFS or SPFS:</p> <ul style="list-style-type: none"> ▪ reporting entity concept (SAC 1) <p>If GPFS, to determine whether Tier 1 or Tier 2:</p> <ul style="list-style-type: none"> ▪ public accountability (eg listed companies)
Large proprietary companies	<p>Meet at least two of the following criteria:</p> <ul style="list-style-type: none"> ▪ consolidated revenue ≥ \$25 million ▪ consolidated gross assets ≥ \$12.5million ▪ 50 or more employees 	<ul style="list-style-type: none"> ▪ GPFS – Tier 1 (full IFRS) ▪ GPFS – Tier 2 (Reduced disclosure requirements) ▪ SPFS 	<p>To determine whether to prepare GPFS or SPFS:</p> <ul style="list-style-type: none"> ▪ reporting entity concept (SAC 1) <p>If GPFS, to determine whether Tier 1 or Tier 2:</p> <ul style="list-style-type: none"> ▪ public accountability
Companies limited by guarantee	<p>Medium company</p> <ul style="list-style-type: none"> ▪ consolidated revenue \$250,000 to \$1 million ▪ consolidated revenue < \$250,000 but deductible gift recipient <p>Large company</p> <ul style="list-style-type: none"> ▪ consolidated revenue ≥ \$1 million 	<ul style="list-style-type: none"> ▪ GPFS – Tier 1 (full IFRS) ▪ GPFS – Tier 2 (Reduced disclosure requirements) ▪ SPFS 	<p>To determine whether to prepare GPFS or SPFS:</p> <ul style="list-style-type: none"> ▪ reporting entity concept (SAC 1) <p>If GPFS, to determine whether Tier 1 or Tier 2:</p> <ul style="list-style-type: none"> ▪ public accountability
Significant global entities	<ul style="list-style-type: none"> ▪ A 'global parent entity' whose consolidated 'annual global income' is \$1 billion or more ▪ A member of a group of entities consolidated (for accounting purposes) by a global parent entity 	<ul style="list-style-type: none"> ▪ GPFS – Tier 1 (full IFRS) ▪ GPFS – Tier 2 (Reduced disclosure requirements) 	<ul style="list-style-type: none"> ▪ Public accountability

Who must lodge financial statements?

A1 Chapter 2M of the *Corporations Act 2001* requires all companies, registered schemes and disclosing entities to keep financial records (Part 2M.2 – sections 286-291) and



some must prepare financial reports (Part 2M.3 – sections 292-323DA). Entities that have to prepare financial reports must prepare them annually. Disclosing entities (which includes listed public companies) are also required to prepare half-year financial reports.

A2 Section 292(1) of the Corporations Act specifies that a financial report²⁰ and a directors' report must be prepared for each financial year by:

- (a) all disclosing entities²¹;
- (b) all public companies;
- (c) all large proprietary companies; and
- (d) all registered schemes²².

A3 A public company is a company other than a proprietary company. A proprietary company is a company that is registered as, or converts to, a proprietary company under the Corporations Act. A proprietary company must:

- be either limited by shares or an unlimited company with share capital, which means that companies limited by guarantee and no liability companies cannot be proprietary companies;
- have no more than 50 non-employee shareholders; and
- except in limited circumstances, not do anything that would require disclosure to investors under Chapter 6D of the Corporations Act, ie the fundraising provisions of the Act.

A4 The Corporations Act classifies a proprietary company as either large or small (s45A). A proprietary company is a large proprietary company or a small proprietary company for a financial year if it satisfies at least two of the three conditions noted for that type in the following table:

Table A2. Classification of proprietary companies under the Corporations Act

Condition	Large proprietary company	Small proprietary company
Consolidated revenue for the financial year of the company and the entities it controls (if any)	Greater than or equal to \$25 million	Less than \$25 million
Value of the consolidated gross assets at the end of the financial year of the company and the entities it controls	Greater than or equal to \$12.5 million	Less than \$12.5 million
Number of employees of the company and the entities it controls at the end of the financial year	Greater than or equal to 50	Less than 50

20 Section 295 specifies that the financial report for a financial year consists of:

- (a) the financial statements for the year;
- (b) the notes to the financial statements; and
- (c) the directors' declaration about the statements and notes.

21 Per s111AC of the Corporations Act, disclosing entities are identified as follows:

- If any securities of a body (except interests in a managed investment scheme) are ED securities, the body is a *disclosing entity* for the purposes of the Act.
- If any interests in a managed investment scheme are ED securities, the undertaking to which the interests relate is a *disclosing entity* for the purposes of the Act.

ED securities are defined in s111AD as "enhanced disclosure" securities, such as securities included in a licensed market's official list. Disclosing entities (other than listed public companies) are not addressed in this report.

22 Registered schemes are managed investment schemes that are registered under s601EB. They are not addressed in this report.



