KPMG

When large becomes small

Reporting Update

23 April 2019, 19RU-004

Highlights

- Change to Corporations Regulations
- Impact of change in thresholds
- Practical considerations
- KPMG comment

Change to Corporations Regulations

On 16 November 2018 the government released a public consultation Exposure Draft *Corporations Amendments (Proprietary Company Thresholds) Regulations 2018*. After stakeholder comment the government registered the *Corporations Amendments (Proprietary Company Thresholds) Regulations 2019*. Registration occurred on 5 April 2019. No changes have been made to the Regulations, as exposed, following the consultation process.

Small/large thresholds doubled

The new regulation doubles the thresholds for determining whether a company is a large or small proprietary company for a financial year. A proprietary company is large if it meets **two** of the three thresholds at the end of its financial year. Otherwise it is small. The table below outlines the three thresholds.

Threshold	Current	From 1 July 2019
Consolidated revenue for the financial year *	$25 million or more	$50 million or more
Consolidated gross assets at the end of the financial year *	$12.5 million or more	$25 million or more
Employees^ of the company and the entities it controls	50 FTE employees or more	100 FTE employees or more

*For the company and any controlled entities
^Part-time employees are counted as an appropriate fraction of the full-time equivalent (FTE)

Under the *Corporations Act 2001* (Corps Act), large proprietary companies are required to lodge an annual financial report, a director's report and an auditor's report with ASIC. Small proprietary companies have no such requirement to lodge (unless directed to by ASIC or directed by 5% or more of their shareholders) and are generally required to keep sufficient financial records.

The above change applies in relation to financial years beginning on or after 1 July 2019 – i.e. 30 June 2020 year ends.

Impact of change in thresholds

The effective doubling of the thresholds will potentially impact:

- large proprietary companies
- foreign controlled small proprietary companies who are currently part of a 'large group' (ASIC Instrument 2017/204).

Why make a change?

The explanatory statement makes the following observations:

- The thresholds have not been reviewed or adjusted since 2007.
- The revenue and asset thresholds have been increased to account for nominal economic growth since 2007.
- The increased thresholds will ensure financial reporting obligations are targeted at economically significant companies, while reducing the costs for smaller sized companies.
- Approximately one third of proprietary companies that lodged audited financial reports with ASIC in the 2017-18 financial year will no longer be required to lodge financial reports under the increased thresholds.

Next steps for proprietary companies

We encourage you to review the updated financial reporting thresholds and consider the financial reporting requirements for each proprietary company you own, for years ending 30 June 2020 and beyond.

Practical considerations

Consolidated numbers

The Corps Act specifies that the large and small test requirements be applied on a consolidated basis. As such, inter-company transactions and balances should be eliminated when determining consolidated amounts for the threshold test. This also applies to companies that do not prepare consolidated financial statements, because for example, they are exempt under AASB 10 *Consolidated Financial Statements*.

Use AASBs to measure

For the purposes of the large/small test, consolidated revenue and consolidated gross assets must be determined in accordance with accounting standards in force at the end of each financial year even if the company is not a reporting entity and does not apply all accounting standards.

Measure at year end

Measurement of the updated thresholds will still occur at the end of the current financial year. A proprietary company still needs to satisfy at least two of the above three tests to be classified as a large proprietary company.

The size tests above are applied for a particular financial year and there are no provisions to scale the size tests if the financial year is greater or smaller than 12 months.

ATO and GPFS

Under the Corps Act small proprietary companies, that are not foreign controlled, are not required to prepare and lodge an audited financial report with ASIC. A small proprietary company may still have GPFS reporting obligations under the *Taxation Administration Act 1953*.

Foreign controlled

Foreign controlled small proprietary companies who are currently part of a large group

Unless otherwise qualifying for relief (ASIC Instrument 2017/204 – discussed below), a small proprietary company that is **controlled by a foreign company** for all or part of the year is required to prepare and lodge an audited financial report with ASIC where it is not consolidated for that period of control in a financial report for that year lodged with ASIC by:

- a registered foreign company, or
- a company, registered scheme or disclosing entity, for example, an Australian intermediate holding company.

ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204

This ASIC Instrument can exempt small foreign controlled proprietary companies from the requirement to prepare financial reports if they are not part of a 'large group'.

A 'group' is defined in the ASIC Instrument and is discussed in detail in KPMG's *Australian Financial Reporting Manual*.

After the above change to the financial reporting thresholds, a 'group' is large when it satisfies at least two of the following criteria for the financial year in question:

- combined revenue of the group for the financial year is $50 million or more
- combined gross asset value of the group at the end of the financial year is $25 million or more
- the group has 100 or more employees at the end of the financial year.

Again remember, a foreign controlled small proprietary company may still have GPFS reporting obligations under the *Taxation Administration Act 1953*.

KPMG comment

Could more have been done?

"KPMG welcomes the change to the reporting thresholds, acknowledging the increased thresholds will result in economically significant companies continuing to lodge audited financial statements to ASIC along with relief for smaller companies.

We are however disappointed that none of 35 submissions received resulted in any changes to the regulations nor provided responses to the following questions we continue to have:

- ***Whether the three existing benchmarks are appropriate,***
- ***Why doubling the thresholds was considered the most appropriate outcome,***
- ***Why consideration was not given to measuring the thresholds over the last two preceding years, instead of the current financial year.***

The date of measurement has been a practical issue in Australia for a number of years and continues to go unresolved based on this short term amendment to the regulations. Consolidated revenue and consolidated gross assets at the end of a financial year will not be determined until after year end. Measuring the thresholds over the two preceding financial years (like in New Zealand) allows companies to plan financial reporting requirements prior to year end."

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