



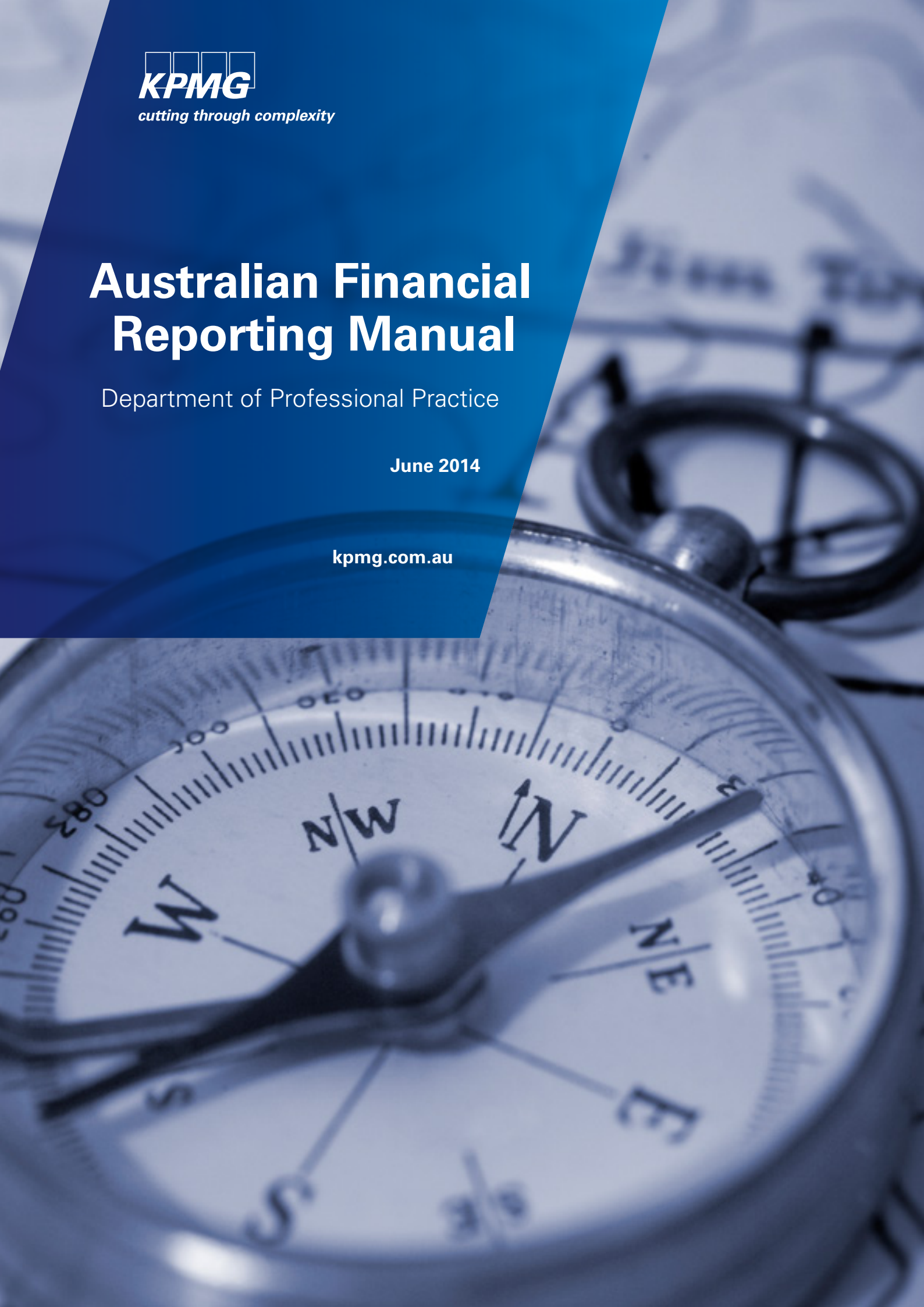
*cutting through complexity*

# Australian Financial Reporting Manual

Department of Professional Practice

June 2014

[kpmg.com.au](http://kpmg.com.au)



June 2014

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# Foreword

The quality of financial reporting and particularly the manner in which financial information is communicated to users of financial reports continues to be scrutinised by regulators and criticised by some users. In response, the International Accounting Standards Board (IASB) is undertaking a broad-based initiative to explore how disclosures in financial reporting can be improved. The Australian Accounting Standards Board (AASB) will participate in the longer term projects that stem from this initiative. Outlined below are some current Australian developments that are aimed at improving financial reporting.

In March 2013 ASIC released Regulatory Guide 247 *Effective disclosures in an operating and financial review*, expecting listed entities to provide better quality analysis and information in the operating and financial review, while ensuring continued compliance with RG 230 *Disclosing non-IFRS financial information*.

In addition, a number of new and revised Australian Accounting Standards have come into effect for the 2013/2014 reporting period, some of which may change the financial reporting requirements for certain entities (e.g. AASB 1053 *Application of Tiers of Australian Accounting Standards*, AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*), and will garner additional attention from regulators.

To assist with the ever-changing regulatory and reporting framework, we are pleased to present our latest edition of KPMG's Australian Financial Reporting Manual. As a preparer of financial reports, you play a key role in facilitating the continued enhancement of financial information provided to users. This manual includes sections on:

- continuous disclosure requirements
- considerations for 'Operating and Financial Reviews'
- changes to the Remuneration Report
- application of AASB 1053
- tax ruling on ability of a company to pay franked dividends
- revision to Australian guidance on materiality.

The AASB has also been actively working on a number of Australian specific reporting issues, including, as part of its Differential Reporting Project, a review of special purpose financial statements and the reporting entity concept and its role in the Australian financial reporting environment. While this project is still in progress, the impacts, especially on entities currently preparing special purpose financial statements, may be significant in the future.

We trust that you will find our latest edition of KPMG's Australian Financial Reporting Manual a useful guide to navigate through the challenges posed by the ever-changing regulatory and reporting environment.

We welcome your feedback via your KPMG contact or Kris Peach (kepeach@kpmg.com.au).



Duncan McLennan

# About this publication

## Purpose and basis

The purpose of this KPMG Financial Reporting Manual is to:

- provide a guide to the Australian financial reporting environment and legal financial reporting framework
- give guidance on distinguishing between reporting and non-reporting entities
- provide specific guidance on the financial reporting requirements of various types of entities
- outline the requirements for annual, concise and interim reporting.

This publication reflects *Corporations Act 2001* requirements and Australian Accounting Standards on issue at 31 January 2014 that must be applied by an entity for interim and annual financial reports for years ending 30 June 2014.

This publication is designed to be a companion to KPMG's *Insights into IFRS*. The Financial Reporting Manual focuses on the Australian regulatory framework for preparation and lodgement of financial reports whereas *Insights into IFRS* focuses on application and interpretation of accounting standards.

This KPMG Financial Reporting Manual should not be used as a substitute for referring to the *Corporations Act 2001*, Australian Accounting Standards or other regulatory guidance.

## Key changes

The following key changes are discussed further in this publication:

- RG 230 *Disclosing non-IFRS financial information* was released in December 2011 by ASIC. The guide outlines ASIC's views on how non-IFRS financial information, like underlying profits, should be disclosed. The guidance applies to all market releases containing non-IFRS financial information and not just financial reports, including pro-forma information in transaction documents. (see section [4.1.7](#))
- RG 247 *Effective disclosure in an operating and financial review* was released in March 2013 by ASIC. The RG provides directors of listed entities with guidance in complying with S299A of the Corporations Act, and aims to promote better communication of more meaningful information to shareholders that both supplements and complements the financial report. (see section [4.2.3.1](#))
- The Australian Taxation Office released a tax ruling which aims to clarify its position on the ability of a company to pay franked dividends, given the changes to the Corporations Act. (see section [6.5.5](#))
- The AASB has revised AASB 1031 *Materiality* in December 2013 removing the guidance on materiality. Existing accounting standards' (AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*) contain guidance on materiality which is considered sufficient. The revisions to AASB 1031 are not expected to change practice or to change the level of disclosure presently specified by accounting standards. (see section [7.3](#))
- The ASX has updated Guidance Note 8: *Continuous Disclosure: Listing Rules 3.1 – 3.1B* along with a new abridged guide on continuous disclosure. The update came into effect on 1 May 2013. The key changes include addressing the meaning of 'immediate' disclosure, how the 'awareness test' is applied to what an entity's office knows, discussion on when a 'trading halt' is needed, and what materiality the ASX expects entities will apply in assessing whether to update published earnings guidance. (see section [3.4.5](#))

## Differences from IFRS

The International Financial Reporting Standards ('IFRSs') developed by the International Accounting Standards Board ('IASB') have been modified by the Australian Accounting Standards Board ('AASB') and are referred to as Australian Accounting Standards. The modifications generally:

- provide exemptions or modified application to particular accounting requirements for not-for-profit entities
- increase the number of disclosures required in the financial report where they are considered particularly relevant to the Australian reporting environment.

Each entity will need to perform its own assessment of whether it should and/or can claim compliance with IFRS.

## Forthcoming requirements

The following forthcoming requirements are discussed in this publication:

- When considering the introduction of AASB 1053 *Application of Tiers of Australian Accounting Standards*, the AASB is also considering ceasing to use the reporting entity concept to operationalise the use of Accounting Standards and instead to focus the application of Australian Accounting Standards (whether Tier 1 or Tier 2) to general purpose financial statements (see section [8.1](#))
- ASIC expressed a view in October 2013 that with the introduction of AASB 10 *Consolidated Financial Statements* (applicable 1 January 2013) there may no longer be a basis within accounting standards to allow the preparation of consolidated financial statements for a stapled group. ASIC issued Consultation Paper 217 *Presentation of financial statements by stapled entities* (CP 217) which proposes that a class order allowing stapled entities to present combined (not consolidated) financial statements covering all of the entities whose securities are stapled. This issue is currently under consideration by IFRIC. (see section [8.2](#))
- Treasury is considering further amendments to the Corporations Act around S254T (payment of dividends) to clarify certain issues, however the proposals have not resulted in any changes to date. (see section [6.5.4](#))

## Further information

To assist you in preparing financial reports, the following KPMG publications are also recommended:

- Insights into IFRS, 10th edition, 2013/14
- Australian Disclosure Checklist, November 2013
- Example Public Company Limited Guide to annual reports – Illustrative Disclosures 2013-14
- Example Proprietary Company Pty Ltd (Reduced Disclosure Regime) 30 June 2013 Annual Financial Report
- Example Proprietary Company Pty Ltd (Special Purpose – Non-reporting entity) 30 June 2013 Annual Financial Report
- Other publications in the Example series.

These are the most recent KPMG publications at the time of publishing this guide. Refer to [www.kpmg.com.au](http://www.kpmg.com.au) for updated KPMG publications.

## Acknowledgements

The principal authors of this publication were the following members of KPMG Australia's Department of Professional Practice:

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## Abbreviations

The following abbreviations, followed by the particular clause or paragraph number are used throughout this manual.

AAS	Australian Accounting Standards series issued jointly by the Australian Accounting Bodies, for which there are no IASB equivalents
AASB	Australian Accounting Standards Board. Australian Accounting Standards issued by the AASB and its predecessors are individually referred to by their number (i.e. AASB 2 <i>Share-based Payments</i> )
ACNC	Australian Charities and Not-for-profits Commission
AI	Australian Interpretations issued by the AASB relating to AASBs, both as Australian equivalents of IFRIC Interpretations and domestic Interpretations, previously issued by the Urgent Issues Group (UIG)
ASIC	Australian Securities and Investments Commission
ASA	Australian Auditing Standard, issued by AUASB are individually referred to by their number
ASX	Australian Securities Exchange
ASX LR	ASX Listing Rules
ASX GN	ASX Guidance note
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
CO	Class Order
FASB	Financial Accounting Standards Board (in the United States of America)
Government	Australian Federal Government
GS	Guidance Statement
IAS	International Accounting Standard issued by the predecessor to the IASB
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee, and interpretations of IFRS issued by this the IFRS Interpretations Committee (formally IFRIC)
IFRS	International Financial Reporting Standards issued by the IASB
Reg	Regulation of the <i>Corporations Act 2001</i>
RG	ASIC Regulatory Guide
S	Section, <i>Corporations Act 2001</i>
SAC	Statement of Accounting Concept issued by the AASB
SIC	Standing Interpretations Committee (replaced by IFRIC), and interpretations issued by this body
The Act	The <i>Corporations Act (2001)</i>

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Reduced disclosure regime entity (Tier 2 – RDR)

Registered scheme

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See also **Proprietary company – large**

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Financial reporting requirements	3.1.2.2
Foreign controlled relief	3.3.2.3
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See also **Proprietary company**

Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small

## Public company

Reduced disclosure regime entity (Tier 2 – RDR)  
Registered scheme  
Reporting entity (GPFS)

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Concise financial reports	4.3
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Consideration of financial reports at AGM	3.2.3
Consolidated financial statements	3.1.5
	5.4.6.1
Content of financial reports	4.2.1
Continuous disclosure – ASX	3.4.5
	6.4
Definition	2.1.2
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Dual lodgement arrangements	3.4.4
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Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small

Public company

Reduced disclosure regime entity (Tier 2 – RDR)  
Registered scheme  
Reporting entity (GPFS)

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Half-year reporting Inclusion of parent entity financial statements	3.3.2.9
Individual financial statements	5.4.6.2
Interim financial report	4.4
Lead auditor’s independence declaration	4.2.4
Listed company	2.1.2.1
Non-IFRS financial information	4.1.7
Parent entity drop out	5.4.6.1
Pro-forma information	4.1.6
Remuneration reports	4.2.3.4
Reporting to members	3.2
Restatement of financial statements	4.1.5
Rounding of amounts	4.1.8
Separate financial statements	5.4.6.3
Share capital reductions	6.6



Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small

Public company

Reduced disclosure regime entity (Tier 2 – RDR)  
Registered scheme  
Reporting entity (GPFS)

Solvency declaration	4.2.2.3
Solvency resolution	6.3
Transfer of information from the directors' report	4.2.5
True and fair view	4.2.2.1
Wholly-owned entities relief	3.3.2.1

See also **Company limited by guarantee**

Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small  
Public company

**Reduced disclosure regime entity (Tier 2 – RDR)**

Registered scheme  
Reporting entity (GPFS)

Application of AASB 1053	5.2
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Consolidated and separate financial statements	5.4.1
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Moving between Tiers	5.2.3
Public accountability	5.2.1.1
Tier 1	5.2.1
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Transitional provisions	5.2.3
True and fair view	4.2.2.1



Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small  
Public company  
Reduced disclosure regime entity (Tier 2 – RDR)

**Registered scheme**

Reporting entity (GPFS)

