



17 December 2018

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Consumer and Corporations Division  
The Treasury  
Level 5, 100 Market Street  
SYDNEY NSW 2000

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

Dear Ms O'Rourke,

**Consultation – Reducing the financial reporting burden by increasing the thresholds for large proprietary companies**

illion (formerly Dun & Bradstreet Australia and New Zealand) welcomes the opportunity to provide this submission to Treasury regarding the Corporations Amendment (Proprietary Company Thresholds) Regulations 2018 (the Exposure Draft Regulations).

illion does not support the amendments proposed in the Exposure Draft Regulations, which would reduce the financial reporting obligations for a portion of proprietary companies operating in Australia. This submission will begin by providing a background into illion's products and services and then outline the reasons for our view on this consultation.

**1. About illion**

illion is the leading independent provider of data and analytics products and services across Australasia. The organisation's consumer and commercial credit registries make up a central component of Australia and New Zealand's financial infrastructure and are used to deliver end-to-end customer management solutions to clients. Using extensive credit and commercial databases, we assist banks, other financial services providers and other businesses to make informed credit and risk management decisions, and help consumers access their personal credit information. illion is highly invested in the Australian market with over 130 years of data history and experience. This experience combined with in-depth research, advanced analytics capabilities, and a comprehensive view of the data landscape, have made illion the market leader in Australia.

Importantly illion is the leading provider of business data in Australia and serves a very large portion of the economy with many use cases of data and we believe we are therefore uniquely qualified to comment on this proposal.

## 2. Comments on the Consultation

The Exposure Draft Regulations amend the *Corporations Regulations 2001* to increase the thresholds which determine what constitutes a large proprietary company under the *Corporations Act 2001*. Namely, the consolidated revenue controlled by a company is proposed to increase from \$25 million to \$50 million; the value of the company's consolidated gross assets at the end of a financial year is proposed to increase from \$12.5 million to \$25 million; and the number of a company's employees maintained by the end of the financial year is proposed to increase from 50 to 100. The changes are due to take effect from 1 July 2019.

These amendments will result in a greater number of companies operating in Australia not being required to annually lodge an audited financial statement, a director's report and auditor's report with the Australian Securities and Investments Commission (ASIC). The initiative forms part of the Federal Government's push to cut 'red tape' for small and medium businesses, and is predicted to reduce regulatory costs for these organisations by \$81.3 million per annum. Treasury has estimated that around 2,200 proprietary companies will no longer be subject to these reporting requirements. This figure represents a third of large proprietary companies in Australia.

Independent retrospective analysis of financial lodgements over the last 6 years conducted by illion has identified that an increase in thresholds which determine what constitutes a large proprietary company under the *Corporations Act 2001* would have resulted in approximately 11,000 less financial statements being lodged by approximately 4,600 unique companies over the 6 year period.

### **Cost will not be materially reduced**

Illion disputes that the Exposure Draft Regulations will produce cost savings for small and medium business. Many businesses this size are financed by bank debt. As part of obtaining that debt and, importantly, obtaining finance that is competitive, companies have to demonstrate adherence to covenants. They do this by preparing audited financial statements to submit to their financial institutions, a cost which is not reduced by removing an obligation to file. The incremental effort of filing those statements on the public record is trivial and the benefits of having that financial information in the public domain are significant.

### **Visibility of risk is significantly diminished, and risk is real**

Access to financial information is critical for the lenders and suppliers. Trusted and accurate financial data is paramount to ensure that both the lenders and businesses are able to provide and receive competitive and appropriate levels of financial support. The retrospective analysis conducted by illion found that over the 6 year period 3% of the 4,600 companies that would be relieved of the requirement to file audited financial reports went into financial distress (external administration or liquidation), highlighting significant risk amongst this cohort. We have strong reservations on these changes due to the unintended effects they will have on data availability and the flow-on impacts on credit availability. The estimated 4,600 entities which will become exempt from reporting requirements under the new framework are significant in size, despite falling below the new thresholds. Analysis of the most recent financial filing for the 4,600 companies identified that the average liability amount represented on the company's balance sheet was \$58 million with a total of \$273 billion in debt owing across the cohort. A focus on defining size through revenue, employees and gross assets misses the fact that liabilities may be very very significant. This is a key fact that should be in the public domain so that anyone dealing with these businesses is able to assess their risk. We have assessed these businesses via further analysis of illion's proprietary trade payment database which shows that these businesses owe \$1 billion to their suppliers beyond

terms. This highlights that the entities which would be exempt from the reporting requirements are of significant size and risk while carrying substantial amounts of debt and are paying a significant sum of money late.