- A5 A company limited by guarantee has obligations under the Corporations Act to report to ASIC unless it is registered with the Australian Charities and Not-for-profits Commission (ACNC)²³. Reporting requirements for companies limited by guarantee that are regulated by ASIC are based on thresholds that classify the company as small, medium or large. A small company limited by guarantee has consolidated revenue of less than \$250,000 (and is not a deductible gift recipient for tax purposes). The thresholds for medium and large companies limited by guarantee are shown in Table A1.
- A6 The size thresholds for determining the classification of a company limited by guarantee are based on the revenue of the company or the consolidated revenue of the group for the financial year. Under section 45B of the Corporations Act, revenue and consolidated revenue are to be calculated in accordance with accounting standards in force at the relevant time, even if the standard does not otherwise apply to the financial year of some or all of the companies concerned.
- A7 Small companies limited by guarantee are not required to publicly lodge financial reports with ASIC. Medium and large companies limited by guarantee are required to publicly lodge financial reports with ASIC.
- A8 The reporting requirements for companies limited by guarantee went through a red-tape and regulatory burden reduction process that commenced in June 2007 when Treasury released a discussion paper on financial reporting by unlisted public companies. Before this process, all companies limited by guarantee were required to prepare an audited financial report (in accordance with Australian Accounting Standards) and a directors' report, regardless of their size. The *Corporations Amendment (Corporate Reporting Reform) Act 2010* removed these requirements for companies limited by guarantee under a certain size threshold, resulting in the current requirements.
- A9 The current, less onerous, reporting requirements were introduced because “the company limited by guarantee structure is used predominantly by not-for-profit entities to incorporate their operations” (paragraph 1.2 of the Explanatory Memorandum (EM) accompanying the Reform Act) and “the vast majority of them are relatively small” (paragraph 1.3 of the EM). The EM noted that the small size of companies limited by guarantee means they may not have the capacity to comply with extensive reporting requirements (paragraph 1.3).
- A10 The EM goes on to imply that the rationale for requiring companies limited by guarantee above the “small” threshold to continue reporting publicly is because reporting by such companies “is an important governance and transparency mechanism given the public nature of these companies” (paragraph 1.3). Further information provided for the rationale for the thresholds set for companies limited by guarantee is set out from paragraph A3.7 in AASB Research Report No. 5.
- A11 In general a foreign company is an entity that is incorporated outside Australia except for a sole corporation or unincorporated body formed outside Australia. A foreign company that carries on business in Australia is required to be registered under the Corporations Act.
- A12 Large proprietary companies are generally required to prepare a financial report in accordance with Part 2M.3 of the Corporations Act and to have the financial report audited.

23 Companies limited by guarantee that are registered as charities with the ACNC are addressed in [AASB Research Report No. 5](#).



- A13 However, ASIC has issued a number of instruments which amend these requirements in some cases, including:
- (a) relief for certain large proprietary companies that were not audited for a financial year ending during 1993, or in any later financial year, from the audit requirements of the Corporations Act provided certain conditions are satisfied; and
 - (b) large proprietary companies that are able to avail themselves of the 'grandfather clause' and are relieved from the requirement to lodge a financial report with ASIC – see paragraph A42 for further detail.
- A14 Some small proprietary companies may also have to prepare and lodge financial reports in certain circumstances, as shown below:
- (a) small proprietary companies may be requested by ASIC under section 294 to prepare and lodge a financial report – the financial report must be prepared in accordance with the requirements of Part 2M.3 specified in the ASIC request, including whether the financial report should be prepared in accordance with Australian Accounting Standards; and
 - (b) small proprietary companies that are controlled by a foreign company, which is not a disclosing entity, for all or part of the financial year and are not consolidated for that period in financial statements for that year lodged with ASIC by:
 - (i) a registered foreign company; or
 - (ii) a company, registered scheme or disclosing entity.
- A15 Under section 293, a small proprietary company may be required to prepare a financial report at the request of 5% or more of the shareholders, with the request specifying whether the financial report should be prepared in accordance with Australian Accounting Standards and whether it should be audited. However, such a financial report is not lodged with ASIC.
- A16 In December 2015, the Australian Government passed the *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015*. The Act introduced the concept of significant global entities (SGE), which are entities with consolidated global income of A\$1 billion or more. Any Australian entity that is a subsidiary of an SGE is deemed to be an SGE itself, regardless of its size or other characteristics. If an SGE has not lodged GPFS with ASIC, the Act requires the entity to lodge such statements for the entity (or a group that includes the entity) with the Australian Taxation Office, which is required to forward those financial statements to ASIC for the public record.

What financial statements do companies lodge?

- A17 Table A1 indicates, there are three levels of financial reporting requirements applicable to financial statements lodged publicly with ASIC. These are Tier 1 and Tier 2 general purpose financial statements (GPFS) and special purpose financial statements (SPFS).

General purpose financial statements

- A18 In relation to for-profit private sector entities, the key determinant of which reporting tier is to be applied depends on the **public accountability** concept. This is defined in Appendix A to AASB 1053 *Application of Tiers of Australian Accounting Standards*, using the definition in the IASB's *IFRS for SMEs*.



- A19 A for-profit private sector entity has public accountability if:
- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.
- A20 A for-profit private sector company that has public accountability as defined (such as a listed public company) is required by AASB 1053 to prepare GPFS that comply with Tier 1 requirements²⁴. Tier 1 requires compliance with all the requirements of Australian Accounting Standards. Australian Accounting Standards incorporate IFRS Standards issued by the IASB and include additional requirements that are specific to Australian entities. Compliance with Australian Accounting Standards by for-profit private sector entities will automatically mean compliance with IFRS Standards.
- A21 A company that does not have public accountability as defined may choose to prepare either Tier 1 or Tier 2 GPFS²⁵. However, if the company concludes that it is not a reporting entity, it can choose to prepare SPFS instead of GPFS.
- A22 Tier 2 requirements comprise the Australian Accounting Standards – Reduced Disclosure Requirements (RDR). Tier 2 comprises all the recognition and measurement requirements of Tier 1, but substantially reduced disclosure requirements. In addition, all presentation requirements are applied, with the exception of the requirement in some circumstances to present a third statement of financial position. An entity applying Tier 2 may elect to comply with additional Tier 1 requirements. Tier 2 GPFS include a statement of compliance with Australian Accounting Standards – Reduced Disclosure Requirements rather than with IFRS Standards.
- A23 The Board’s approach to determining the disclosure reductions for the purposes of the RDR has to date been guided largely by the IASB’s approach in developing the disclosure requirements for the *IFRS for SMEs*.
- A24 The Board decided in 2010 to adopt the Reduced Disclosure Requirements, rather than the *IFRS for SMEs*, as Tier 2 requirements. The Board noted that the two approaches are fundamentally different because the RDR involves applying the same recognition and measurement requirements as Tier 1, whereas the *IFRS for SMEs* modifies the recognition and measurement requirements in IFRS Standards. In deciding between the RDR and the *IFRS for SMEs*, the Board also considered whether entities subject to Tier 2 requirements should be provided with an option of adopting either the RDR or the *IFRS for SMEs* (see paragraph BC66 for AASB 1053).
- A25 Whereas the IFRS Standards and *IFRSs for SMEs* are separate documents, the one set of standards in Australia covers both Tier 1 and Tier 2 requirements. AASB 1057

24 Per AASB 1053 paragraph 11, Tier 1 reporting requirements apply to the general purpose financial statements of the following types of entities:

- (a) for-profit private sector entities that have public accountability; and
- (b) the Australian Government and State, Territory and Local Governments.