Annual reporting – ASX	3.4.3
Annual reporting requirements matrix	3.1.1
Annual statements	6.2
Audit requirements	4.1.9
CEO or CFO sign off of financial report	4.2.2.2
Comparative information	4.1.4
Concise financial reports	4.3
Content of financial reports	4.2.1
Continuous disclosure – ASX	3.4.5
	6.4
Definition	2.2
Directors’ declaration	4.2.2
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Dual lodgement arrangements	3.4.4
Early adoption of accounting standards	4.2.1.2
Financial records	6.1
Financial reporting requirements	3.1.1
Financial reports	4.1
Financial years and half-years	4.1.3
Going concern	5.5
Half-year reporting	3.4.2
IFRS compliance	4.2.1.1
Individual financial statements	5.4.6.2
Interim financial report	4.4
Lead auditor’s independence declaration	4.2.4



Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small  
Public company  
Reduced disclosure regime entity (Tier 2 – RDR)

**Registered scheme**

Reporting entity (GPFS)

Non-IFRS financial information	4.1.7
Parent entity drop out	5.4.6.1
Pro-forma information	4.1.6
Reporting to members	3.2
Restatement of financial statements	4.1.5
Rounding of amounts	4.1.8
Separate financial statements	5.4.6.3
Solvency declaration	4.2.2.3
Solvency resolution	6.3
Transfer of information from the directors' report	4.2.5
True and fair view	4.2.2.1

Australian financial services licenses holder (AFSL)  
Company limited by guarantee  
Disclosing entity  
Foreign company  
Non-reporting entity (SPFS)  
Proprietary company  
Proprietary company – large  
Proprietary company – small  
Public company  
Reduced disclosure regime entity (Tier 2 – RDR)  
Registered scheme

Reporting entity (GPFS)

Application of AASB 1053	5.2
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Consolidated and separate financial statements	5.4.1
	5.4.4
Definition	5.1.1
Exemption from consolidation requirements	5.4.2
Financial statements decision tree	5.3.2.3
General purpose financial statements	5.3.1
Public accountability	5.2.1.1
Tier 1	5.2.1
Tier 2	5.2.2

# 1. The Australian financial reporting environment

## Overview

- Companies, Registered Schemes, and Disclosing Entities are regulated under the Corporations Act (2001) ('the Act').
- The Australian Securities and Investment Commission ('ASIC') is Australia's corporate, markets and financial services regulator and is responsible for the administration of the Act.
- Listed entities are subject to additional financial reporting requirements which are set out in the listing/ operating rules of the Australian Stock Exchange ('ASX') or other prescribed financial market.
- Additional financial reporting requirements may exist under other legislation and/or the governing documents of an entity.
- Entities required to report under the Act must comply with all relevant accounting standards.
- The primary responsibility for setting accounting standards under the Act rests with the Australian Accounting Standards Board ('AASB').
- The AASB uses International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB') as the basis of Australian Accounting Standards ('AASBs') with some exceptions, relating to superannuation, government and not-for-profit accounting and certain additional requirements relating to the insurance and extractive industries.
- Each entity is required to perform an assessment of whether in complying with AASBs, its financial statements also comply with IFRS.

## 1.1 Regulatory requirements

### 1.1.1 What financial reporting regulations are entities subject to?

#### 1.1.1.1 Corporations Act 2001 ('the Act')

The legislative requirements for the preparation of financial reports of companies, disclosing entities, and registered schemes are set out in Chapter 2M – *Financial Reports and Audit* and Regulations of the Act (a Federal Act). These requirements are discussed in further detail in section [3.1](#).

#### 1.1.1.2 Listing Rules

For entities listed on the ASX, the ASX Listing Rules ('LR') contain additional financial reporting requirements. These requirements are discussed in section [3.4](#). Similar operating rules also apply for other prescribed financial market stock exchanges.

The Act enables the Court to make orders requiring compliance with the ASX or other exchanges' listing rules on the application of the Australian Securities and Investment Commission ('ASIC'), ASX, or an aggrieved person. [S793A, B, C]

#### 1.1.1.3 Other legislation and Governing Constitutions

Other legislation that may require the preparation of financial statements includes, but is not limited to:

- Associations Incorporation Acts (State based legislation)
- Cooperatives Acts (State based legislation)
- Superannuation Industry (Supervision) Act 1993
- Workplace Relations Act 1996.

In addition to the statutory financial reporting requirements, an entity's governing documents may contain financial reporting requirements (e.g. a trust deed, partnership, joint venture agreement, constitution).

### 1.1.2 Who regulates the financial reporting system?

#### 1.1.2.1 ASIC

ASIC is Australia's corporate, markets and financial services regulator. ASIC is an independent Commonwealth Government body set up to administer the Australian Securities and Investments Commission Act ('ASIC Act') and carries out most of its work under the Act.

#### 1.1.2.2 ASX and other prescribed market exchanges

The ASX is a regulated commercial organisation that monitors the governance of listed companies and the on-exchange or on-market trade execution by brokers. ASX does so as a condition of the licences it has been granted by the Government. Other prescribed market exchanges, such as the National Stock Exchange also perform a similar function.

#### Chi-X

Chi-X is a licensed financial market that commenced operation in Australia on 31 October 2011. It is an alternative trading venue for trading of securities listed by entities on the ASX.

There are no requirements to lodge documents with Chi-X. Listed entities continue to deal with the ASX in relation to their continuous disclosure obligations. There are no additional compliance obligations for listed entities in relation to Chi-X.

#### 1.1.2.3 Australian Charities and Not-for-profits Commission (ACNC)

The ACNC is the independent national regulator of charities. The ACNC has been set up to maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency, support and sustain a robust, vibrant, independent and innovative not-for-profit sector, and promote the reduction of unnecessary regulatory obligations on the sector.

The ACNC registers organisations as charities, helps charities understand and meet their obligations through information, guidance, advice and other support, maintains a free and searchable public register so that anyone can look up information about registered charities, and is working with state and territory governments to develop a 'report-once, use-often' reporting framework for charities.

From the date a company or registered body is registered with the ACNC, some of its reporting obligations to ASIC no longer apply. Instead it will have obligations to the ACNC. This continues for as long as the company or registered body remains a registered charity. If the entity is deregistered with the ACNC, its obligations to ASIC will resume.

As a registered charity with the ACNC:

- A company and registered body do not need to lodge financial reports for years commencing on or after 1 July 2013 with ASIC. Instead, medium (annual revenue between \$250,000 and \$1 million) and large (annual revenue greater than \$1 million) charities registered with the ACNC will be required to provide annual financial reports to the ACNC.
- A public company no longer needs to lodge changes to its constitution with ASIC or tell ASIC of the adoption or repeal of a constitution.
- A company is no longer required to send a copy of its constitution to members who request a copy.
- A company and registered body is no longer required to notify ASIC of a change of their address details, including their registered office address, principal place of business address or contact address. The ACNC will advise ASIC of changes to the registered office address of a company.
- A company and registered body is no longer required to notify ASIC of the appointment, resignation or retirement of directors, secretaries and alternate directors or submit personal details of directors and secretaries.
- A company will not be sent an annual statement each year (on the company's review date) and will not have to review their details or pay the ASIC annual review fee.

All other obligations under the *Corporations Act 2001* will continue to apply until further changes are introduced in July 2013.

The federal government, in January 2014, has flagged that it intends to abolish the ACNC. To date no legislative action has been undertaken to affect this intention.

#### 1.1.2.4 Financial Reporting Panel ('FRP')

The FRP was a statutory authority established to determine contested issues between ASIC and entities concerning the application of accounting standards and the true and fair view requirement in financial reports. The FRP was established to remove the need to initiate legal proceedings in Court in order to resolve disputes about financial reporting matters.

Due to the lack of matters being referred to the FRP, its functions and powers were repealed in September 2012. This was done in such a manner that courts or tribunals need to continue to have regard to previous reports by the panel. The FRP therefore no longer exists, however, its reports still stand.

#### 1.1.3 Other regulatory bodies

The Council of Financial Regulators is the co-ordinating body for Australia's main financial regulatory agencies. Aside from ASIC, the council includes the following regulators:

##### *Australian Prudential Regulation Authority ('APRA')*

APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies, and most members of the superannuation industry.

### *Australian Treasury ('Treasury')*

Treasury has responsibility for advising the Government on financial stability issues and for the legislative and regulatory framework. It provides advice to the Government on policy processes and reforms of the financial system, on company law, corporate governance issues, insolvency, financial reporting and electronic commerce. It oversees agencies connected to corporate regulation described above such as APRA and ASIC as well as the Australian Taxation Office ('ATO') and the Financial Reporting Council (see section [1.2.2.1](#)).

### *Reserve Bank of Australia ('RBA')*

The RBA's main responsibility is monetary policy. Policy decisions are made by the RBA Board, with the objective of achieving low and stable inflation over the medium term. Other major roles are maintaining financial system stability and promoting the safety and efficiency of the payments system. The RBA is an active participant in financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Australian Government.

## 1.2. The Accounting Standards

### 1.2.1 Who must comply with accounting standards?

#### 1.2.1.1 Corporations Act entities

Entities required to report under the Act must comply with all relevant accounting standards. [S296] The accounting standards, for the purpose of the Act, are standards issued by the Australian Accounting Standards Board. [S334] The application of accounting standards to reporting and non-reporting entities is discussed in sections [5.1](#) and [5.3](#). The application of accounting standards to those that must comply with all relevant accounting standards (Australian Accounting Standards) and those that may comply with the reduced disclosure versions (Australian Accounting Standards – Reduced Disclosure Requirements) are discussed in section [5.2](#).

The financial statements are required to give a true and fair view of the financial position and performance of the entity (see section [4.1.2](#) for the composition of financial statements). The accounting standards must be complied with as a minimum, however additional information must be disclosed by directors, if necessary, to give a true and fair view of the entity or consolidated entity that is being reported on. [S295(3), S297]

ASIC has discretion to grant relief from the financial reporting provisions in the Act provided certain statutory preconditions are met. These are discussed further in section [3.3](#).

#### 1.2.1.2 Non-Corporations Act entities

For entities not subject to the Act, Professional Standard APES 205 *Conformity with Accounting Standards*, issued by the Accounting Professional & Ethical Standards Board Limited ('APESB') addresses conformity with accounting standards and is applicable to members of the three major accounting bodies in Australia, being the Institute of Chartered Accountants in Australia ('ICAA'), CPA Australia, and the Institute of Public Accountants ('IPA'). [APES 205 1.3 and 2]

Members of these bodies who prepare, present, audit, review, or compile general purpose financial statements that purport to comply with the Australian Financial Reporting Framework are required to take all reasonable steps to apply Australian Accounting Standards. The Australian Financial Reporting Framework is defined as the framework that uses Australian Accounting Standards as the Applicable Financial Reporting Framework and is adopted by those charged with governance when preparing financial statements.\*\* [APES 205 2 Definitions]

Members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of the special purpose financial statements of an entity are required, except where it is reasonable to expect that the financial statements will be used solely for internal purposes, to take all reasonable steps within their power to ensure that the special purpose financial statements, and any audit, review, or compilation report clearly identifies:

- that the financial statements are special purpose financial statements
- the purpose for which the special purpose financial statements have been prepared
- the significant accounting policies adopted in the preparation and presentation of the special purpose financial statements.

The distinction between general and special purpose financial statements is discussed in section [5.3](#). Certain legislation governing non-Corporations Act entities may also refer back to the financial statements prepared in accordance with the Act. In the absence of a legislative requirement, the constitutions of certain unincorporated entities, such as trusts, partnerships and joint ventures often also require preparation of financial statements in accordance with Australian Accounting Standards. The application of accounting standards to those that must comply with all relevant accounting standards (Australian Accounting Standards) and those that may comply with the reduced disclosure versions (Australian Accounting Standards – Reduced Disclosure Requirements) are discussed in section [5.2](#).

\*\* APES 205 has not yet been updated to reflect the implications of adopting Reduced Disclosure Requirements (AASB 1053).



1.2.2 Who is responsible for setting accounting standards?

1.2.2.1 Standard setting process

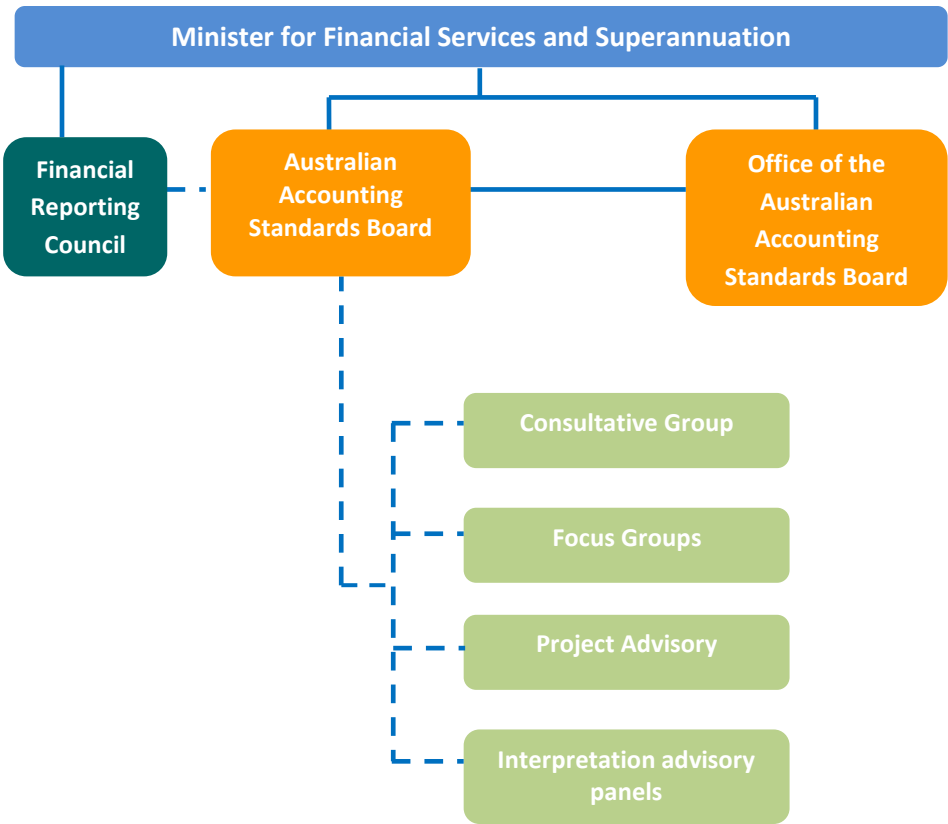
Organisational structure

The primary responsibility for setting accounting standards and developing a conceptual framework rests with the AASB. Comments and input are sought from various users, preparers, and other interested parties usually through issuing an Exposure Draft ('ED') prior to finalising a new or revised accounting standard. Also, discussion papers and invitations to comment may be issued in the phase prior to an ED being prepared. AASB meetings are held in public and most agenda papers are publicly available prior to the meeting.