**A broad range of the economy is impacted**

The 4,600 businesses that would be relieved from the current reporting requirements are of significant interest to lenders, insurers and suppliers across a range of industries. When examining the million commercial credit bureau, we can see that in the last 12 months 35,000 commercial credit enquiries were conducted on this cohort. The enquiries were driven out of the need for financing, trade credit insurance and trade credit. A breakdown of the unique entities that conducted the enquiries as well as their associated industry can be seen in the below table.

Industry	Count of Unique Enquiring Entities
Trade Credit Insurer	4
Services	202
Finance	91
Other Insurance	17
Manufacturing	198
Transport, Communications & Utilities	100
Wholesale Trade	140
Public Administration	40
Construction	33
Other Industries	45

Therefore, transparency over these entities is critical in an environment where credit is tightening, with credit availability representing an essential factor for improved economic growth in the market.

In addition to risk assessment many of our customers use information on these businesses to market to them, benchmark them and analyse the economy, or segments of it. Removing this information from the public domain will restrict the ability for other segments of the market to analyse this information. We are aware that both the ATO and the RBA use this information extensively so it is not only the private market that will be impacted.

**Reducing transparency is counter to policy elsewhere**

Any initiative which reduces transparency and restricts the amount of available data on this scale is counter to the current trend in improved data sharing and enhanced transparency. For example, the introduction of Comprehensive Credit Reporting (CCR), Open Banking and more generally, the Consumer Data Right (CDR), demonstrate the understanding of the benefits of improved data transparency. At its essence, enhanced data availability creates an environment that encourages competition and innovation in the financial services sector and supports economy more generally. There is a clear, substantial public interest in increased data availability for these reasons. It is therefore necessary that changes to financial reporting requirements reflect the need to maintain robust disclosure standards; the Exposure Draft Regulations fail to do so.

In addition to the above, financial data is increasingly straightforward to compile and report with the advent of improved software services and accounting packages, for example. Technology has made it easier than ever for businesses to assemble relevant information for regulators, and as such, we expect advances in technology to reduce red tape for large proprietary companies.

Global best practice also indicates that greater data transparency and information sharing is critical to ensuring strong economic growth, and that other markets are contributing to greater data

dissemination. For example, the United Kingdom has established an open data model whereby organisations such as the Companies House, sponsored by the Department for Business, Energy & Industrial Strategy, register company information in the public domain. All limited companies must file accounts with this UK registry, lodging auditors' reports, directors' reports and financial statements (profit and loss account and balance sheets) with details notes. There are, however, exemptions to the requirement to lodge for organisations considered to be 'small', 'medium' or 'micro' sized companies. This system allows such companies to file less financial data. While our experience has revealed that a majority of UK entities (93%) will file unaudited accounts under this range of exemptions, illion estimates that the UK tiered filing requirement framework nonetheless provides a greater level of oversight and transparency. More progressive jurisdictions are clearly taking measures to improve transparency and facilitate greater sharing of data; Australia must not backpedal on its recent progress in data sharing.

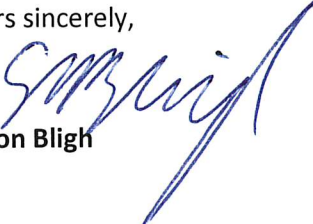
### **Conclusion**

The Exposure Draft Regulations represent a step backwards by the Australian Government in respect to allowing more extensive data sharing to drive increased competition in lending and better allocation of capital. The cost associated with filing financial statements is associated not with the act of filing, but with the cost of preparing the audited statements. Given the very large liabilities these businesses carry and the resultant need to remain audited in order to continue to demonstrate compliance with bank covenants that cost will remain. Not filing means it is harder for anyone without privileged access to the internal financial data of the business to assess the risk of dealing with that business; a risk we have demonstrated is real given a 3% failure rate and at least \$1b in overdue payments to suppliers.

The incremental cost of filing becomes trivial when compared to the benefits to the companies themselves, the lenders, suppliers and the Australian society. We therefore urge Treasury to reconsider the proposed amendments to the *Corporations Act 2001*, in fact illion strongly believes that rather than restricting the number of entities that are required to file financial reports, more companies should be obligated to lodge in order to allow for a greater level of financial transparency and trust which will lead to greater economic prosperity. We think there is significant merit in introducing a fourth hurdle of indebtedness in determining whether financial information should be made public.

If there are any questions or concerns arising from this submission, please feel free to contact me at any time at [simon.bligh@illion.com.au](mailto:simon.bligh@illion.com.au).

Yours sincerely,



**Simon Bligh**

**CEO**