

22 October 2018

Mr Adam Bogiatzis  
Senior Advisor, Corporations and Consumer Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [adam.bogiatzis@treasury.gov.au](mailto:adam.bogiatzis@treasury.gov.au)

Dear Adam

**Treasury Review Proposal - Australian Accounting Standards Board consultation on the conceptual framework and special purpose financial statements (ITC 39)**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia would like to jointly raise a matter with the Australian Treasury in relation to the above consultation currently being undertaken by the Australian Accounting Standards Board (AASB).

We are writing to you jointly to request that the Australian Treasury prioritise and conduct a comprehensive review of the financial reporting thresholds applicable to proprietary companies under section 45A of the Corporations Act 2001.

It is the long-held view of both Chartered Accountants ANZ and CPA Australia that these thresholds should be subject to a periodic and regular review to ensure that the regulatory framework they underpin is fit for purpose. Since improving the Australian financial reporting framework is the key objective of the AASB's current consultation, the issue of thresholds has once again been brought to the fore as we, and our members, give consideration to the content of the AASB's proposals. Our members work in diverse roles across public practice, commerce, industry, academia and the public and not-for-profit sectors throughout Australia and therefore have a significant interest and stake in the framework reform agenda.

We are concerned that the AASB's desire to unilaterally use its standard setting mandate to achieve financial reporting reform is only a partial solution to a more complex problem. In the context of companies and other entities regulated under the Corporations Act 2001, we believe that this problem needs to be addressed via consideration of both the lodgment thresholds and the AASB financial reporting framework. As noted in paragraph 67 of ITC 39, the AASB shares this view and while it

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indicates that legislative reform is being discussed as part of its Australian Financial Reporting Framework project, it has chosen to pursue an approach purely based on modifying its financial reporting framework for the private sector first.

We are strongly of the view that the AASB's reform of the Australian financial reporting framework should not occur in isolation but should coincide with a Treasury review of the financial reporting thresholds and associated requirements within the Corporations Act 2001.

We hold this view because one of the groups most impacted by the AASB's proposals will be large proprietary companies who have statutory reporting requirements under the Corporations Act 2001. These companies are the significant clients of, or employers of, many of our members.

In its consultation, the AASB is proposing to withdraw Statement of Accounting Concept 1 *Definition of The Reporting Entity* (SAC 1). If this occurs, all large proprietary companies will be required to prepare general purpose financial statements (GPFS). For those large proprietary companies nearer to the current reporting thresholds, this is likely to require the production of a level of financial information for which there is no clearly identified user need. The proposals include preparing consolidated financial statements that include their controlled entities, a substantial increase in the reporting burden. This information would be substantially in excess of what large proprietary companies currently produce and lodge now as special purpose financial statements.

We believe a Treasury review of thresholds now would be particularly timely for two reasons. These are:

- the financial reporting thresholds were introduced into the Corporations Act 2001 more than 10 years ago and have not been subject to a review since that time.
- current and ongoing research informing the AASB's reform project can be utilised by Treasury to review and reset the thresholds at an appropriate level that effectively meets user needs without imposing additional regulatory burden.

Without such a review, the AASB's proposals could result in an unreasonable regulatory burden being placed on smaller large proprietary companies for no other reason than that they fall within outdated thresholds. This burden is likely to increase further over time as new accounting standards, such as AASB 116 *Leases* operative for financial reporting periods beginning on or after 1 January 2019, bring onto the balance sheet assets and liabilities that were previously only disclosed as commitments. This makes it possible for an entity to breach the asset thresholds only due to a change in the accounting standards, rather than as a result of any changes in the underlying business or the user needs for their financial information.

We believe that a joint effort between the AASB and Treasury is necessary to produce a framework reform outcome for companies that will be in the best interests of all stakeholders. The result has the potential to provide all users of lodged financial statements with the information they need while ensuring that the reporting burden placed on preparers is not disproportionate. Such an approach is

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being adopted for reform in the not-for-profit sector, through the ACNC legislative review, and so we encourage Treasury to adopt a similar approach for the for-profit sector.

Chartered Accountants ANZ and CPA Australia are willing to engage with Treasury to explore possible options and assist with any deliberations. Please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Jeanette Dawes (Chartered Accountants ANZ) [jeanette.dawes@charteredaccountantsanz.com](mailto:jeanette.dawes@charteredaccountantsanz.com) or if you would like to discuss the contents of this letter.

Yours sincerely



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