The Financial Reporting Council ('FRC') has a strategic oversight responsibility for the AASB, however is limited to an advisory role in relation to the AASB's priorities, business plans, procedures, budgets and staffing arrangements. This is to ensure the independence of the standard setter.

Members of the FRC are appointed by the Treasurer and include members appointed from nominations put forward by key stakeholder groups, as well as members appointed independently of stakeholder interests.

The Treasurer is responsible for appointing the chair of the FRC and the chair of the AASB.



Source: Australian Accounting Standards Board

Responsibilities of the AASB

The AASB has the power to make accounting standards for companies, registered schemes and disclosing entities. [S334 Corporations Act 2001, S227 ASIC Act 2001]

The AASB's power to make accounting standards for other entities is provided where other legislation refers specifically to compliance with AASBs, for example, in government and public sector financial reporting requirements and also through the professional requirements of the ICAA, IPA and CPA Australia (see section [1.2.1.2](#)).

1.2.2.2 What is the role of the International Accounting Standards Board ('IASB') and International Financial Reporting Standards ('IFRS')?

- The AASB uses IFRSs issued by the IASB as the basis of preparation of Australian Accounting Standards as a result of a directive from the FRC. In adopting IFRS, the AASB's overall approach has been to adopt the content and terminology used in IFRS, with extra modifications to:
- provide exemptions or modified application to particular accounting requirements for not-for-profit entities (entities whose principal objectives do not include the generation of profit as defined in AASB 102 Aus6.1)
  - increase the number of disclosures required in the financial statements where they are considered particularly relevant to the Australian reporting environment
  - provide accounting interpretations for Australian specific issues.

As a result of these modifications, each entity must perform its own assessment of whether in addition to complying with Australian Accounting Standards, it can also claim compliance with IFRS.

S295(4)(ca) requires directors' declarations attached to the financial statements to include reference to any statement of IFRS compliance (see section 4.2.2).

1.2.3 Comparison between AASB and IFRS Accounting Standards terminology

The following table compares the AASB standards with the equivalent IFRS standards, where they exist.

Issuer	AASB terminology	IFRS terminology
AASB/IASB	AASB standard 1 onwards	IFRS standard 1 onwards
AASB/IASC*	AASB standards 101 – 141	IAS standards 1 – 41
AASB	<ul style="list-style-type: none"><li>• AASB Australian specific standards 1000 onwards</li><li>• AASB series 20XX – XX onwards (amending existing AASB's)</li><li>• AAS 25 <i>Accounting for Superannuation Plans</i> (see 1.2.4.4)</li></ul>	No equivalent standards
AASB/IFRIC (see 1.2.4.2)	Interpretations 1 onwards	IFRIC Interpretation 1 onwards
AASB/SIC*	Interpretations 101 – 132	SIC 1 – 32
AASB/UIG*	AASB Interpretations Australian specific interpretations 1001 onwards	No equivalent
AASB/IASB	AASB framework	IASB framework
ASRB*	<ul style="list-style-type: none"><li>• Statement of Accounting Concept 1 <i>Definition of the Reporting Entity</i> ('SAC 1')</li></ul>	No equivalent statements

The IASB standard IFRS for SME's (Small, Medium Enterprises) has no Australian equivalent and cannot currently be used in Australia.

\* Predecessor Accounting / Interpretation Standard Setters

- International Accounting Standards Committee ('IASC') the predecessor to the IASB
- Standing Interpretations Committee ('SIC') the predecessor to the IFRIC which is now called IFRS Interpretations Committee
- Urgent Issues Group ('UIG') previous committee whose responsibilities now absorbed by AASB
- Accounting Standards Review Board ('ASRB') predecessor to the AASB.

## 1.2.4 Structure of accounting standards

### 1.2.4.1 Standards

AASBs comprise a series of bold-type and plain-type paragraphs. Generally the bold-type paragraphs outline the main principle, and the plain-type paragraphs provide further explanation. Both bold-type and plain-type paragraphs have equal authority and must be complied with.

The status of appendices to AASBs varies. A statement at the top of each appendix clarifies whether the appendix is illustrative only (indicating the standard does not have the same status as the standard itself) or whether it is an integral part of the standard. In our view, the guidance in an appendix should be followed except when it conflicts with the requirements of a standard or interpretation, or when the guidance merely represents an illustrative example, and it is clear that a standard or requirement can be complied with in different ways. [AASB 108.9, AASB 108.7]

For example, Appendix A *Application Guidance* is an integral part of AASB 139 *Financial Instruments: Recognition and Measurement* and is mandatory. In contrast, Appendix A *Example of Temporary Differences* is considered to accompany but not be part of AASB 112 *Income Taxes* – the examples being considered illustrative, and depending on the tax laws and specific circumstances of an entity, may or may not be relevant.

In addition to Application Guidance, the AASB may issue Implementation Guidance, for example Implementation Guidance AASB 2 *Share-based Payments*. Implementation Guidance does not form part of an accounting standard and is non-mandatory. However, there is a requirement to consider, but not necessarily apply, any Implementation Guidance in the selection of accounting policies.

### 1.2.4.2 Interpretations and Abstracts

The AASB issues interpretations to provide requirements concerning limited scope financial reporting issues. Since mid 2006, the AASB has had direct responsibility for developing both Australian equivalents of the International Financial Reporting Interpretations Committee ('IFRIC') Interpretations and domestic Interpretations. Before this period, the now defunct UIG had responsibility for issuing the equivalent interpretations.

AASB Interpretations are listed in AASB 1048 *Interpretation of Standards*, giving them legal authority under the Act alongside the Standards. For non-Corporations Act entities, Interpretations are also considered mandatory in the preparation and presentation of general purpose financial statements by members of the Accounting professional bodies due to the requirement to comply with Australian Accounting Standards, which includes AASB 1048 (see section [1.2.1.2](#)).

The AASB formally approves or rejects proposed new Interpretations. A proposed Interpretation may be published on the AASB website for a period of time, but has no authority. A proposed Interpretation approved by the AASB is formally issued as an AASB Interpretation. When an issue is rejected by the AASB for consideration, it publishes an agenda rejection statement. Whilst not authoritative, the rejection statement outlines the reasons why the AASB declined to issue an interpretation.

### 1.2.4.3 Hierarchy of generally accepted accounting principles

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* includes a hierarchy which provides entities with a basic structure for resolving issues in the absence of specific guidance in AASBs.

When AASBs do not cover a particular issue, management of the entity is required to use its judgement in developing and applying an accounting policy that results in relevant and reliable information.

[AASB 108.10]

Management should consider:

- the guidance and requirements in standards and interpretations dealing with similar and related issues
- the *Framework for the Preparation and Presentation of Financial Statements* ('the Framework'). [AASB 108.11]

Management also may consider the pronouncements of other standard-setting bodies (e.g. the US Financial Accounting Standards Board) that have similar conceptual frameworks, and other accounting literature and accepted industry practice, to the extent that they do not conflict with the standards, interpretations and the Framework. [AASB 108.12]

The AASB has revised AASB 1031 *Materiality* in December 2013 removing the additional Australian guidance on materiality. Existing accounting standards (AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*) contain guidance on materiality which is considered both sufficient and IFRS compliant. The revisions to AASB 1031 are not expected to change practice or to change the level of disclosure presently specified by accounting standards. See section 7.3 for further discussion.

#### 1.2.4.4 Entity specific standards

Historically, the AASB series were only applicable to entities required to comply with the Act and its predecessors, generally companies, disclosing entities and registered schemes. Australian Accounting Standards ('AASs') applied to all other entities such as public sector entities and trusts. However AASBs issued since August 2000 now apply to entities governed by the Act and any other entities preparing general purpose financial statements. The AASB has announced that no further AASs will be issued.

Although the AASB's stated intention has been to adopt accounting standards that are transaction neutral, it has, in relation to the following types of entities, continued to maintain the entity specific requirements for which guidance existed pre-implementation of IFRS.

##### *Superannuation entities*

In December 2013, the AASB has approved a new standard applying to superannuation entities, which is subject to fatal flaw review. The final standard will replace AAS 25 *Financial Reporting by Superannuation Plans* and is expected to apply to annual reporting periods beginning on or after 1 July 2016. Following the fatal flaw process, the final standard is expected to be made by the AASB in the 2<sup>nd</sup> quarter of 2014. Fatal flaw comments are due by 28 February 2014.

##### *Government entities*

Government specific reporting is addressed by the following AASB standards and interpretations:

- AASB 1004 *Contributions*
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting*
- AASB 1050 *Administered Items*
- AASB 1051 *Land Under Roads*
- AASB 1052 *Disaggregated Disclosures*
- AASB 1055 *Budgetary Reporting*
- AI 1038 *Contributions by Owners made to Wholly-Owned Public Service Entities*.

##### *Not-for-profit specific standards*

Unless otherwise specified, most AASBs contain guidance for both profit and not-for-profit entities.

For some AASBs, the application date for not-for-profit entities for new or amending AASBs has been delayed compared to the application date for for-profit entities. As at 31 January 2014, this is the case for the following AASB standards, all of which are effective for not-for-profit entities for annual reporting periods beginning on or after 1 January 2014 (where for for-profit entities the effective date is 1 January 2013):

- AASB 10 *Consolidated Financial Standards*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 127 *Separate Financial Statements* (2011)
- AASB 128 *Investments in Associates and Joint Ventures* (2011).

In November 2013, the AASB also issued specific guidance for not-for-profit entities on determining when an entity controls another: AASB 2013-8 *Amendments to Australian Accounting Standards Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*. The standard adds an appendix to both AASB 10 and AASB 12 explaining how the principles contained within these standards apply from the perspective of not-for-profit entities.

In addition, the following standard applies to not-for-profit entities:

- AASB 1004 *Contributions*.

#### *Insurance industry*

The following standards contain Australian specific requirements additional to AASB 4 *Insurance Contracts*:

- AASB 1023 *General Insurance Contracts*
- AASB 1038 *Life Insurance Contracts*.

#### *Extractive Industry*

The Australian equivalent of IFRS 6, AASB 6 *Exploration for and Evaluation of Mineral Resources* contains additional Australian specific requirements for entities in this sector.

In addition, the following AASB interpretation applies:

- AI 1003 *Australian Petroleum Resource Rent Tax*.

## 2. Entities governed by the Corporations Act 2001

### Overview

- Reporting obligations under the Act depend on the type of entity involved.
- Companies are classified according to the type of shareholder liability, and whether they are public or proprietary, and if proprietary, large or small.
- Companies that are charities registered with the ACNC (usually companies limited by guarantee) are no longer required to lodge financial reports with ASIC (see section [1.1.2.3](#)).
- Small proprietary companies are not required to prepare financial reports unless they are foreign controlled, shareholders direct them to do so or ASIC requests financial reports.
- Small companies limited by guarantee are not required to prepare financial reports unless the members direct them to do so or ASIC requests financial reports.
- Public companies other than small companies limited by guarantee, large proprietary companies and registered schemes must prepare and lodge audited or reviewed financial reports with ASIC.
- Disclosing entities have additional reporting obligations, including half-year reporting and continuous disclosure requirements.

## 2.1 Companies

Companies are classified according to the type of shareholder liability, and whether they are public or proprietary, and if proprietary, large or small. The table below sets out the types of companies permitted by the Act.

Type of company	Liability				
	Limited by shares	Limited by guarantee**	Limited by shares and guarantee*	Unlimited liability with share capital	No liability
<b>Proprietary</b>					
Small	✓			✓	
Large	✓			✓	
<b>Public</b>					
Companies limited by guarantee					
Tier I (small)		✓			
Tier II		✓			
Tier III		✓			
Other	✓		✓	✓	✓

\* A company limited by both shares and guarantee that existed at 1 July 1998 continues to exist but new companies cannot be registered as limited by both shares and guarantee. [S112]

\*\* S285A provides a three tiered differential reporting framework for companies limited by guarantee. (See section [2.1.2](#)).

### 2.1.1 Proprietary companies

The definition of proprietary company in the Act includes companies that are either registered as proprietary or convert to one. [S45A(1)]

To register, convert and remain registered as a proprietary company, the company must:

- be limited by shares, or be an unlimited company with a share capital
- have no more than 50 non-employee shareholders
- not engage in any activity which would require disclosure to investors under the fundraising provisions of Chapter 6D of the Act (except for offers of shares to existing shareholders and employees of the company or its subsidiary). [S113]

Proprietary companies must be classified as either 'large' or 'small' companies. The implications of this classification are that generally:

- large proprietary companies must prepare and lodge audited financial reports with ASIC
- small proprietary companies are not required to prepare financial reports unless they are foreign controlled, shareholders direct them to do so or ASIC requests financial reports.

There are, however, a number of exceptions to these general requirements that are detailed in section [3.3](#).



**Large or small proprietary companies**

The large or small classification is determined in accordance with S45A as follows:

	Where two of the following conditions are met, the company is:	
Condition	Large	Small
Consolidated revenue for the financial year	≥ \$25 million	< \$25 million
Consolidated gross asset value as at the end of the financial year	≥ \$12.5 million	< \$12.5 million
Employees of company and controlled entities as at the end of financial year	≥ 50	< 50

Any proprietary company that does not satisfy at least two of the three conditions for large proprietary companies is a small proprietary company and vice-versa.

*Large/small test*

The Act specifies that the large and small test requirements be applied on a consolidated basis. [S45A(2), S45A(3)] 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*.

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 (see section 5) and does not apply all accounting standards.

As the large/small test is performed annually at financial year end, companies that are close to the thresholds should consider performing the tests prior to year end to assess whether they are likely to move from small to large. When moving to large status a company has four months to prepare and lodge its financial report (see section 3.1.2). In addition, even if preparing a special purpose financial report it will need to provide comparative information (see section 5.3.2.1).

*Consolidated revenue*

Whilst ASIC currently does not have any official guidance to define what is within consolidated revenue for the large/small test, in our view revenue should be measured in accordance with AASB 118 *Revenue* and AASB 111 *Construction Contracts*. This means that transactions that do not generate revenue under AASB 118 and AASB 111, such as gross proceeds or net profit from the sale of fixed assets, fair value gains, and share of profit of equity-accounted investees, should not be included when performing this test.

