

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

PwC submission

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Via email to reportingthresholds@treasury.gov.au

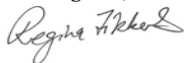
Dear Ms O'Rourke

PwC welcomes the opportunity to make this submission in relation to the government's proposal. We agree it would be beneficial to reduce the financial reporting burden for some proprietary companies by increasing the thresholds for determining what constitutes a large proprietary company under the Corporations Act 2001.

However, there are other reporting requirements which are not aligned to these thresholds, such as Tax Transparency, Significant Global Entity and Modern Slavery reporting. Our preference would be to have within the Corporations Act three tiers of entities - small, medium and large - with the largest companies complying with all forms of required reporting and medium-sized entities being able to do less. We agree small entities should not need to report. We believe medium sized entities would benefit from having simpler requirements than very large organisations. We recommend looking at the New Zealand or UK experience of having different tiers of reporting. Similarly, we believe there should be a national approach to reporting for not-for-profits (NFPs) and an additional tier of reporting for separate small, medium-sized and large NFPs and we support the ACNC and AASBs work on solving this issue.

We have outlined on the following pages the problems we see with the current and proposed approach, as well as providing PwC's views on how the Australian reporting framework could be revised to reduce complexity and inconsistencies within the system. We welcome the opportunity to discuss our submission with you. If you have any questions please contact me on (02) 8266 8350.

Kind regards,



Regina Fikkers
Regulatory Affairs Leader
PwC Australia

Current financial reporting framework

	Public company	Large proprietary company	Small proprietary company
Current	All public companies	>\$25m revenue >\$12.5m gross assets >50 employees	<\$25m revenue <\$12.5m gross assets <50 employees
Treasury proposal	Lodge financial statements with ASIC (regardless of size)	>\$50m revenue > \$25 gross assets > 100 employees Lodge financial statements with ASIC Companies can self assess as to whether they are a reporting entity and therefore determine whether they lodge special purpose financial statements or general purpose financial statements	<\$50m revenue < \$25 gross assets < 100 employees Keep sufficient financial records.

Problems with this approach

- Financial reporting is based on type of the entity not size - doesn't meet community expectations around transparency
- The current and proposed thresholds do not provide enough differentiation between sizes of entities, leading to other legislative instruments creating these sub-tiers of reporting
 - Modern Slavery Act 2018 requires an *entity with revenue >\$100m* to produce a modern slavery statement annually
 - Tax Transparency Code, defines medium businesses as those with \$100m-\$500m turnover and large businesses as >\$500m turnover
 - The ATO publishes tax information of entities - above \$100m (Aust public/foreign owned) and above \$200m (Aust privates).
 - SGE reporting for global groups >\$1billion
 - Climate change future reporting requirements
 - Whistleblower policy required for 'large companies'
- The Corporations Act should define what a large entity is once and other legislation should in the future be driven from this.

PwC's view is a three-tiered reporting framework is needed for corporates, as follows:

	Publicly accountable	Large for profits	Medium for profits	Small for profits
PwC proposal	All publicly accountable entities	> \$200m revenue (for example) Plus gross assets and employee thresholds (no comment on what these should be)	>\$50m revenue (for example) Plus gross assets and employee thresholds (no comment on what these should be)	<\$50m revenue (for example) Plus gross assets and employee thresholds (no comment on what these should be)
	Lodge financial statements with ASIC (regardless of size)	Lodge financial statements with ASIC (AASB to determine <i>'what'</i> needs to be lodged) Plus additional reporting for Large entities, eg. Modern Slavery Statement, Whistleblower policy	Lodge financial statements with ASIC (AASB to determine <i>'what'</i> needs to be lodged e.g. less than large companies)	Keep sufficient financial records.

Similarly, we believe there should be a national approach to reporting for not-for-profits (NFPs) and an additional tier of reporting for separate small, medium-sized and large NFPs.

Advantages of this approach

- Reporting is based on public accountability and the size of a company not on its structure (dormant limited, Pty Ltd, foreign entity etc)
- By defining in the Corporations Act a small, medium and large entity other legislative instruments can then refer back to them when creating a reporting requirement
- Also by differentiation between size of entities, the AASB is more easily able to address community and other stakeholder expectations about what level of reporting should be undertaken for different sized companies
- This would provide clarity for entities about what their reporting requirements are.

For further information contact

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