25 Per AASB 1053 paragraph 13, Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities:

- (a) for-profit private sector entities that do not have public accountability;
- (b) not-for-profit private sector entities; and
- (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.



Application of Australian Accounting Standards specifies the types of entities and financial statements to which the Accounting Standards apply.

Special purpose financial statements

- A26 SPFS can be prepared and lodged only by companies that conclude that they are not a reporting entity. Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, paragraph 40, defines reporting entities as entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.
- A27 The reporting entity concept was adopted by the Australian accounting profession in 1992 in an attempt to reduce the reporting requirements imposed on certain entities by the application of Accounting Standards. Under this concept, reporting entities are required to prepare a general purpose financial report in compliance with all Accounting Standards and Interpretations.
- A28 If it is not readily apparent whether a company is a reporting entity, SAC 1 sets out the primary factors for the company to consider in deciding whether it is or is not a reporting entity. These factors are the separation of management from ownership interests, economic or political importance/influence and financial characteristics (eg the size or indebtedness of the entity).
- A29 “Non-reporting entities” have the option to prepare SPFS in compliance with those Accounting Standards (and Interpretations) considered necessary to enable the financial reports to meet the special purpose needs of the users. ASIC Regulatory Guide RG85 (further described in paragraph 74 of this report) sets out ASIC’s views on the minimum requirements for SPFS lodged with it under the Corporations Act requirements.

Rationale given for the requirements

- A30 The current criteria for proprietary company reporting are based on the large/small test in the Corporations Act. This test was introduced in 1995 by the *First Corporate Law Simplification Act 1995*. This test replaced the previous distinction between exempt and non-exempt proprietary companies.
- A31 There is no specific rationale given in the Explanatory Memorandum associated with the First Corporate Law Simplification Act as to why there is a need for proprietary company reporting. However, when the initial large/small thresholds were later increased to the current thresholds (see paragraph A36), the rationale given for adjusting the monetary value upwards was to reduce the number of “non-economically significant entities being subject to the reporting requirements” (paragraph 2.14 of the Explanatory Memorandum for the Simpler Regulatory System Amendments Bill). This suggests that the rationale for large proprietary companies to report is their economic significance. It is clearly stated in paragraph 2.15 of the EM that the current reporting requirement is to ensure users receive financial information for economically significant proprietary companies.
- A32 When first introduced in 1995, a proprietary company was deemed to be small only if it satisfied at least two of the following three criteria:
- (a) assets less than \$5 million;
 - (b) revenue less than \$10 million; and
 - (c) fewer than 50 employees
- A33 It is not clear from the EM for the First Corporate Law Simplification Bill why those monetary values were selected. In 2000, the Parliamentary Joint Statutory Committee



on Corporations and Securities (PJSC) inquired into the new reporting system. As discussed in this inquiry, “the PJSC was unable to reach an unqualified view on the appropriateness of the large/small test and the criteria used for distinguishing between large and small proprietary companies” (EM paragraph 1.4). The PJSC also concluded that “the three-part test was to a degree arbitrary” (EM paragraph 1.5).

A34 Relevant extracts from the Inquiry Report include the following:

1.5 Although an estimated 98 per cent of proprietary companies would be classed as small and accordingly be exempt from the reporting requirements, the PJSC concluded that the three-part test was to a degree arbitrary. Concerns were raised that the two new categories of proprietary companies may result in incorrect classification and inadequate protection for creditors. In evidence to the PJSC, the accounting bodies proposed the reporting entity concept as an alternative to the large/small test. The benefits of the reporting entity concept were twofold: it was the more meaningful test for determining reporting obligations and it was already in use in other parts of the Corporations Law as well as the Accounting Standards.

1.6 However, the PJSC concluded, on balance, that it preferred the large/small test over the reporting entity concept as a basis for distinguishing between proprietary companies. It did so because, by comparison with the three-part test in the Bill, the reporting entity concept “does not provide a test of sufficient certainty to enable an objective assessment to be made of whether a company falls within the entity test.” The PJSC also took into account the support for the new reporting system by the ASIC (formerly the Australian Securities Commission) and the Law Council of Australia.

1.7 The PJSC then looked at the particular criteria in the test. It considered that of the three criteria, the threshold tests of assets and revenue were the most important and recommended that serious consideration be given to two options:

- that the employees criterion remain, or
- that the employees test be deleted from the Bill and the test for a large/small proprietary company be on the proposed assets and turnover criteria alone.

1.8 The Government did not agree to amend the Bill. It considered that the test in the Bill provided adequate flexibility. The formulation of the test was designed to achieve an approximate measure of a company’s economic significance and the proposal to reduce the criteria would result in “a less appropriate test of a company’s economic significance, and accordingly a less appropriate touchstone for the application of corporate financial reporting requirements.

A35 Although the reporting entity test was rejected as a direct criterion, it was indirectly adopted by virtue of the application paragraphs of most Australian Accounting Standards referring in part to general purpose financial statements and to reporting entities.

A36 The *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* adjusted the initial asset and revenue thresholds referred to in paragraph A32 upwards. The reason given in the EM for the Bill was that these thresholds were set in 1995 and therefore were “set at too low a level to determine economic significance” (paragraph 2.15).

A37 It is apparent from the EM (paragraphs 2.4 and 2.5) that these increased thresholds resulted from the Government weighing up:

- (a) the need for accurate, prompt and relevant information, which is fundamental to the operation of an efficient market; and
- (b) the need for requirements that do not unnecessarily, or excessively, interfere with companies devoting resources to productive outputs.