*Consolidated gross assets*

In the past, ASIC has defined gross assets as “the total of current and non-current assets measured at their appropriate carrying values”. 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. [S45A(6)]

In the past, ASIC has provided the following examples of the treatment of certain items in calculating gross assets:

- there is no adjustment to add back accumulated depreciation, amortisation or doubtful debt provisions
- there are no adjustments for valuations that have not been recognised in the statement of financial position
- when a company is a corporate trustee for a trading trust, a right of indemnity would typically only be recognised in its statement of financial position when a liability in respect of trust liabilities is also recognised.



### *Employees*

The Act does not define 'employee'. In the past ASIC has stated that the main criteria considered when determining whether a person is an employee is whether the employer has a right of control over the employee's manner of doing work. This control may or may not be exercised. The number of employees is measured by reference to full-time equivalent employees at the end of the financial year. [S45A(5)]

### *Financial year*

The size tests above are applied for a particular financial year and there are no provisions to scale the size tests in S45A. Thus the effect of these provisions may result in an entity that would otherwise be large being classified as small or vice-versa in the limited situations where different lengths of financial years are permitted (see sections [4.1.3.2](#) and [4.1.3.3](#)).

### **Preparation of financial reports by small proprietary companies**

Despite being small for statutory purposes, a proprietary company may still prepare and/or lodge audited financial statements for other reasons. For example, loan covenants may require financial statements to be provided to a bank and may require the financial statements to be audited. Alternatively, shareholders may direct small proprietary companies to prepare audited financial statements as allowed by S293. The type of financial statements required is discussed further in section [5.3.2.1](#).

In addition, dividends of companies may only be paid if the solvency test in S254T is satisfied under the Act, therefore, companies may choose to prepare financial statements to determine their ability to pay dividends.

Before finalising the decision to take advantage of "small" exemptions, the directors should carefully consider this decision. KPMG recommend directors minute the rationale for their decision.

## **2.1.2 Public companies**

Public companies are companies that are not proprietary companies, and include listed companies, companies limited by guarantee and no liability companies. [S112(1)]

Compared with large proprietary companies, public companies:

- are required to hold annual general meetings [S250M]
- have more stringent requirements in relation to member and director resolutions [S248A, S249B]
- are subject to additional disclosure requirements within directors' reports [S300(1)]
- do not have any class orders available to provide relief from the requirement to have their financial report audited. [S301(1)/ CO 98/1417, CO 98/1418, CO 03/392]

See financial reporting requirements for public companies section [3.1.1](#).

### **2.1.2.1 Listed companies**

#### *Securities on a prescribed financial market*

All companies with securities listed on a prescribed financial market are considered to be listed companies. [Reg 1.0.02A] A prescribed financial market includes at the date of this publication, the following exchanges:

- Australian Pacific Exchange Limited
- Australian Stock Exchange Limited
- Chi-X Australia Pty Ltd
- National Stock Exchange of Australia Limited
- SIM Venture Securities Exchange Ltd.

In addition to financial reporting requirements applying to public companies, listed companies are subject to interim reporting, continuous disclosure, earlier reporting deadlines, and exchange listing rules (as summarised in section [3.4](#)).

2.1.2.2 Companies limited by guarantee

A company limited by guarantee limits the liability of its members to the respective amounts that the members undertake to contribute to the property of the company if it is wound up.

Companies limited by guarantee are classified as either Tier I (small), Tier II or Tier III. The implications of this classification are that generally:

- Tier I (small) are not required to prepare financial reports unless members direct them to do so or ASIC requests financial reports
- Tier II must prepare and lodge reviewed financial reports with ASIC\*
- Tier III must prepare and lodge audited financial reports with ASIC\*.

\* Note – those companies that are charities registered with the ACNC have no financial reporting obligations under the Act (see below for further detail).

Tier II companies may elect to have financial reports audited.

The following companies that meet the revenue test (discussed below) and qualify as Tier II must have their financial reports audited (i.e. not reviewed):

- a Commonwealth company for the purposes of the *Commonwealth Authorities and Companies Act 1997*
- a subsidiary of a Commonwealth company for the purposes of the *Commonwealth Authorities and Companies Act 1997*
- a subsidiary of a Commonwealth authority for the purposes of the *Commonwealth Authorities and Companies Act 1997*.

Tier II and III companies must also prepare a directors' report in accordance with S300B.

A three tier classification applies in accordance with S45B and S285A as follows:

Condition	Tier I	Tier II	Tier III
Consolidated revenue at the end of the financial year	< \$250,000 and do not have deductible gift recipient status at anytime during the financial year (Note 1)	< \$250,000 and do have deductible gift recipient status > \$250,000 but < \$1 million irrespective of whether the company is a deductible gift recipient.	> \$1 million irrespective of whether the company is a deductible gift recipient.

Note 1

To qualify as a Tier I company it must also not be one of the following:

- a Commonwealth company for the purposes of the *Commonwealth Authorities and Companies Act 1997*
- a subsidiary of a Commonwealth company for the purposes of the *Commonwealth Authorities and Companies Act 1997*
- a subsidiary of a Commonwealth authority for the purposes of the *Commonwealth Authorities and Companies Act 1997*
- a transferring financial institution of a State or Territory as defined in Schedule 4 of the Corporations Act
- a company that is permitted to use the expression 'building society', 'credit society' or 'credit union' under Section 66 of the *Banking Act 1959* at any time during the financial year.

The term 'deductible gift recipient' is generally defined in section 30-277 of the *Income Tax Assessment Act 1997* to mean an entity or government entity that is a fund, authority or institution described in the table in section 30-15 of that Act, and is either endorsed under subdivision 30-BA as a deductible gift recipient or is mentioned by name in that table or in Subdivision 30-B. A taxpayer can claim a deduction in his or her income tax return for any gift or donation made to a 'deductible gift recipient'.

### Three tier test

The Act specifies that the revenue test 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*.

For the purposes of the revenue test, consolidated revenue 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 (see section [5](#)) and does not apply all accounting standards.

As the revenue test is performed annually at financial year end, companies that are close to the threshold should consider performing the test prior to year end to assess whether it is likely to move to another tier. When moving to another tier, the company may have to comply with different reporting requirements (see section [3.1.1](#)). In addition, even if preparing a special purpose financial report it will need to provide comparative information (see section [5.3.2.1](#)).

### Consolidated revenue

Whilst ASIC currently does not have any official guidance in defining what is within consolidated revenue for the above test, in our view revenue should be measured in accordance with AASB 118 *Revenue* and AASB 111 *Construction Contracts*. This means that transactions that do not generate revenue under AASB 118 and AASB 111, such as gross proceeds or net profit from the sale of fixed assets, fair value gains, and share of profit of equity-accounted investees, should not be included when performing this test.

### Corporations Act issue

When assessing whether an entity meeting the definition of a small company limited by guarantee, S45B(1)(c), states where the company is required by accounting standards to be included in consolidated financial statements, that the consolidated revenue should be less than the threshold amount (currently \$250,000).

Where company A controls subsidiaries B and C, then it is clear that for A the revenue in the consolidated financial statements is the amount to compare against the defined threshold amount. The issue becomes what happens when measuring for subsidiaries B and C?

- it could be argued that subsidiaries B and C should also determine their classification based on the consolidated revenue of A rather than their own entity revenue – under a strict reading of the law as currently drafted.
- others argue that only the revenue of the company in question needs to be compared to the threshold amount. This is based on the intent of the wording is not clear and that the related Explanatory Memorandum implied the test would be consistent with testing for determining small proprietary companies under S45A.

Directors should choose a methodology and apply it consistently, documenting clearly what they have done.

### Financial year

The Tier tests above are applied for a particular financial year and there are no provisions to scale the Tier tests in S45B. Thus the effect of these provisions may result in an entity moving between Tiers in the limited situations where different lengths of financial years are permitted (see sections [4.1.3.2](#) and [4.1.3.3](#)).

### *Preparation of financial reports by small companies limited by guarantee*

Despite being small for statutory purposes, a company limited by guarantee may still prepare financial statements and have them audited or reviewed for other reasons.

For example, the members or ASIC may direct small companies limited by guarantee to prepare audited financial statements as allowed by the Act. [S294A, S294B] The type of financial statements required is discussed further in section [5.3.2.1](#).

### *Registered with the Australian Charities and Not-for-profits Commission ('ACNC')*

The ACNC registers organisations as charities – with companies limited by guarantee being a common type of company structure used by charities (and other not-for-profit purposes). Some reporting obligations under the Act do not apply to companies and registered bodies that are registered with the ACNC. This continues for as long as the company remains a registered charity. If it is deregistered with the ACNC, the obligations to ASIC resume.

For years commencing on or after 1 July 2013, companies that are registered with the ACNC do not need to lodge financial reports with ASIC as regulation and reporting for such entities is assumed by the ACNC. See section [1.1.2.3](#) for further information relating to the ACNC.

## **2.1.3 Foreign companies**

A foreign company is a company:

- incorporated outside of Australia, with the exception of sole corporations, or an unincorporated body that is formed outside of Australia
- capable of suing or being sued
- with a secretary or a designated officer able to hold property; and
- with its head office or principal place of residence in Australia. [S9]

### **2.1.3.1 Registered Foreign Company**

A foreign company undertaking business in Australia is required to be registered. A registered foreign company has distinct requirements from domestic public and proprietary companies, in that it must lodge its (foreign) statement of financial position, statement of cash flows and statement of profit or loss and other comprehensive income for the last year (S601CK) during the year and is not subject to the same requirements that a domestic company would be subject to. Each of the statements must be prepared even if the amounts recorded are nil. A note stating that revenues, expenses or cash flows are nil is not adequate. ASIC will not accept non-lodgement of a statement for reason that amounts are nil.

Certain lodgement relief may be extended by ASIC (see section [3.3.2.2](#)).

### **2.1.3.2 Dual listed company arrangements**

Companies with dual listings on exchanges outside Australia are not exempted from the requirements for listed companies to lodge annual and half-year financial reports under the Act. In addition, where financial reports are lodged with overseas exchanges, the same information must be made available to members. [RG 29]

Certain relief however may be available from the requirement to distribute single entity financial statements for the Australian listed entity, where summarised information is included in the full financial report and the single entity financial information is available on request and on the entity's website (refer RG 29 *Financial Reporting by Australian Entities in Dual-listed Company Arrangements*).

## 2.2 Registered schemes

A registered scheme is a managed investment scheme which is registered under Part 5C.1 of the Act. These mainly comprise retail unit trusts.

A managed investment scheme must be registered when:

- it has more than 20 members
- it was promoted by a person or an associate who, when the scheme was promoted, was in the business of promoting managed investment schemes
- ASIC has determined that a number of managed schemes are closely related and the total number of members in these schemes exceeds 20. [S601ED(1)]

Each registered scheme must have a responsible entity to operate the scheme. The responsible entity must be a public company that holds an Australian Financial Services ('AFS') Licence authorising it to operate a managed investment scheme. [S601FA, FB]

The responsible entity is responsible for compliance with the financial reporting obligations under Part 2M.3 of the Act. In addition, the directors of the responsible entity are taken to be directors of the scheme and debts incurred in operating the scheme are taken to be debts of the scheme. [S285(3)]

See financial reporting requirements for registered schemes in section [3.1.1](#).

## 2.3 Other classifications of entities

The following classifications of entities referred to by the Act impose additional requirements on a company, registered scheme or any other entity subject to the Act.

### 2.3.1 Disclosing entities

Disclosing entities typically include, but are not limited to, listed companies, registered managed investment schemes, and entities issuing borrowings where a trustee must be appointed.

An important distinction to note is that a disclosing entity will always be a reporting entity (see section [5.1](#)), however, a reporting entity is not necessarily a disclosing entity. For example, a proprietary company with a large number of diverse shareholders would likely be a reporting entity, but is not a disclosing entity.

Compared to an unlisted public company, disclosing entities have significantly increased reporting requirements, including half-year reporting, continuous disclosure and earlier reporting deadlines (see section [3.1.1](#))

#### 2.3.1.1 Enhanced Disclosure ('ED') Securities

Disclosing entities are defined by reference to whether they have issued ED securities. [S111AC]

ED securities are defined, in general, to include:

- securities that are included in a licensed market's official list (listed entities – see section [2.1.2.1](#)) [S111AE]
- securities held by 100 or more persons at all times since issue (except for debentures and managed investment products) [S111AF, AG]
- managed investment products held by 100 or more persons at lodgement date (where the requirement to issue a Product Disclosure Statement ('PDS') exists) [S111AFA]
- securities issued as consideration for an off-market takeover [S111AG]
- debentures where the borrower is required to appoint a trustee. [S111A]

Securities are defined as: [S92(3)]

- shares in a body
- debentures of a body
- interests in a registered managed investment scheme
- legal or equitable rights or interests in the above, or
- options to acquire a security above.

Securities do not include market traded options or derivatives, other than an option covered above. A market traded option means an option declared by an operator of a prescribed market to be a market traded option.