A38 The Simpler Regulatory System Act increased the monetary thresholds by 150 per cent but maintained the employee threshold at 50 employees.

Exemptions from having to lodge financial reports in Australia

A39 The financial reporting obligations may be modified in certain cases for large proprietary companies that are not disclosing entities. This applies to large proprietary companies that are:

- (a) wholly owned companies that have entered into deeds of cross guarantee – see *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*; or
- (b) ‘grandfathered’ proprietary companies, unless ASIC has requested lodgement of financial reports; or
- (c) companies that have not been audited in any financial year since 1993, which may not be required to have their financial statements audited.

A40 In order to apply for relief where wholly owned companies enter into deeds of cross guarantee, the company must not be a disclosing entity, a borrower in relation to debentures, the guarantor of such a borrower, or a financial services licensee. The ASIC Instrument sets out additional conditions for the relief. For example, the consolidated financial statements of the group must disclose:

- (a) a short statement of the nature of the deed of cross guarantee;
- (b) the parties to the deed of cross guarantee, identifying separately the members of the closed group and the other members of the extended closed group; and
- (c) details of any parties that have been added or removed, or are the subject of a notice of disposal.

The consolidated financial statements are also required to include adequate provision in relation to the liabilities of any parties to the deed of cross guarantee that are not consolidated where it is probable that those liabilities will not be fully met by those parties.

A41 The rationale behind providing relief for wholly owned subsidiaries in relation to the preparation of separate subsidiary accounts and audit requirements is to reduce reporting requirements for these entities, which have chosen to severally, unconditionally and irrevocably guarantee each other’s debts.

A42 Some large proprietary companies, termed ‘grandfathered’ companies, are exempted from publicly lodging financial statements by virtue of section 1408 of the Corporations Act and *ASIC Corporations (Exempt Proprietary Companies) Instrument 2015/840*. In practice, natural person(s) effectively must own ‘grandfathered’ companies. These companies must have met the definition of an exempt proprietary company as at 30 June 1994, and must continue to meet the definition²⁶. The Corporations Act imposes some additional ongoing requirements. If the company fails to meet these conditions, the company will lose its ‘grandfathered’

26 An exempt proprietary company was defined in the previous *Corporations Act 1989* as a proprietary company no member of which is, and no share in which is owned by, a non-exempt person. A non-exempt person essentially is:

- (a) a body corporate other than a company or an exempt foreign company (which is a foreign company declared exempt by ASIC);
- (b) a public company;
- (c) a proprietary company or an exempt foreign company, a share in which is owned by such a company, a share in which is owned by such a company, a share in which is owned by a person other than a natural person; or
- (d) a proprietary company, a share in which is owned by a body corporate that is a non-exempt person.



status and be subject to the usual public lodgement requirements for large proprietary companies.

A43 In limited circumstances, some companies are exempt from the requirement to lodge financial reports, such as:

- (a) the company has already lodged financial reports with ASX, NSX, SIM VSE or SSX and the conditions in *ASIC Corporations (Electronic Lodgement of Financial Reports) Instrument 2016/181* are met²⁷; and
- (b) a small Australian proprietary company that is foreign-controlled, where the foreign company is registered with ASIC, not part of a large group and lodges consolidated financial reports that include the activities of the small Australian proprietary company – see *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*.

A44 This exemption for small foreign-controlled proprietary companies is consistent with the more onerous requirements not applying if the company was an Australian small proprietary company, and takes into account that those small foreign-controlled companies would not be required by law to lodge financial statements in their place of origin²⁸. The ASIC Instrument aligns the requirements for small foreign-controlled companies to that of their Australian counterparts, provided that the company is not part of a large group. This proviso is designed to prevent foreign-controlled companies disaggregating their Australian activities into smaller companies to avoid financial reporting obligations.

A45 However, a small foreign-controlled proprietary company cannot rely on this relief if the Australian Taxation Office notifies the company and ASIC that the relief cannot be relied upon. This was based on a recommendation from a Senate Inquiry in relation to corporate tax avoidance and aggressive minimisation noting that some small proprietary companies may not be paying sufficient tax in Australia²⁹.

Assurance requirements

A46 This section of the report summarises the relevant assurance requirements for financial reports prepared and lodged by companies. Division 3 of Part 2M.3 of the Corporations Act sets out the assurance requirements for companies. Whilst the assurance requirements are relatively straightforward, there are a number of exemptions available for certain types of companies in specific situations. These exemptions can relieve them from preparing a financial report and/or having that report audited.

Public companies

A47 For public companies other than companies limited by guarantee, the annual financial report must be audited and an auditor's report obtained (s301).

A48 The assurance practitioner who provides the auditor's report must be a Registered Company Auditor under s324BA.

²⁷ [ASIC Regulatory Guide 28](#) *Relief from dual lodgement of financial reports*.

²⁸ Background in the Explanatory Memorandum for *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*.

²⁹ [ASIC Report 520](#) Response to submissions on CP 248 *Remaking ASIC class orders on reporting by foreign entities*.



Proprietary companies

- A49 Large proprietary companies must lodge audited annual financial statements with ASIC (s301(1)).
- A50 Small proprietary companies are generally exempt from reporting obligations under the Corporations Act. However, if a small proprietary company is required to prepare and lodge financial statements with ASIC, the financial statements must be audited. Financial statements prepared at the direction of shareholders under section 293, which do not have to be lodged with ASIC, are not required to be audited unless the direction asks for an audit.
- A51 The *ASIC Corporations (Audit Relief) Instrument 2016/784* relieves a proprietary company from audit requirements. The criteria used by ASIC to determine whether an exemption is appropriate include:
- the company has not had its financial report audited for any financial year ending during or after 1993;
 - the directors and shareholders are in agreement that an audit is not required;
 - the financial report is compiled by a prescribed accountant;
 - the company meets conditions such as solvency aimed at ensuring the company is well managed; and
 - the financial report is lodged with ASIC within the appropriate deadline.
- A52 This instrument also applies where a company has been audited previously but satisfies all other conditions of the instrument and can demonstrate to ASIC that having an audit imposes an unreasonable burden on the company.