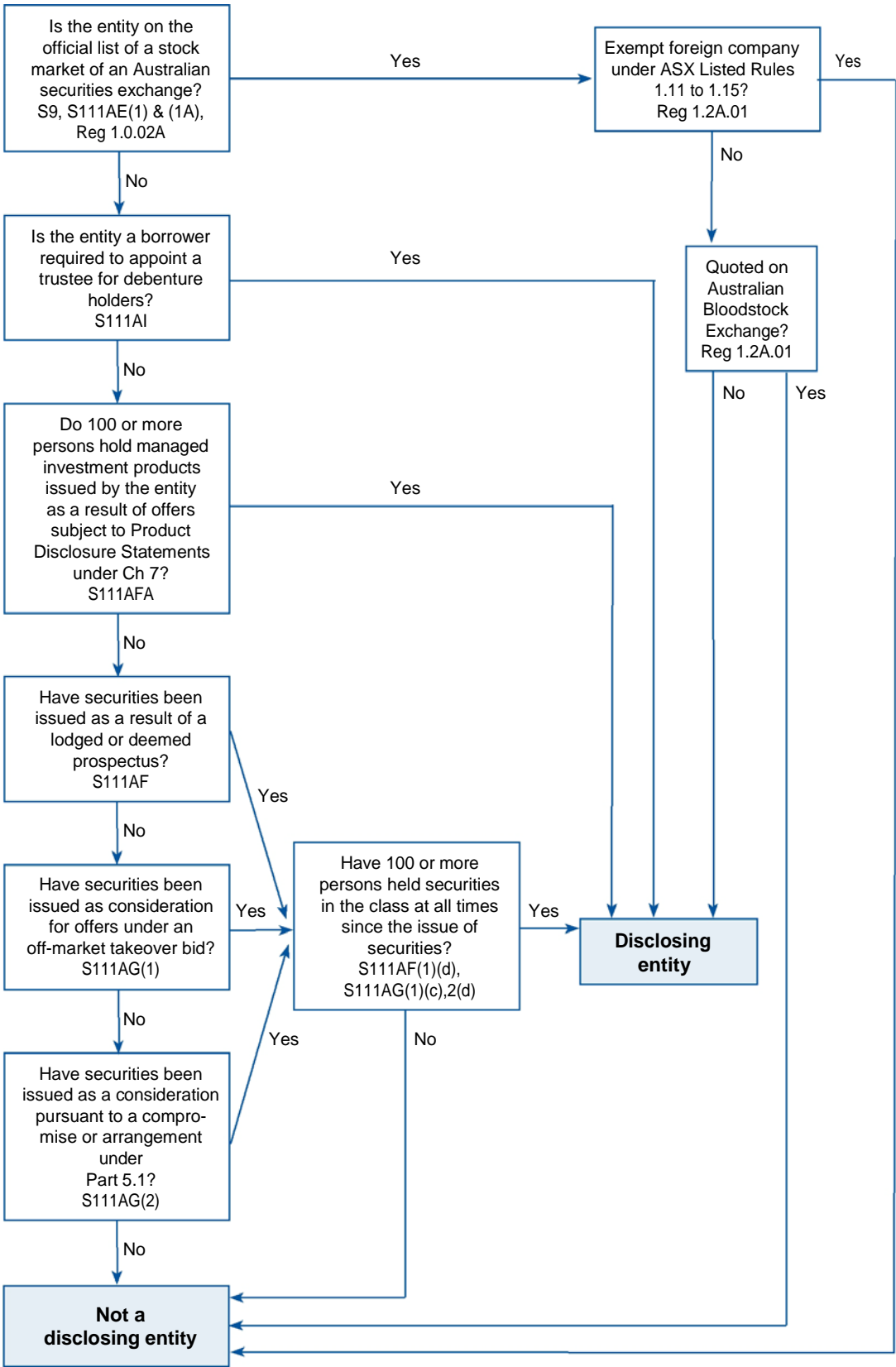
As set out above, the definition of ED securities also includes managed investment products subject to PDSs under Chapter 7 of the Act. Unlike the definitions for other securities there need only be 100 holders of the products at lodgement date. There is no requirement for there to have been 100 holders throughout the period. Accordingly, entities with managed investment products may fluctuate between disclosing and non-disclosing entity classification.

A **borrower**, in relation to a debenture, means the entity that is or will be liable to repay money under the debenture.

Unlisted entities may also be disclosing entities, for example unlisted public companies and unlisted unit trusts with more than 100 members which have issued/lodged deemed prospectuses are considered to have issued ED securities.

2.3.1.2      **Disclosing entity decision tree**

The following decision tree assists in determining whether an entity has issued ED securities and whether it is a disclosing entity:





### 2.3.1.3 Securities declared not to be ED securities

The following securities have been declared not to be ED securities:

- securities of a body that is listed on the ASX and meets the definition of an exempt foreign entity
- securities quoted on the Australian Bloodstock Exchange Limited. [Reg. 1.2A.01]

The following entities are also exempt from the disclosing entity provisions:

- foreign companies issuing securities under foreign scrip offers [Reg. 1.2A.02]
- foreign companies issuing securities under an employee share scheme. [Reg. 1.2A.03]

### 2.3.1.4 Non-corporate and non-registered schemes disclosing entities

For the purposes of classification of disclosing entities, a body means a body corporate or an unincorporated body. [S9] Consequently, any club, society, charity, trust or association, regardless of its corporate form is a disclosing entity, if it has issued ED securities. For example if it has issued:

- a prospectus to which more than 100 persons subscribed and continues to have more than 100 subscribers
- debentures and is required to appoint a trustee under S283AA.

These entities will be subject to the financial reporting and continuous disclosure provisions of the Act in addition to any other financial reporting obligations they may have under other legislation and their governing constitution.

### 2.3.2 Australian financial services licenses ('AFSL') holders

A business that offers financial services under the Act must hold an AFSL. Financial services include provision of deposit accounts, life and general insurance, superannuation and investments in managed funds, shares, debentures, and other more complex financial investments. [S911A]

AFSL holders are subject to certain additional financial reporting requirements and prudential requirements, which are discussed in section [3.1.3](#).

### 2.3.3 Stapled securities

A stapled security is where investors own two or more different securities which are generally related and contractually bound together through one vehicle. Typically, stapled securities consist of one trust unit and one share in the funds management company that cannot be traded separately, i.e. they must be traded together. The trust holds the portfolio of assets while the related company carries out the funds management and or development opportunities.

Each entity in the structure needs to consider its reporting responsibilities, depending on the type of entity it is (e.g. public company or registered scheme) and whether it controls other entities or not, in which case consolidated financial statements will need to be considered. Refer to section [3.1.4](#) for further discussion of reporting responsibilities. In addition the ability for entities in a stapled securities arrangement to prepare combined financial reports is discussed in section [3.3.2.7](#).



## 3. Financial reporting requirements

### Overview

- Listed entities are required to lodge their preliminary financial statements (Appendix 4E) with the ASX within 2 months of year end and their half-year financial statements at the same time as lodged with ASIC, but in any case within 2 months of the half-year.
- Disclosing entities, which include listed companies and registered schemes, are required to lodge their audited financial statements with ASIC within 3 months of year end and their half-year financial statements within 75 days of the half-year and to meet continuous disclosure requirements.
- Unlisted public companies that are not limited by guarantee, Tier II and Tier III public companies limited by guarantee and large proprietary companies are required to lodge their audited or reviewed financial statements with ASIC within 4 months of year end.
- Unless they are a subsidiary of a foreign company, or otherwise directed by shareholders or ASIC, small proprietary companies are not required to lodge financial statements.
- Unless they are directed by members or ASIC, Tier I (small) companies limited by guarantee are not required to lodge financial statements.
- Companies that are charities registered with the ACNC (usually companies limited by guarantee) are no longer required to lodge financial reports with ASIC (see section [1.1.2.3](#)).
- Exemptions exist in relation to the reporting requirements where certain conditions are met for wholly-owned entities, registered foreign companies, small proprietary companies controlled by a foreign company, Tier II and III companies limited by guarantee and grandfathered companies.
- A company's financial reporting obligations continue to apply when an external administrator is appointed, however ASIC grants deferral of reporting requirements for up to 6 months where certain conditions are met, and exempts entities in liquidation from the requirements.
- Certain exemptions apply for AFS license holders that are foreign companies and for the first year in which an entity becomes a disclosing entity.
- The ASX Listing Rules include rules relating to disclosure requirements, corporate governance, and additional continuous disclosure requirements.

## 3.1 Reporting requirements and deadlines

This section addresses financial reporting requirements and related deadlines for entities reporting under the Act, including:

- public companies and registered schemes, including companies limited by guarantee
- large and small proprietary companies
- AFS licensees
- consolidated and parent entity financial statements.

Public companies other than companies limited by guarantee, Tier II and Tier III public companies limited by guarantee, large proprietary companies, certain small proprietary companies, certain small companies limited by guarantee, registered schemes and disclosing entities are required to comply with the financial reporting and auditing requirements of Chapter 2M.3 of the Act [S292], including:

- keeping financial records (see section [6.1](#))
- preparing financial reports (see section [4.1.2](#))
- preparing directors' reports (see section [4.3.3](#))
- having the financial report audited (or reviewed)\* and obtaining an auditor's report thereon (see section [4.1.8](#))
- lodging the financial report, directors' report and auditor's report with ASIC
- providing the financial report, directors' report and auditor's report to members (public companies only)
- lodging an annual statement with ASIC (see section [6.2](#)).

AFS licensees, in addition, are subject to the financial reporting requirements of Division 6 of Part 7.8 of the Act, which include preparation of an annual statement of profit or loss and other comprehensive income and statement of financial position, lodgement, having these statements audited and additional lodgement deadlines.

\* Tier II companies limited by guarantee can have the financial report reviewed if not a Commonwealth company, subsidiary of a Commonwealth company, or subsidiary of a Commonwealth authority (see section [3.1.1](#)).

### 3.1.1 Public companies and registered schemes

The financial reporting requirements for public companies depend on whether the public company is a disclosing entity, listed on the ASX, or a company limited by guarantee. All companies listed on the ASX are disclosing entities. However, unlisted public companies may also be disclosing entities. It is not necessary for a company to be listed in order to meet the definition of a disclosing entity (see section [2.3.1](#)).

The financial reporting requirements for registered schemes also depend on whether the registered scheme is a disclosing entity or listed on the ASX. All registered schemes listed on the ASX are disclosing entities. However, unlisted schemes may also be disclosing entities.

The table on the following page summarises the financial reporting requirements for each type of public company and registered scheme (that is not a charity registered with the ACNC). ASIC may grant relief from these requirements in some circumstances as discussed in section [3.3](#). For listed entities, the summary focuses only on key financial reporting requirements, not the other aspects of the ASX Listing Rules (see section [3.4](#)).

## Public company and Registered managed investments schemes Annual reporting requirements

		Public companies						Registered managed investment schemes	
Reference	Reporting requirement	Listed public companies	Unlisted disclosing public companies	Unlisted non-disclosing public companies				Listed registered schemes	Unlisted registered schemes
				Companies limited by guarantee			Other		
				Tier I (Small)	Tier II	Tier III			
S286-281	Keep financial records	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
S292	Prepare financial report	Yes	Yes	No***	Yes	Yes	Yes	Yes	Yes
S292	Prepare directors' report	Yes	Yes	No***	Yes	Yes	Yes	Yes	Yes
S301(1), S301(3), 301(4)	Audit required	Yes	Yes	No***	Audit/Review****	Yes	Yes	Yes	Yes
S296(1)	Apply AASBs	Yes	Yes	N/A	Yes	Yes	Yes	Yes	Yes
ASX 4.3B	Lodge Appendix 4E with ASX (preliminary final report)	Within 2 months after end of year	N/A	N/A	N/A	N/A	N/A	Within 2 months after end of year	N/A
S319	Lodge financial report with ASIC	Within 3 months after end of year	Within 3 months after end of year	N/A exempt from lodgement under S319(2)	Within 4 months after end of year	Within 4 months after end of year	Within 4 months after end of year	Within 3 months after end of year	Within 3 months after end of year
ASX 4.5 ASX 15.4	Lodge financial report with ASX	Within 3 months after end of year	N/A	N/A	N/A	N/A	N/A	Within 3 months after end of year	N/A
S315(1), 316(1), 314 (1), 316A	Make accessible full or concise financial report to shareholders/members*	Earlier of 21 days prior to AGM and 4 months after end of year	Earlier of 21 days prior to AGM and 4 months after end of year	Earlier of 21 days prior to AGM and 4 months after end of year	Earlier of 21 days prior to AGM and 4 months after end of year	Earlier of 21 days prior to AGM and 4 months after end of year	Earlier of 21 days prior to AGM and 4 months after end of year	Within 3 months after end of year	Within 3 months after end of year
ASX 4.7 ASX 15.4	Makes accessible full or concise financial report to shareholders and lodge with ASX	Earlier of 21 days prior to AGM and 4 months after end of year	N/A	N/A	N/A	N/A	N/A	Within 3 months after end of year	N/A
S250N(2), 317	Hold annual general meeting	Within 5 Months of end of year	Within 5 Months of end of year	Within 5 Months of end of year*****	Within 5 Months of end of year	Within 5 Months of end of year	Within 5 Months of end of year	N/A	N/A
S249H(1)	Give copy of notice of meeting to shareholders/members	At least 28 days prior to AGM S249HA(1)	At least 28 days prior to AGM S249HA(1)	At least 28 days prior to AGM S249HA(1)	At least 28 days prior to AGM S249HA(1)	At least 28 days prior to AGM S249HA(1)	At least 28 days prior to AGM S249HA(1)	N/A	N/A

\* Companies, registered schemes and disclosing entities (other than companies limited by guarantee) may choose to make financial reports available on their websites as their default method of delivering their report to members, rather than printing and mailing hard copies of financial reports.

\*\* An entity need not lodge with ASX a copy of its members' annual report if the report contains only documents already lodged with its financial report under ASX 4.5

\*\*\* No obligation unless required by member/ASIC direction

\*\*\*\* Tier II companies limited by guarantee need only have a review, unless a Commonwealth company, or a subsidiary of a Commonwealth company or authority, as these require an audit

\*\*\*\*\* No requirement to provide a copy of the financial report unless member elects in writing to receive a hard copy or an electronic copy

\*\*\*\*\* No requirement to provide a financial report at the AGM unless a financial report is required by member/ASIC direction

## Half-year reporting requirements

Public companies and registered schemes that are disclosing entities are required to prepare and lodge with ASIC half-year financial reports within 75 days after the end of the half-year. [S320] Listed public companies and listed registered schemes are required in addition to lodge these with ASX no later than when they are lodged with ASIC, but in any case, no later than 2 months after period end (75 days for mining exploration entity). [ASX LR 4.2B] See section [4.4](#) for more information.

## Continuous disclosure

Public companies and registered schemes that are disclosing entities are required to comply with the continuous disclosure provisions of the Act (see section [6.4](#)) and report the relevant information “as soon as practicable”. Public companies and registered schemes that are listed entities are also required to comply with the ASX continuous disclosure requirements on a timely basis and for certain information report the relevant information “immediately” (see section [3.4.5](#)). The ASX Listing Rules also provide differing timing of requirements to disclose specific information.

### 3.1.2 Proprietary companies

The financial reporting requirements for proprietary companies depend on whether the company is

- grandfathered
- controlled by a foreign company and/or
- directed by shareholders or ASIC to prepare financial reports.

The table on the following page summarises these requirements. ASIC may grant relief from these requirements in some circumstances as discussed in section [3.3](#).

## Proprietary companies

### Annual reporting requirements and deadlines

Large (section <a href="#">3.1.2.1</a> )				Small (section <a href="#">3.1.2.2</a> )			
Reference	Reporting Requirement	Not grandfathered	Grandfathered	Controlled by a foreign Company	Direction by shareholders	Request by ASIC	All other small proprietary companies
<a href="#">S286-291</a>	Keep financial records	Yes	Yes	Yes	Yes	Yes	Yes
<a href="#">S292</a>	Prepare financial report	Yes	Yes	Yes	Yes S293	Yes S294	No
<a href="#">S292</a>	Prepare directors' report	Yes	Yes	Yes	Yes/No* S298(3)	Yes/No* S294(2)	No
<a href="#">S301(1), (2)</a>	Audit required	Yes/No***	Yes	Yes/No***	Yes/No*	Yes/No**	No
<a href="#">S296</a>	Apply AASBs	Yes	Yes	Yes	Yes/No*	Yes/No*	No
	Lodge financial report with ASIC****	Within 4 months after end of year S319(1) S319(3)(b)	Not required to lodge financial report with ASIC provided their financial report is audited before the deadline for reporting to members and certain conditions are met S1408	Within 4 months after end of year S292(2)(b) S319(1), S319(3)(b)	N/A – Exempt from lodgement S319(2)	ASIC may request any combination of financial reporting for a financial year and according to any reasonable deadline. S292(2)(a), S294, S319(2)	No
	Make Accessible either full or concise financial report to shareholders****	Within 4 months after end of year S314(1), S315(4)	Within 4 months after end of year S314(1), S315(4)	Within 4 months after end of year S314(1), S315(4)	Later of 2 months after the date on which the direction is given and 4 months after end of year – S292(2)(a), S293(1), S315(2)	N/A	Will depend on entity's constitution

\* When preparing annual reports at the direction of shareholders, preparation of a directors' report, compliance with accounting standards and audit of the annual financial report are required unless the directions specifically state otherwise.