Companies limited by guarantee

- A53 The assurance requirements for a company limited by guarantee depend on whether it is a small, medium or large company limited by guarantee. The assurance requirements for the three tiers are:
- (a) small – if a small company limited by guarantee is required to prepare a financial report under a direction by members or ASIC, the direction may specify whether the financial report is to be audited or reviewed. A member direction need not request either an audit or a review (s301(4));
 - (b) medium – the financial report to be lodged with ASIC may be reviewed rather than audited (s301(3)); and
 - (c) large – the financial report to be lodged with ASIC must be audited (s301(1)).

The assurance practitioner

- A54 Under section 324AA of the Corporations Act, an individual, firm or company may be appointed as auditor of a company or registered scheme for the purposes of meeting the requirements of the Act. There are specific registration requirements in the Act for each type³⁰. A key requirement is the qualification of the assurance practitioner as a registered company auditor³¹.

30 Individual requirements – s324BA
Firm requirements – s324BB
Company requirements – s324BC

31 A registered company auditor means a person registered as an auditor under Part 9.2 of the Corporations Act.



A55 The basic registration requirements include the following:

- (a) individual – an individual appointed as auditor must be a registered company auditor as defined by the Act;
- (b) firm – a firm appointed as auditor must have at least one member of the firm who is a registered company auditor and ordinarily resides in Australia; and
- (c) company – an audit company appointed as auditor must be an authorised audit company registered with ASIC.

A56 There are some exceptions to the above requirements:

- section 324BD allows ASIC to approve the appointment of an auditor of a proprietary company who is not a registered company auditor if certain criteria are met, such as the impracticability of obtaining the services of a registered company auditor and the auditor to be appointed is suitably qualified; and
- section 324BE provides an exemption from the registration requirements if the practitioner is performing a review of financial statements of a company limited by guarantee and the practitioner meets certain criteria, including being a suitably designated member of a professional accounting body.

AUASB standards

A57 Audits or reviews of financial reports for the purposes of the Corporations Act must be conducted in accordance with auditing standards (s307A). The Act defines auditing standards as those standards in force under section 336 of the Act. Section 336 gives the Auditing and Assurance Standards Board (AUASB) the power to make, by legislative instrument, auditing standards for the purposes of the Act.

Appendix B: Selected international financial reporting requirements

- B1 This Appendix describes the financial reporting requirements in the selected international jurisdictions. The purpose is to provide an understanding of the financial reporting framework applicable to companies in those jurisdictions to support comparison with the requirements for Australian companies.
- B2 The Appendix provides an overview of financial reporting requirements in the following jurisdictions, which are relatively comparable in terms of regulatory rigour or traditionally compared with Australia:
- (a) Canada;
 - (b) Hong Kong;
 - (c) New Zealand;
 - (d) Singapore;
 - (e) South Africa;
 - (f) the United Kingdom; and
 - (g) the United States of America.

Canada

Overview

Table B1. Overview of financial reporting requirements in Canada

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Public company ('reporting issuer')	Issues securities	<ul style="list-style-type: none"> ■ Canadian GAAP (full IFRS) 	n/a

Who must lodge financial statements?

- B3 Corporations in Canada are required to register in the provinces in which they will conduct business, all of which refer to National Instrument 51-102 *Continuous Disclosure Obligations* to prescribe financial reporting requirements. National Instrument 51-102 notes that all 'reporting issuers' are required to publicly lodge audited annual financial statements with the relevant regulatory authority.
- B4 A reporting issuer is defined by, for example, the *Securities Act 1990* (Ontario) as an issuer:
- (a) that has issued voting securities on or after the 1st day of May, 1967 in respect of which a prospectus was filed and a receipt therefor obtained under a predecessor of the Act or in respect of which a securities exchange take-over bid circular was filed under a predecessor of the Act;
 - (b) that has filed a prospectus and for which the Director has issued a receipt under the Act:
 - (b.1) that has filed a securities exchange take-over bid circular under this Act before December 14, 1999;



- (c) any of whose securities have been at any time since the 15th day of September, 1979 listed and posted for trading on any exchange in Ontario recognized by the Commission, regardless of when such listing and posting for trading commenced;
- (d) to which the *Business Corporations Act* applies and which, for the purposes of that Act, is offering its securities to the public;
- (e) that is the company whose existence continues following the exchange of securities of a company by or for the account of such company with another company or the holders of the securities of that other company in connection with:
 - (i) a statutory amalgamation or arrangement; or
 - (ii) a statutory procedure under which one company takes title to the assets of the other company that in turn loses its existence by operation of law, or under which the existing companies merge into a new company;where one of the amalgamating or merged companies or the continuing company has been a reporting issuer for at least twelve months; or
- (f) that is designated as a reporting issuer in an order made under subsection 1(11); (“émetteur assujéti”).

B5 A reporting issuer appears to be akin to a public company in other jurisdictions.

What financial statements do companies lodge?

- B6 National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* notes that companies required to lodge financial statements with their regulatory authority are required to prepare the financial statements in accordance with Canadian GAAP applicable to publicly accountable enterprises. Thus there is only one tier of financial reporting requirements for lodging companies.
- B7 Canadian GAAP applicable to publicly accountable enterprises is set out in Part I of the CPA [Chartered Professional Accountants] Canada Handbook – Accounting, as established by the Accounting Standards Board of Canada. Part I comprises IFRS Standards.

Hong Kong

Overview

Table B2. Overview of financial reporting requirements in Hong Kong

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Public company	Not a private company or company limited by guarantee	HKFRS (full IFRS)	N/A
Company limited by guarantee	No share capital and liability limited		

Who must lodge financial statements?

- B8 In Hong Kong, the *Companies Ordinance* requires only public companies and companies limited by guarantee to publicly lodge financial statements prepared in accordance with accounting standards.
- B9 Public companies are defined similarly in Hong Kong and Australia. In Hong Kong, a company is a public company if:
- (a) it is not a private company; and
 - (b) it is not a company limited by guarantee.
- B10 A company is a private company if:
- (a) its articles:
 - (i) restrict a member's right to transfer shares;
 - (ii) limit the number of members to 50; and
 - (iii) prohibit any invitation to the public to subscribe for any shares or debentures of the company; and
 - (b) it is not a company limited by guarantee.
- B11 Further, a company is a company limited by guarantee if:
- (a) it does not have a share capital; and
 - (b) the liability of its members is limited by the company's articles to the amount that the members undertake, by those articles, to contribute to the assets of the company in the event of its being wound up.

What financial statements do companies lodge?

- B12 Hong Kong requires the application of their highest level of financial reporting requirements in publicly lodged company financial statements. This is HK Financial Reporting Standards (HKFRS), which are regarded as IFRS equivalent.

New Zealand

Overview

Table B3. Overview of financial reporting requirements in New Zealand

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Large companies (other than an overseas company or a subsidiary of an overseas company)	For the previous two years: <ul style="list-style-type: none"> consolidated assets > \$60 million; or consolidated revenue > \$30 million; and At least 25% of voting shares held overseas	<ul style="list-style-type: none"> GPFS – Tier 1 (full IFRS) GPFS – Tier 2 (reduced disclosure requirements) 	Public accountability (IFRS definition)
Large overseas companies	For the previous two years: <ul style="list-style-type: none"> consolidated assets > \$20 million; or consolidated revenue > \$10 million 	<ul style="list-style-type: none"> GPFS – Tier 1 (full IFRS) GPFS – Tier 2 (reduced disclosure requirements) 	Public accountability (IFRS definition)
FMC reporting entities	Financial market conduct entities specified by the Financial Markets Conduct Act 2013 (such as entities issuing regulated shares or debt, and other fiduciary responsibilities) ³²	<ul style="list-style-type: none"> GPFS – Tier 1 (full IFRS) GPFS – Tier 2 (reduced disclosure requirements) 	FMC higher level of public accountability

Who must lodge financial statements?

B13 In New Zealand, only some large companies and large overseas companies must lodge annual audited financial statements under the Companies Act 1993. Small and medium-size companies do not have to prepare general purpose financial statements. In addition all Financial Markets Conduct (FMC) reporting entities must lodge annual audited financial statements under the Financial Markets Conduct Act 2013. These audited financial statements must be submitted to the Companies Office (the equivalent of ASIC in New Zealand) each year.

B14 Section 200 of the Companies Act requires the preparation of financial statements by:

- (a) every large company;
- (b) every company that is a public entity;
- (c) every large overseas company;
- (d) every other company with 10 or more shareholders, unless the company has opted out; and
- (e) every other company with fewer than 10 shareholders if the company has opted in.

B15 The Financial Reporting Act 2013 sets out the asset and revenue size tests for large companies and large overseas companies (section 45).

B16 Section 204 of the Companies Act requires the financial statements of a large overseas company to include additional financial statements for its NZ business, if

³² See paragraph B18 for a full list of FMC reporting entities.



that business is large. The New Zealand business is large if, for the two preceding accounting periods, at least one of the following applies:

- (a) the total assets of the business were more than NZ\$20 million; or
- (b) the total revenue of the business was more than NZ\$10 million.

B17 Section 207D specifies that the following companies are required to register their financial statements with the Registrar on the public record:

- (a) large overseas companies; and
- (b) large companies in which 25% or more of voting shares are held overseas (including by a subsidiary of a body corporate incorporated outside NZ, or a person who is not ordinarily resident in NZ), if for the two preceding accounting periods at least one of the following applies:
 - (i) the total assets for the company and its subsidiaries were more than NZ\$60 million; or
 - (ii) the total revenue for the company and its subsidiaries was more than NZ\$30 million.

B18 The introduction of the Financial Markets Conduct Act 2013 (the FMC Act) set out financial reporting obligations for companies involved in creating, promoting, selling or trading financial products. The entities, referred to as FMC reporting entities, are required to prepare and lodge audited financial statements under section 461H. FMC reporting entities are:

- (a) every person who is an issuer of a regulated product (for example, shares or debt), unless it has fewer than 50 shareholders or parcels of shares that are voting products;
- (b) every person who holds a licence under Part 6 (other than an independent trustee of a restricted scheme) (for example, fund managers and derivatives issuers);
- (c) every licensed supervisor (for example, trustees);
- (d) every listed issuer (subject to any alternative requirements);
- (e) every operator of a licensed market (other than a market licensed under section 317 (overseas-regulated markets));
- (f) every recipient of money from a conduit issuer (for example, pass-through arrangements where a subsidiary acts as a group's finance vehicle);
- (g) every registered bank;
- (h) every licensed insurer;
- (i) every credit union;
- (j) every building society; and
- (k) every person that is an FMC reporting entity under clause 27A of Schedule 1 (people that, over time, gain more than 50 shareholders through exempt small offers of securities).

B19 A domestic, locally owned company in New Zealand that does not meet any of the above criteria is not required to publicly lodge financial statements.

What financial statements do companies lodge?

B20 Lodged financial statements are required to be prepared in accordance with financial reporting standards. The accounting standards for for-profit entities are based on



International Financial Reporting Standards (IFRS Standards) and are referred to as 'New Zealand equivalents to International Financial Reporting Standards' (NZ IFRS). NZ IFRS are Standards and Interpretations developed by the New Zealand Accounting Standards Board (NZASB) and issued by the External Reporting Board (XRB).