\*\* When ASIC gives a general direction to prepare an annual financial report, preparation of a directors' report and compliance with accounting standards, and audit of the annual financial reports are required. ASIC, however, may alternatively specify minimum requirements to be complied with which exclude a directors' report, compliance with an accounting standard, and/or audit of the annual financial report.

\*\*\* As a general rule, financial reports prepared under the Act must be audited. ASIC has given relief to certain proprietary companies from the audit requirements. See section [3.3.2.4](#)

\*\*\*\* Requirements apply unless entity is a disclosing entity in which case it lodges report with ASIC within 3 months of year end and provides to members an annual report prior to 4 months after the end of a financial year.

3.1.2.1 Large proprietary companies

Large proprietary companies are generally required to lodge a financial report with ASIC in accordance with Chapter 2M of the Act: [S292(1)]

- complying with AASBs and *Corporations Regulations 2001* [S296]
- giving a true and fair view of the financial position and performance of the company. [S297]

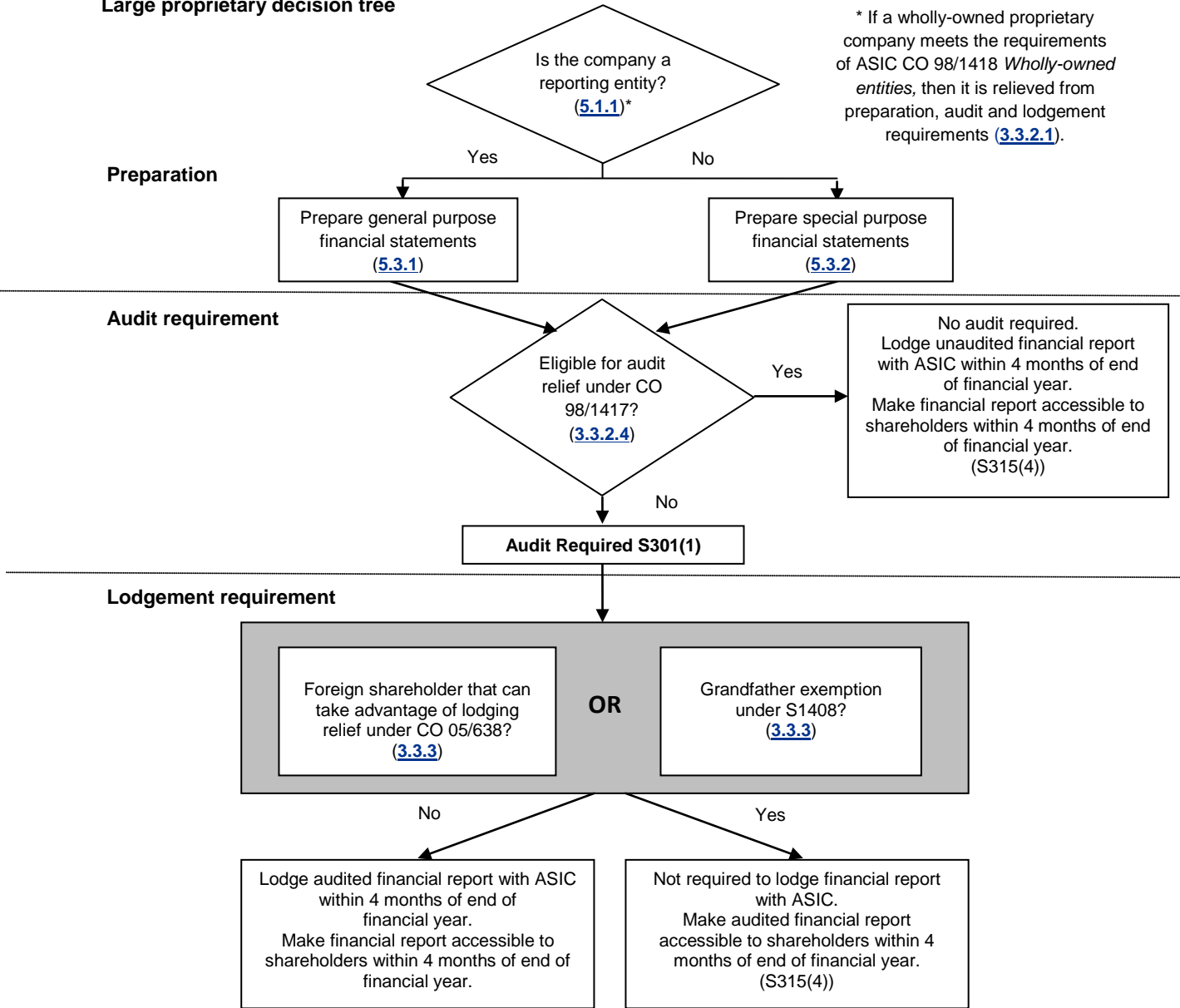
Large proprietary companies are also generally required to:

- prepare a directors' report for each financial year [S298]
- have the financial report audited [S301(1)]
- provide a full or concise financial report to members within 4 months after the end of the financial year [S314, S315(4)]
- lodge the financial report with ASIC within 4 months of the end of the financial year. Where the entity is a disclosing entity (see section 2.3.1), the financial report must be lodged within three months. [S319(3)(b), S319(3)(a)]

Requirements for the directors' report, financial statements and directors' declaration for large proprietary companies that are reporting entities are set out in more detail at section 4.2.

In certain circumstances large proprietary companies may not require an audit or may not be required to lodge a financial report with ASIC. The decision tree below illustrates the impact of these modifications and the specific exemptions are discussed in section 3.3.

Large proprietary decision tree



### 3.1.2.2 Small proprietary companies

Small proprietary companies may be required to prepare, audit and/or lodge financial reports with ASIC under the Act, depending on whether they are foreign controlled, whether shareholders direct preparation of a financial report, or whether ASIC requests preparation of a financial report.

#### *Foreign controlled small proprietary companies*

Unless otherwise qualifying for class order relief (see section [3.3.2.3](#)), 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. [S292(2)(b)]

The exemption under S292(2)(b) is not available to foreign controlled small proprietary companies whose New Zealand registered foreign company parent take up the relief under S601CTA that allows them not to lodge their consolidated financial statements with ASIC (see section [3.3.2.2](#)). Lodging with the NZ regulator is not sufficient to get the S292(2)(b) exemption.

#### *Shareholder direction*

Shareholders holding 5% or more of the voting rights can direct a small proprietary company to prepare a financial report and directors' report for a financial year. [S293(1)]

The direction must be signed by the relevant shareholders and be made no later than 12 months after the end of the financial year concerned. [S293(2)]

The direction may specify that:

- the financial report does not have to comply with some or all of the accounting standards
- a directors' report or a part of the report need not be prepared and/or
- the financial report is to be audited. [S293(3)]

The financial report does not need to be lodged with ASIC.

#### *ASIC request*

ASIC may request a company comply with the annual financial reporting requirements of Chapter 2M of the Act. The company may therefore be requested to prepare a financial report and directors' report, and have the financial report audited. The direction may be general or may specify the particular requirements that the company is to comply with. [S294]

It is expected that where ASIC makes such a request, general purpose financial statements will be required. This means that the company will need to comply with all applicable accounting standards. The direction must be made in writing, specify the financial year concerned, and be made no later than six years after the end of the relevant financial year.

### 3.1.3 AFS Licensees

Australian Financial Services License ('AFSL') holders have general obligations under the Act which they must comply with from the time they are granted an AFSL and on an ongoing basis. [S912A(1)]

ASIC RG 104 *Licensing: Meeting the general obligations* outlines what ASIC looks for when it assesses compliance with the general obligations, in particular those obligations relating to compliance, risk management, representatives and resources. ASIC RG 105 *Licensing: Organisational competence* outlines what ASIC looks for when considering the organisational competence obligations of AFSLs. [S912A(1)(e)]

ASIC, in its information release IR 07-45 *ASIC updates guidance on licensee obligations*, has stated it expects AFSLs' internal policies and procedures to make reference to these regulatory guides.



ASIC RG 104 indicates that if ASIC has reason to believe that a licensee is not complying with its obligations, ASIC may take administrative action, which could include suspending or cancelling a licence, or imposing additional licence conditions. [S915C(1) and 914A]

AFSL reporting obligations include:

- informing ASIC in writing within 10 business days about any significant breach (or likely breach) of obligations
- lodging a statement of profit or loss and other comprehensive income and statement of financial position (i.e. Form FS70) and an auditor's report (i.e. Form FS71) including a confirmation of the AFS Licensee's disclosing entity status (see section 2.3.1) with ASIC for each financial year under S989B, within the following timeframes: [S912D]

Annual AFSL lodgement requirements

AFS Licensee status	Lodgement dates
Not a body corporate (e.g. a partnership)	Within 2 months of the Licensee's financial year end
A body corporate	Within 3 months* of the Licensee's financial year end

\* Non-disclosing body corporates must lodge within 4 months.

[S989D(1) and Reg. 7.8.14A]

With respect to these annual ASIC lodgement requirements:

- AFSLs that are also covered by Chapter 2M must lodge their financial reports separately under both Chapter 2M and Part 7.8
- only annual financial reports lodged under Chapter 2M of the Act are on public record. The annual financial reports lodged under Part 7.8 of the Act, together with the FS70 and FS71, are not public records
- extension of time within which to lodge their FS70 and FS71 under S989D(3) may be obtained by applying to ASIC.

Where AFSL holders are also subject to similar requirements from the Australian Prudential Regulation Authority ('APRA'), for example, for Approved Deposits Institutions ('ADIs'), certain ASIC requirements, are not considered applicable in lieu of compliance with APRA requirements.

Audit reporting obligations

In addition to the above requirements, auditors of AFS Licensees are required to report all S990K breaches (not only significant breaches) to ASIC within 7 days of becoming aware of the matter. [S912A(1)(d)(h), S921D(c), S990(K)(1)]

3.1.4 Stapled group financial statements

Each entity in the stapled structure needs to consider its reporting responsibilities, depending on the type of entity it is (i.e. public company, trust, foreign corporation) and whether it controls other entities or not, in which case consolidated financial statements will need to be considered.

A stapling arrangement effected prior to the date of transition to Australian equivalents to IFRSs (2005) is considered a business combination for the purposes of applying AASB 1 *First-time Adoption of Australian Accounting Standards*. At the date of transition, one of the combining entities shall be identified as the parent. For the purposes of applying AASB 10 *Consolidated Financial Statements* subsequently, the consolidated financial report of the parent under the stapling arrangement shall be the combined financial report of the entities whose activities are stapled. This principal was established in UIG Abstract 13 *Consolidated Financial Reports in Relation to Pre-Date-of-Transition Stapling Arrangements*, which is now withdrawn, however the principal survives through AASB 1 at the date of transition.



A stapling arrangement effected after to the date of transition to Australian equivalents to IFRSs (2005) is considered a business combination under AASB 3 Business Combinations. At acquisition date, one of the combining entities shall be identified as the parent. [AASB 3.7 and .44]

Preparation of combined financial reports is discussed further in section [3.3.2.7](#).

ASIC expressed a view in October 2013 that with the introduction of AASB 10 *Consolidated Financial Statements* (applicable 1 January 2013) there may no longer be a basis within accounting standards to allow the preparation of consolidated financial statements for a stapled group. ASIC issued Consultation Paper 217 *Presentation of financial statements by stapled entities* (CP 217) which proposes that a class order allowing stapled entities to present combined (not consolidated) financial statements covering all of the entities whose securities are stapled. This issue was considered by IFRIC in January 2014. We anticipate that ASIC will not proceed with the proposals in CP 217. See section [8.2](#) for further discussion on this matter.

#### Example

A stapled group consists of a trust, an Australian corporation and a foreign corporation. One entity, say the Trust, is identified as the parent in the stapled group. Assume the stapled entity is listed in Australia on the ASX and owned directly by public shareholders.

The following reporting requirements would apply for each one of the stapled entities:

- Trust – as the Parent prepares consolidated financial statements for the stapled group.
- Australian corporation – is listed and does not qualify as a wholly-owned subsidiary, so has to prepare either (a) single entity financial statements (if no controlled entities) or (b) consolidated financial statements for the group it is the Parent of (effectively a sub-group of the stapled group). Include parent only disclosures, but separate parent only financial statements not required (see [3.1.5](#) below).
- Foreign corporation – is listed and does not qualify as a wholly-owned subsidiary, so also prepares either (a) single entity financial statements (if no controlled entities) or (b) consolidated financial statements for the group it is the Parent of (effectively a second sub-group of the stapled group). Include parent only disclosures, but separate parent only financial statements not required (see [3.1.5](#) below).

### 3.1.5 Consolidated and parent entity financial statements

Corporations Act entities are no longer required to prepare and lodge both consolidated and parent entity financial statements. Where consolidated financial statements are required by accounting standards (see section [5.4](#)) only the consolidated financial statements need be prepared, provided a note with specified parent entity information is included. Entities that want to provide both consolidated and parent entity financial statements must use ASIC CO 10/654. [S295(2)]

As discussed in detail in section [5.4.6.1](#) entities preparing special purpose financial statements cannot currently ‘technically’ use the parent entity drop out due to the wording of S295(2) of the Corporations Act and Reg 2M.3.01(1) of the Corporations Regulations.

#### 3.1.5.1 Australian Financial Services Licencees (AFSLs)

AFSLs that have to comply with S989B in Chapter 7 of the Corporations Act must provide both consolidated and parent entity financial statements, as the exemption to exclude parent entity financial statements for corporate entities has not been replicated for AFSLs. Those AFSLs that are also regulated by APRA are advised to provide the consolidated and parent entity financial statements in one financial report when lodging with APRA (see section [3.3.2.8](#)). [APRA’s letter to regulated entities (1<sup>st</sup> Sep 2010)]

If an AFSL can utilise the exemption from consolidation in AASB 10.4 it can provide only parent entity financial statements, unless the entity is regulated by APRA.