- B21 There are two tiers of accounting requirements applicable to for-profit private sector companies lodging financial statements on the public record. These tiers are set out in XRB Standard A1 *Application of the Accounting Standards Framework*. Tier 1 for-profit accounting requirements are the requirements in NZ IFRS. Tier 2 for-profit accounting requirements are the requirements in NZ IFRS with reduced disclosures – referred to as NZ IFRS RDR. The XRB may include requirements in authoritative notices as well as NZ IFRS.
- B22 A for-profit entity is required by XRB Standard A1 to report in accordance with Tier 1 requirements if it has public accountability at any time during the reporting period. A for-profit entity that does not meet this criterion (ie does not have public accountability) may elect to report in accordance with either Tier 1 or Tier 2.
- B23 An entity has public accountability under XRB Standard A1 if it meets the IASB definition of public accountability (which is also applied in Australia – see paragraph A19) or else is deemed to have public accountability in NZ. An entity has public accountability in NZ if it is an FMC reporting entity that is considered to have a 'higher level of public accountability' than other FMC reporting entities under section 461K of the FMC Act. The Financial Markets Authority also can designate individual FMC reporting entities or classes of FMC reporting entities to have (or to not have) a higher level of public accountability.
- B24 Under section 461K, the following classes of FMC reporting entities are deemed to have a higher level of public accountability under the FMC Act and must therefore prepare lodged financial statements in accordance with Tier 1 NZ IFRS:
- (a) issuers of equity securities or debt securities under a regulated offer;
 - (b) managers of registered schemes, but only in respect of financial statements of a scheme or fund;
 - (c) listed issuers;
 - (d) registered banks;
 - (e) licensed insurers;
 - (f) credit unions; and
 - (g) building societies.
- B25 For example, listed for-profit private sector companies in New Zealand are required to apply Tier 1 NZ IFRS because they meet the definition of public accountability. Unlisted for-profit private sector companies that publicly lodge financial statements may choose to apply either Tier 1 or Tier 2 NZ IFRS RDR, unless they are in a class of FMC reporting entities that is deemed to have a higher level of public accountability.
- B26 Tier 2 NZ IFRS RDR is the same in nature to the Australian Tier 2 in that it retains all the recognition and measurement requirements of Tier 1 NZ IFRS but requires substantially less disclosure.

Singapore

Overview

Table B4. Overview of financial reporting requirements in Singapore

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Public companies	<ul style="list-style-type: none"> ▪ A company limited by shares where number of shareholders can be more than 50; or ▪ a company limited by guarantee; or ▪ a company listed on the Singapore Stock Exchange (SGX) 	<ul style="list-style-type: none"> ▪ Singapore Financial Reporting Standards (SFRS) (full IFRS with modifications) ▪ SFRS for Small Entities (based on <i>IFRS for SMEs</i>) 	Public accountability (IFRS definition); and “Small entity” test – entity must meet at least two of three criteria for two years: <ul style="list-style-type: none"> ▪ total revenue less than or equal to S\$10m ▪ total gross assets less than or equal to S\$10m ▪ total employees less than or equal to 50
Private companies	<ul style="list-style-type: none"> ▪ A company limited by shares with at most 50 shareholders; and ▪ not an exempt private company 		

Who must lodge financial statements?

B27 The Singapore Companies Act, section 4(1), defines a public company as a company other than a private company. Further, in accordance with section 18, a private company is a company having a share capital where its constitution:

- (a) restricts the right to transfer its shares; and
- (b) limits to not more than 50 the number of its members (counting joint holders of shares as one person and not counting any person in the employment of the company or of its subsidiary or any person who while previously in the employment of the company or of its subsidiary was and thereafter has continued to be a member of the company).

B28 A company limited by guarantee is prohibited from having a share capital under section 17. A company limited by guarantee is therefore ineligible to be a private company (as a private company must have a share capital), and is automatically a public company.

B29 Private companies can also be classified as exempt private companies. Exempt private companies are private companies that have no more than 20 members and no corporation holds a beneficial interest in the company’s shares.

B30 Both public and private companies are required to publicly lodge financial statements with the Accounting and Corporate Regulatory Authority (ACRA). However, exempt private companies are not required to publicly lodge financial statements with ACRA.

What financial statements do companies lodge?

B31 There are two tiers of financial reporting requirements available for companies in Singapore.

B32 Companies in Singapore are required to apply Singapore Financial Reporting Standards (SFRS), which are based on IFRS Standards with some modifications. However, companies may apply the SFRS for Small Entities, which is based on the



IFRS for SMEs, if they are not publicly accountable and meet the definition of a 'small entity' for both of the previous two consecutive financial reporting periods.

B33 A company qualifies as a small entity if it meets at least two of the three following criteria for the previous two years:

- total annual revenue of not more than S\$10 million;
- total gross assets of not more than S\$10 million;
- total number of employees of not more than 50.

South Africa

Overview

Table B5. Overview of financial reporting requirements in South Africa

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Public companies	All	<ul style="list-style-type: none"> ■ IFRS ■ <i>IFRS for SMEs</i> 	Public accountability
Private companies	<ul style="list-style-type: none"> ■ Assets greater than Rand 5 million held in a fiduciary capacity for persons not related to the company; or ■ a public interest score greater than or equal to 350, with independently compiled financial statements; or ■ a public interest score greater than or equal to 100, with internally compiled financial statements. 	<ul style="list-style-type: none"> ■ IFRS ■ <i>IFRS for SMEs</i> 	Public accountability

Who must lodge financial statements?

B34 In South Africa, a public company must publicly lodge financial statements regardless of its size to the Companies and Intellectual Property Commission (CIPC). For private companies, the requirement to publicly lodge financial statements depends on whether those financial statements must be audited. Private companies are required to have their annual financial statements audited if:

- (a) the company, in the ordinary course of its primary activities, holds assets exceeding Rand 5 million in a fiduciary capacity for persons who are not related to the company;
- (b) the company has a public interest score of 350 or more; or
- (c) the company has a public interest score of 100 or more and the financial statements have been internally compiled.

B35 Financial statements are considered to be internally compiled when they have not been independently compiled, ie when the annual financial statements are not prepared by an independent accounting professional on the basis of financial records provided by the company, and in accordance with any relevant financial reporting standards.