## 3.2 Reporting to members

This section outlines the Corporation Act 2001 requirements for reporting to members, including:

- providing financial reports to members
- member's choices for annual financial information
- consideration of financial reports at the Annual General Meeting ('AGM')
- additional reporting by debenture issuers.

### 3.2.1 Providing financial reports to members

Directors of companies, registered schemes and disclosing entities, other than companies limited by guarantee, are required to make accessible to members either:

- all of the following reports: the financial report, directors' report and auditor's report, (see section [4.2](#)) or
- a concise financial report (see section [4.3](#)). [S314(1)]

The concise report, if issued, must include a statement that the member is entitled to receive, free of charge, a copy of the full financial report and auditor's report. [S314(2)]

Companies, registered schemes and disclosing entities may choose to make financial reports available on their websites as their default method of delivering their report to members, rather than printing and mailing hard copies of financial reports.

At a minimum, an entity (excluding a company limited by guarantee) that wants to make their financial report accessible through a website must do all of the following:

- send a letter to each member asking whether they elect to receive, free of charge, a hard copy of the full or concise financial reports, and stating if they do not elect the hard copy they will be able to access the financial report on a specified website
- make a copy of the financial reports available on a readily accessible website and
- before the reporting deadlines, directly notify those shareholders who did not elect to receive a hard copy that the soft copy is available, specifying the direct address on the website where the financial report may be accessed. [S314]

The letter requesting member elections is a one-time communication to each member, except to those that have already notified the entity that they choose not to receive the reports. The member's election becomes a standing election until the member changes their election. This communication must also be sent to each new member, for example, in an initial registration pack.

The notification of the availability of the financial report may be included in other correspondence with shareholders, such as the notice of annual general meeting. A company announcement or media release that the reports are available through a website will not satisfy the requirement to directly notify shareholders that the reports are available.

An entity may also voluntarily offer to provide shareholders an electronic copy of the financial report by email or fax, regardless of whether the entity chooses website distribution.

Companies limited by guarantee need only provide a full financial report to members when requested in writing to provide either a hard copy or an electronic copy. If a member makes an election in a financial year, the election is made for that financial year; and is a standing election for each later financial year until the member changes the election. Accordingly, if no member election is received, the company has no obligation to provide a financial report in any form. [S316A]

The usual deadlines for providing shareholders with financial reports apply regardless of the method of distribution. (See section [3.1](#)) [S315(1)]

Small proprietary companies and small companies limited by guarantee are generally exempt from the requirement to prepare a financial report and provide it to members (see sections [3.1.2.2](#) and [3.1.1](#)). [S292(3)]

### 3.2.2 Member's choices for annual financial information

A member may request the company, registered scheme or disclosing entity, (other than a company limited by guarantee):

- not to send them any report for a financial year
- to provide a full financial report (i.e. financial report, directors' report and auditor's report).

These requests may be a standing request or they may be for a particular financial year. A member cannot request a financial report for financial years earlier than the one before the year in which the request is made. The financial report is to be provided free of charge unless the member has previously received a copy of the report. [S316]

The entity must comply with this request within seven days after the request is received or the deadline for reporting to members, whichever is the later date.

### 3.2.3 Consideration of financial reports at AGM

Public company directors (other than those for Tier I (small) companies limited by guarantee) are required to lay the following before each AGM held in respect of a financial year:

- the financial report
- the directors' report
- the auditor's report. [S317(1), S317(1A)]

The deadlines for holding AGMs are set out in section [3.1.1](#).

The financial and other reports of a public company need not be laid before the AGM if the company's first meeting is held before the end of its first financial year.

A public company that has only one member is not required to hold an AGM. [S250M]

A Tier I (small) company limited by guarantee is only required to lay a financial report before the AGM if required to prepare the financial report by a member or ASIC direction (see section [3.1.1](#)). [S317(1A)]

### 3.2.4 Additional reporting by debenture issuers

The directors of a company or disclosing entity that was a borrower in relation to debentures at the end of a financial year must also give a copy of the full financial report to the trustee for debenture holders by the deadline for reporting to members. [S318]

A borrower in relation to a debenture, means the entity that is or will be liable to repay money under the debenture.

Debenture holders may request a copy of the annual financial report of the borrower. The annual financial report must be sent as soon as practicable after the request, free of charge. Disclosing entities that are borrowers must also provide a copy of the half-year financial reports to the trustee for debenture holders within the deadline after the end of the half-year financial period. [S318(4)]

### 3.2.5 Re-issuing financial reports

There may be occasion where a financial report that has already been sent to ASIC and members is re-issued. There is no specific guidance in the Act regarding the re-issue of financial reports. The following matters should be considered:

- consider whether the current financial report needs to be re-issued or whether the matter can be addressed as a correction of an error in the next financial report
- a covering letter should explain the reason for the re-issue of the financial report
- the financial report itself should clearly reflect that it is revised by marking as "Re-issued" or similar wording
- any amended disclosures or notes should clearly set out the nature of the amendments that led to the re-issue of the financial report
- re-issuing the financial report to all relevant parties, such as ASIC, ASX and shareholders.

The re-issue of the financial report may impact the audit report which, depending on the nature of the amendments, may need to be changed. In addition, this could lead to a S311 notice to ASIC being made by the auditor to advise them of the matter requiring re-issuance.

## 3.3 Exemptions and relief

As outlined above, the Act requires the following entities other than charities registered with the ACNC to prepare annual financial reports and directors' reports:

- disclosing entities
- public companies other than small companies limited by guarantee
- registered schemes
- large proprietary companies
- foreign controlled small proprietary companies, where they are not consolidated in financial statements lodged with ASIC.

These reports must be audited, lodged with ASIC, and made available to members.

Other small proprietary companies and small companies limited by guarantee may also be required to prepare financial reports and directors' reports if required by ASIC or at the direction of shareholders.

Disclosing entities must also prepare half-year financial reports and directors' reports.

ASIC has the power to grant relief from some or all of these requirements, either by relieving specific entities or a class of entities. However, relief cannot be given retrospectively, so care should be taken to identify potential relief applications in advance of when required.

Transitional provisions in the Act continue to relieve 'grandfathered' large proprietary companies from the requirement to lodge a financial report with ASIC.

### *Entities changing status after year end*

With the exception of entities ceasing to be disclosing entities, an entity's status and associated reporting obligations under Chapter 2M of the Act crystallises at balance sheet date. The large/small test for proprietary companies under S45A and small test for companies limited by guarantee under S45B is based on criteria measured at balance sheet date or over the financial year. Therefore, a company which changes from a public company to a small proprietary company after the end of its 30 June 20XX financial year, but before its lodgement deadline will not be exempt from preparing financial statements at 30 June 20XX as a small proprietary company or a small company limited by guarantee. [ASIC FAQs on financial reporting]

### 3.3.1 ASIC relief

ASIC can grant relief from compliance with the Chapter 2M financial reporting and audit requirements to:

- a company, registered scheme or disclosing entity
- directors
- auditors.

The relief can be granted by class order or on a case-by-case basis to individual entities.

Class orders apply to particular classes of entities, sharing a common characteristic, such as wholly-owned, or foreign controlled. [S341(1), S340(1)]

ASIC can only give relief if it is satisfied that compliance with the requirement would:

- make the financial report or other reports misleading
- be inappropriate in the circumstances or
- impose unreasonable burdens. [S342(1)]

The orders may be unconditional, or subject to conditions imposed by ASIC on the entities concerned and their directors and auditors. The orders may be for an indefinite, limited or specified period.

If an entity is not able to use class order relief, it may make an individual application to ASIC for relief. The application must be in writing pursuant to a resolution of directors, and signed by a director.

ASIC also has powers to grant relief in other areas of the Act. For example, S992B permits ASIC to modify the financial services provisions set out in Part 7.8 of the Act.

ASIC RG 43 *Financial reports and audit relief* sets out ASIC policy on applications made under S340 for relief from the financial report, audit and directors' report requirements. It also indicates how ASIC will exercise its discretionary power to issue class orders under S341(1). ASIC considers expected costs, benefits, practical difficulties, unusual aspects of the entity/entities and any other relevant factors in making this decision.

ASIC RG 51 *Applications for relief* sets out the types of applications that can be made under the Act, the requirements for preparation and lodgement of the application, ASIC's general approach to relief, and the different types of relief available.

ASIC issues a summary of recent decisions on applications for relief from the corporate finance, financial services and managed investment provisions of the Act every four months.

### Large proprietary companies

ASIC is unlikely to grant relief on the basis that prejudicial information would be made available. The Federal court affirmed ASIC's approach in ensuring large proprietary companies lodge financial reports for public inspection, and held that ASIC was correct in considering the potential benefits to users of the financial reports would outweigh the claimed detriment that would flow to an entity (*Dynamic Supplies Pty Ltd v Australian Securities and Investments Commission* [2010] FCA 806). [ASIC website 10-186AD]

## 3.3.2 Class orders

ASIC class orders relating to financial reporting by the following entities are discussed below:

- wholly-owned entities
- registered foreign companies
- small proprietary companies controlled by foreign companies
- proprietary companies – audit relief
- AFS licensees
- disclosing entities
- externally administered companies
- parent entity financial statements
- entities ceasing to be a disclosing entity before their deadline.

A company is only entitled to rely on relief under an ASIC class order if it fully meets all the conditions for relief. [ASIC FAQs] ASIC will, however, consider modifying the conditions in particular circumstances, where it is satisfied that the commercial benefit of granting the relief outweighs the regulatory detriment.

This section also includes a summary of the relief available to 'grandfathered proprietary companies' that do not have to lodge a financial report as a result of transitional provisions in the Act and a class order.

### 3.3.2.1 Wholly-owned entities

ASIC CO 98/1418 *Wholly-owned entities* relieves wholly-owned entities from their financial reporting obligations provided:

- a parent (the 'Holding Entity') lodges consolidated financial statements that include the financial statements of the wholly-owned entities
- the wholly-owned entities and the 'Holding Entity' enter into a deed guaranteeing each other's debts
- the entities, their directors and auditors meet various other conditions summarised below.

The wholly-owned entities may be public companies, large proprietary companies, or small foreign controlled proprietary companies. However, wholly-owned entities that are borrowers in relation to debentures, disclosing entities, or financial services licensees do not qualify for this relief.

A brief description of the class order follows. However, the class order is complex and this summary should not be taken as a substitute for reading the class order and taking legal advice.



Definitions

The class order includes the terms ‘closed group’ and ‘extended closed group’, with those entities in the closed group eligible for relief.

‘Closed group’ means the Holding Entity and the ‘Wholly-owned entities’.

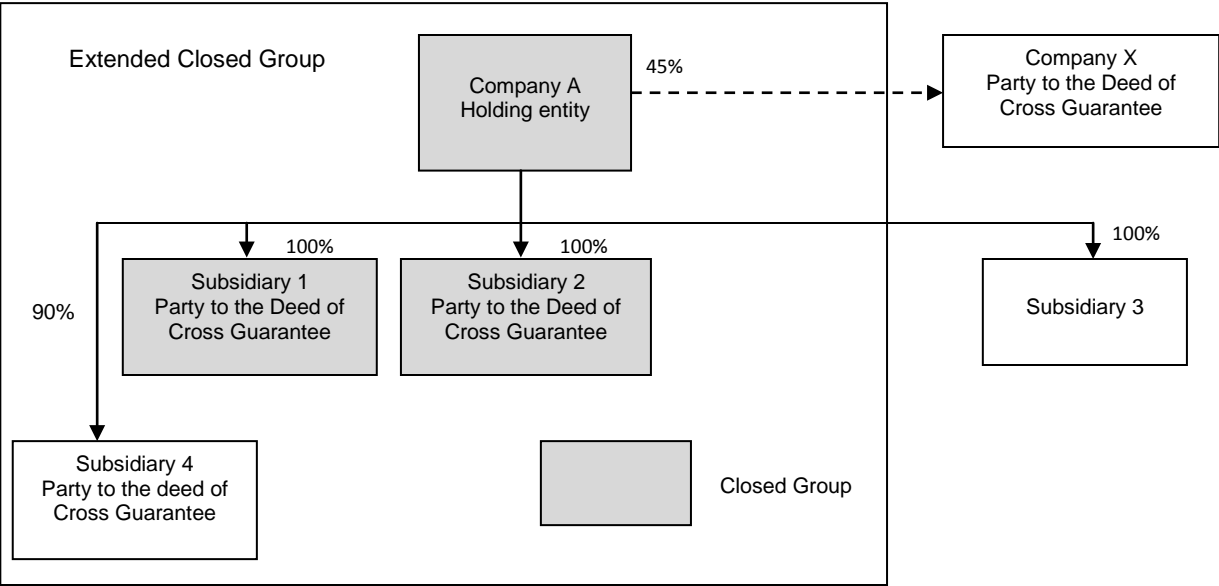
‘Wholly-owned entities’ means the companies and foreign companies that are wholly-owned and controlled by the Holding Entity and that are parties to the Deed of Cross Guarantee.

The ‘Holding Entity’ is essentially the parent which must lodge the consolidated financial statements that include the Wholly-owned entities.

The Holding Entity must be a party to the Deed of Cross Guarantee. It cannot be a small proprietary company.

‘Extended Closed Group’ means the closed group and any other entities that are parties to the Deed of Cross Guarantee and controlled by the Holding Entity.

Entities and Groups for ASIC CO 98/1418



In the example above:

Company A and Subsidiaries 1 and 2 are members of the Closed Group. Subsidiaries 1 and 2 can take advantage of the relief under the class order.

Although it is wholly-owned by Company A, Sub 3 cannot take advantage of the class order because it is not party to the Deed of Cross Guarantee. It is not part of the Closed Group or the Extended Closed Group.

Subsidiary 4 is a member of the Extended Closed Group because it is a party to the Deed of Cross Guarantee. Subsidiary 4 cannot take advantage of the relief under the class order because it is not wholly-owned.

The associate, Company X, is not controlled by Company A and therefore not part of the Extended Closed Group or the Closed Group.

### *The relief*

The class order relieves a wholly-owned entity that is a member of the closed group from the requirements to:

- prepare a financial report and directors' report
- have the financial report audited
- distribute the financial report, directors' report and auditor's report and any concise report to members
- lay reports before an AGM, if it is a public company
- lodge reports with ASIC
- appoint an auditor (public companies).