B36 A company's public interest score is calculated annually as the sum of the following:

- (a) a number of points equal to the average number of employees of the company during the financial year;
- (b) one point for every Rand 1 million (or portion thereof) in third party liabilities of the company, at the financial year end;
- (c) one point for every Rand 1 million (or portion thereof) in turnover during the financial year; and



- (d) one point for every individual who, at the end of the financial year, is known by the company:
 - (i) in the case of a profit company, to directly or indirectly have a beneficial interest in any of the company's issued securities; or
 - (ii) in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company.

What financial statements do companies lodge?

- B37 There are two tiers of financial reporting requirements available for companies in South Africa.
- B38 Listed public companies must prepare financial statements in accordance with IFRS. Unlisted public companies may apply IFRS or, if the company does not have public accountability, *IFRS for SMEs*.
- B39 All other for-profit companies may apply either IFRS or *IFRS for SMEs*, subject to the scoping requirements of *IFRS for SMEs*.



United Kingdom

Overview

Table B6. Overview of financial reporting requirements in the United Kingdom

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
All companies	N/A	EU-IFRS	Publicly listed entities – consolidated financial statements
		FRS 101 (EU-IFRS reduced disclosure)	May be applied by companies that are members of a group: <ul style="list-style-type: none"> ▪ where the parent prepares publicly available consolidated financial statements; and ▪ company is included in the consolidation
		FRS 102 (UK GAAP)	Medium entity – must not exceed two of the following thresholds: <ul style="list-style-type: none"> ▪ turnover – £36 million ▪ total assets – £18 million ▪ employees – 250
		FRS 102 RDR (UK GAAP reduced disclosure)	May be applied by companies that are members of a group: <ul style="list-style-type: none"> ▪ where the parent prepares publicly available consolidated financial statements; and ▪ company is included in the consolidation
		FRS 102 Section 1A (small entities)	Small entity – must not exceed two of the following thresholds: <ul style="list-style-type: none"> ▪ turnover – £10.2 million ▪ total assets – £5.1 million ▪ employees – 50
		FRS 105 (micro entities)	Micro entity – must not exceed two of the following thresholds: <ul style="list-style-type: none"> ▪ turnover – £632,000 ▪ total assets – £312,000 ▪ employees – 10

Who must lodge financial statements?

B40 In the United Kingdom, all private limited and public companies regardless of their size must lodge their financial statements at Companies House in accordance with the *Companies Act 2006*.

What financial statements do companies lodge?

B41 The financial reporting framework in the United Kingdom is relatively complex because all companies are required to lodge separate financial statements with Companies House. All UK companies are required to apply UK GAAP in their separate financial statement lodgements with Companies House. Listed companies are additionally required to lodge consolidated financial statements prepared in accordance with EU-adopted IFRS.

B42 The full set of UK GAAP consists principally of 6 tiers:

- EU-adopted IFRS;
- FRS 101 *Reduced Disclosure Framework*;
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
- FRS 102 RDR;
- FRS 102 Section 1A *Small Entities*; and
- FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.

Figure B1. UK financial reporting framework requirements



B43 Companies in the UK are classified into reporting groups according to size thresholds:

- micro-entities;
- small entities
- medium entities; and
- all other entities.

The size thresholds are based on turnover and asset amounts and employee numbers, as set out in Table B7. Some reporting options are available only to companies of the relevant size.

B44 EU-adopted IFRS is the framework applied to consolidated financial statements of listed companies. It consists of IFRS Standards as adopted in Europe.



- B45 FRS 101 requires members of a group that prepares consolidated EU-IFRS financial statements to continue to apply EU-IFRS recognition and measurement requirements in their individual entity financial statements, but allows fewer disclosures.
- B46 FRS 102 is a single financial reporting standard replacing the old UK GAAP. Medium-sized companies must apply FRS 102 in its entirety, but may apply concessions for reduced disclosure. FRS 102 is broadly based on *IFRS for SMEs*, which has been substantially modified by the UK Financial Reporting Council in terms of both the scope of entities eligible to apply it and the accounting treatments provided. FRS 102 is further subdivided into a reduced disclosure option and a section specifically for small entities.
- B47 FRS 102 RDR requires members of a group that prepares consolidated FRS 102 financial statements to continue to apply FRS 102 recognition and measurement requirements in their individual entity financial statements, but allows fewer disclosures.
- B48 Companies that are small entities apply FRS 102 Section 1A for Small Entities, or alternatively may elect to apply FRS 102 in its entirety or FRS 102 RDR.
- B49 FRS 105 is based on FRS 102 but its accounting requirements are adapted to satisfy the legal requirements applicable to micro-entities and to reflect the simpler nature and smaller size of micro-entities. FRS 105 replaces the Financial Reporting Standard for Smaller Entities (FRSSE), effective 1 January 2016. Alternatively, micro-entity companies can elect to apply FRS 102 in its entirety, FRS 102 Section 1A for Small Entities or FRS 102 RDR.



United States of America

Overview

Table B7. Overview of financial reporting requirements in the United States of America

Type of entity required to publicly lodge	Criteria to determine type of entity	Reporting options available to entity type	Criteria to determine what has to be reported
Reporting company	<ul style="list-style-type: none"> ▪ Assets greater than US\$10 million; and ▪ at least 500 non accredited shareholders; or ▪ at least 2,000 accredited shareholders 	<ul style="list-style-type: none"> ▪ US GAAP (or IFRS for foreign registrants) 	N/A

Who must lodge financial statements?

B50 In accordance with sections 12 and 15(d) of the Securities Exchange Act of 1934, companies in the United States of America with more than US\$10 million in assets and whose securities are held by at least 500 non-accredited investors or 2,000 accredited investors are considered 'reporting companies' and are required to lodge annual financial statements and other periodic reports with the Securities and Exchange Commission (SEC).

What financial statements do companies lodge?

B51 The United States of America requires the application of US GAAP for publicly lodged financial statements of US-incorporated reporting companies, and permits foreign registrants to apply either US GAAP or IFRS. These are treated as a single tier in this report, given their equivalent status.