### *The conditions*

The conditions of the relief include:

- the wholly-owned entity and the Holding Entity are members of the Closed Group and are parties to a Deed of Cross Guarantee with all other parties in the Closed Group seeking the same relief
- the Deed must be lodged with ASIC
- the Holding Entity prepares consolidated financial statements for the relevant financial year. The composition of the consolidated financial statements may vary according to the characteristics of the Holding Entity (see separate discussion below)
- the financial year of the Holding Entity ends on the same date as the wholly-owned entity's financial year
- the consolidated financial statements include adequate provision for the liabilities of any parties to the Deed of Cross Guarantee that are not consolidated, where it is probable that the parties will not be able to meet those liabilities in full
- the notes to the consolidated financial statements include details of the class order, the parties to the Deed of Cross Guarantee, any changes, and summarised financial information about the parties to the Deed of Cross Guarantee (see separate discussion below)
- the directors make a statement as to whether there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee
- the directors' statement is included in the directors' declaration of the Holding Entity, and in other documents lodged with ASIC in the case of a registered foreign company or grandfathered large proprietary company (see below).

### *Composition of the consolidated financial statements*

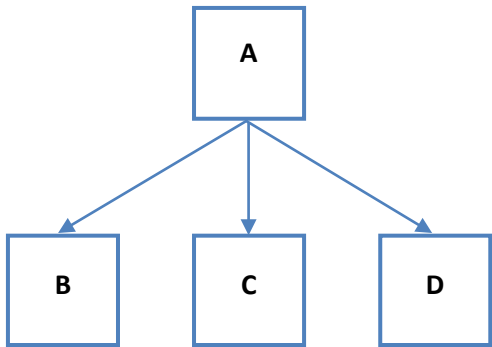
Generally, the Holding Entity will prepare consolidated financial statements that include all its subsidiaries in accordance with AASB 10 *Consolidated Financial Statements*. However, in some cases, the Holding Entity may need to prepare consolidated financial statements for the purposes of the class order even though they are not required by AASB 10.

For example, the Holding Entity may not be required to prepare consolidated financial statements under AASB 10 because it is not a reporting entity, or it is subject to the specific exemptions. It must still prepare consolidated financial statements for its subsidiaries to be relieved from preparing financial reports.

The class order permits 'modified' consolidated financial statements depending on whether the economic entity, comprising the Holding Entity and its subsidiaries, is a reporting entity. If the economic entity is a reporting entity, the consolidated financial statements should cover the Holding Entity and all of its subsidiaries. If the economic entity is not a reporting entity, the consolidated financial statements should cover at least the controlled entities that are part of the Extended Closed Group. The following examples illustrate the application of this rule.



**Example 1: Wholly-owned group – all subsidiaries party to Deed of Cross Guarantee**



*B, C and D are 100% owned subsidiaries of A.*

*A, B and C are parties to the Deed of Cross Guarantee.*

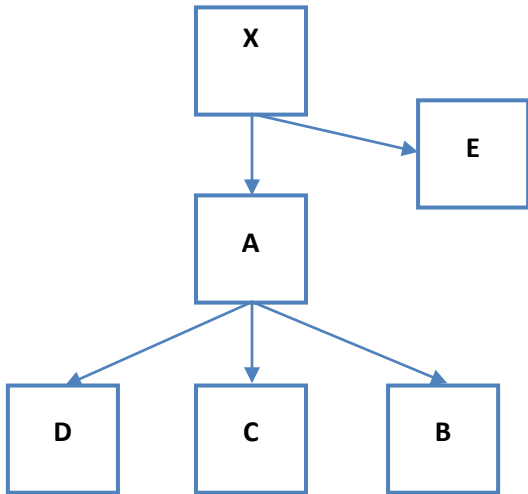
*B and C are relieved from preparing a financial report under CO 98/1418.*

*D is not a party to the deed and must prepare a financial report.*

If either *A* or the economic entity (comprising *A* and its subsidiaries) is a reporting entity, AASB 10 requires *A* to prepare consolidated financial statements that include all of its subsidiaries, regardless of the operation of CO 98/1418.

Where neither *A*, nor the economic entity comprising *A* and its subsidiaries is a reporting entity, AASB 10 does not require consolidated financial statements. However, *A* must prepare consolidated financial statements under CO 98/1418. Because the economic entity is not a reporting entity the class order permits the preparation of consolidated financial statements that only include *A* and the subsidiaries that are party to the Deed, being *B* and *C*.

**Example 2: Wholly-owned group – some subsidiaries party to Deed of Cross Guarantee**



A and E are 100% subsidiaries of X. B, C and D are 100% owned subsidiaries of A.

A, B and C are parties to the Deed of Cross Guarantee.

X, E and D are not parties to the Deed of Cross Guarantee for commercial reasons.

A is exempt from preparing consolidated financial statements under AASB 10.4. However, A must prepare consolidated financial statements under CO 98/1418.

A will need to determine whether the A group, being A together with its subsidiaries, B, C and D is a reporting entity. If so, A will need to prepare consolidated financial statements that include all the subsidiaries.

If the A group is not a reporting entity then the consolidated financial statements required by CO 98/1418 need only include A plus B and C.

The modified consolidated financial statements form part of the Holding entity's prime financial statements. They cannot be included in the notes to the financial statements. Using the above fact pattern where the modified consolidated financial statements includes only A, B and C, the financial statements will need to have:

- modified consolidated financial statements (A, B and C) with a heading such as "Class Order 98/1418 consolidated" on the columns (including comparatives)
- A separate financial statement columns (including comparatives) to comply with the accounting standard requirements
- the modified consolidated columns must appear next to the A only columns and should have a footnote referring to a note explaining the reason for the consolidation and the composition of the group.

The notes must make it clear which entities have been left out of the consolidation. AASB 10 must be applied as if the entities included were a reporting entity. The consolidated financial statements need to comply with all 'mandatory' accounting standards, i.e., those that apply regardless of an entity's reporting entity status, being AASBs 101, 107, 108, 1048 and 1054. The consolidated financial statements also need to comply with the disclosure requirements of other accounting standards to the extent necessary to give a true and fair view and as determined by the directors.

The Holding Entity must also comply with all of the other requirements of Chapter 2M as if the consolidated financial statements were part of its financial report.

Where the Holding Entity is a registered foreign company, the composition of the consolidated financial statements will vary according to whether the ultimate parent was formed or incorporated in Australia, and the financial reporting requirements in the country of origin.

To comply with the class order, a Holding Entity which is a registered foreign company must lodge the consolidated financial statements with ASIC within four months of the end of the financial year. This means that the registered foreign company would need to lodge the consolidated financial statements with its financial report for the purposes of S601CK(1) within the 4 month period even if there is more time available under that section.

#### *Note disclosures*

The notes to the consolidated financial statements must include:

- a short statement of the nature of the Deed of Cross Guarantee
- list the parties to the Deed of Cross Guarantee, separately identifying the members of the Closed Group and the other members of the Extended Closed Group
- give details (including dates) of parties added or removed during or since the end of the financial year by an Assumption Deed or by a Revocation Deed or which are the subject of a Notice of Disposal
- give details (including dates and reasons) of any entities that obtained relief under the order at the end of the preceding financial year but were ineligible for relief in the relevant financial year
- include summarised consolidated statement of profit or loss and other comprehensive income and statement of financial position disclosures, as detailed below, for each of the following groups of entities (where they differ):
  - the Closed Group
  - the Extended Closed Group
  - the group comprising the Holding Entity and all of its controlled entities that are party to the Deed of Cross Guarantee
  - parties to the Deed of Cross Guarantee that are not controlled entities (either individually or in aggregate).

The summarised information must be based on accounting standards, in particular, AASB 101 and must include:

- statement(s) of profit or loss and other comprehensive income setting out the minimum line items specified in AASB 101.81A-87
- opening and closing retained earnings, dividends provided for or paid and transfers to and from reserves
- a statement of financial position setting out the minimum line items specified in AASB 101.54-59
- comparatives if the Deed of Cross Guarantee was in place in the preceding financial year.

Refer to latest *Example Public Company Limited – Illustrative Disclosures* for an example of the above note disclosures.

#### *Auditors' responsibilities*

The auditor of the Holding Entity must be satisfied that the entity has complied with the class order requirements for the preparation of the consolidated financial statements, the notes to the financial statements and the directors' statement regarding the entity's obligations under the Deed of Cross Guarantee.

This would not normally require a modification to the audit report. However, a modification may be necessary where the consolidated financial statements do not cover all subsidiaries.

The audit requirement does not apply to Holding Entities that are not required to have their financial reports audited (e.g. if they have obtained relief from audit under CO 98/1417).

### *Initial requirements*

The arrangements for the class order must be in place before the end of the first financial year in which a wholly-owned entity takes advantage of the relief. This involves the following:

- the directors of the wholly-owned entity must:
  - make a statement that in their opinion, immediately prior to the execution of the Deed of Cross Guarantee, there were reasonable grounds to believe that the entity would be able to pay its debts as and when they become due and payable
  - resolve that the entity should obtain the benefit of the relief
- the directors of every other entity that becomes a party to the Deed of Cross Guarantee make a statement that in their opinion, immediately prior to the execution of the Deed, there were reasonable grounds to believe that the entity would be able to pay its debts as and when they become due and payable
- the Deed of Cross Guarantee must be in place and lodged with ASIC before the end of the financial year.

### *Ongoing requirements*

The wholly-owned entity and the Holding Entity must be members of the Closed Group and parties to the Deed of Cross Guarantee at all times up to, and including the date on which the consolidated financial statements are lodged with ASIC.

The directors must make an annual assessment of the advantages and disadvantages of remaining party to the Deed of Cross Guarantee and whether they should continue to take advantage of the relief. They must then make a specific resolution to either continue to remain party to the Deed of Cross Guarantee or not.

Formerly the class order required an entity relying on the relief to lodge a notice of reliance on the class order each year. This requirement has changed so that now a form (389) only needs to be lodged when there has been a change in circumstances:

- where the entity did not take advantage of the relief in the immediately preceding financial year. For example, a small proprietary company is party to the Deed of Cross Guarantee and becomes large during the financial year.
- the Holding Entity of the entity changes.

Form 389 must be lodged within four months of the end of the relevant financial year.

If an entity ceases to rely on the relief available under the class order, then it must lodge a Form 399 notifying ASIC unless it lodges a financial report for that financial year.

Form 399 must be lodged within four months of the end of the Relevant Financial Year, or such other time approved by ASIC.

### *Ceasing to be eligible for relief*

Where a company ceases to qualify for relief, it must prepare and lodge a financial report and directors' report for the previous financial year within two months, unless:

- the company becomes party to another Deed of Cross Guarantee within one month of the cessation and expects to receive relief under the order
- the company was also subject to relief from preparing and lodging a financial report under another ASIC order
- at the time the company ceases to be eligible for relief: there is less than one month to the end of the next financial year or it is after the end of the next financial year or
- the company was a small proprietary company for the previous financial year.

For example, a company has a 30 June 2013 year end. It did not prepare financial statements for that year because it had relief under the class order. Subsequent to 30 June 2013, the company was sold and no longer had relief from preparing financial reports. If the company ceased to qualify for relief under the class order between 1 July 2013 and 31 May 2014, it must prepare a financial report for the year ended 30 June 2013 and lodge the report within 2 months.

Where a company ceases to qualify in the first two months of the year (in this example July and August 2013), we recommend preparers consult with ASIC to confirm whether the company is required to follow this requirement instead of the normal lodgement deadlines, which would otherwise require lodgement, for example, by four months after the financial year for proprietary companies.

If the company ceased to qualify for relief after 1 June 2014 it does not have to prepare a 30 June 2013 financial report.

The company must prepare financial reports for the year ended 30 June 2014 and subsequent years. Entities that cease to qualify for relief under the class order must include comparative financial information in their first subsequent financial report in accordance with accounting standards.

#### *ASIC discretion*

ASIC may exclude an entity from relying on the relief available under the class order. For example, if ASIC had reason to believe that:

- a Deed of Cross Guarantee is not effective
- consolidated financial statements will not be properly prepared or lodged in a timely manner
- the Holding Company has not prepared or filed their financial report properly.

If an entity meets the criteria of the class order but the parent lodges its consolidated financial statements late, ASIC may, but not automatically, exclude an entity from the relief available.

#### *Grandfathered large proprietary companies*

Certain large proprietary companies are 'grandfathered' under the Act. They must prepare audited financial reports before the lodgement deadline but they are not required to lodge those reports with ASIC (see section [3.3.3](#)).

These companies may take advantage of the relief under this class order. They must comply with the conditions in the class order, however, they need not lodge the consolidated financial statements in some circumstances.

Where all entities that are parties to the Deed of Cross Guarantee are Exempt Entities (small proprietary companies or grandfathered large proprietary companies) the Holding Entity must prepare consolidated financial statements, but it does not have to lodge them. Instead it must lodge:

- details about the nature of the Deed of Cross Guarantee, the parties to the Deed, members of the Closed Group and other members of the Extended Closed Group, entities that have been added to or removed from the Deed, any entities which had relief under the order last year but were ineligible this year
- a statement that all entities in the closed group are Exempt Entities
- the statement as to whether there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

If some of the entities in the closed group are not Exempt Entities, the Holding Entity must lodge the consolidated financial statements within four months of the end of the financial year.

A grandfathered large proprietary company that takes advantage of the relief offered under the class order loses its exempt status. If it ceases to use the class order in the future it will have to lodge financial statements.

### 3.3.2.2 Registered foreign companies

Registered foreign companies must lodge a statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows at least once every calendar year (S601CK(1)). However, ASIC CO 02/1432 *Registered foreign companies – financial reporting requirements* relieves registered foreign companies that are the equivalent of small proprietary companies from this requirement.

This relief applies to a registered foreign company that:

- is subject to provisions no less strict than those imposed on Australian proprietary companies (see section [3.1.2](#))
- is not required to prepare any one or more of a statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows under the law in its place of origin
- has not been a disclosing entity, borrower in relation to debentures or guarantor of a borrower at any time during the calendar year
- is not large in relation to its last financial year
- is not part of a 'large group' (refer definition below) or is included in consolidated financial statements, covering the whole year, lodged with ASIC.

A 'group' comprises:

- the company in question
- any entity which controlled the company and which is incorporated or formed in Australia or carries on business in Australia
- any other entity (Other Entity) which is both:
  - controlled by any foreign company which at the same time controls the company in question; and
  - is incorporated or formed or carries on a business in Australia during the part of the financial year when it is controlled by the same foreign company as controls the company in question
- any entity which is controlled by the company in question (whether or not it carries on a business or is formed or incorporated in Australia)
- any entity which is controlled by an Other Entity during the part of the financial year when the Other Entity is controlled by the same foreign company as controls the company in question (whether or not it carries on a business or is formed or incorporated in Australia).

Control is determined at any time during or at the end of the financial year.

The following table provides a pictorial presentation of entities that would be included in the composition of a group.

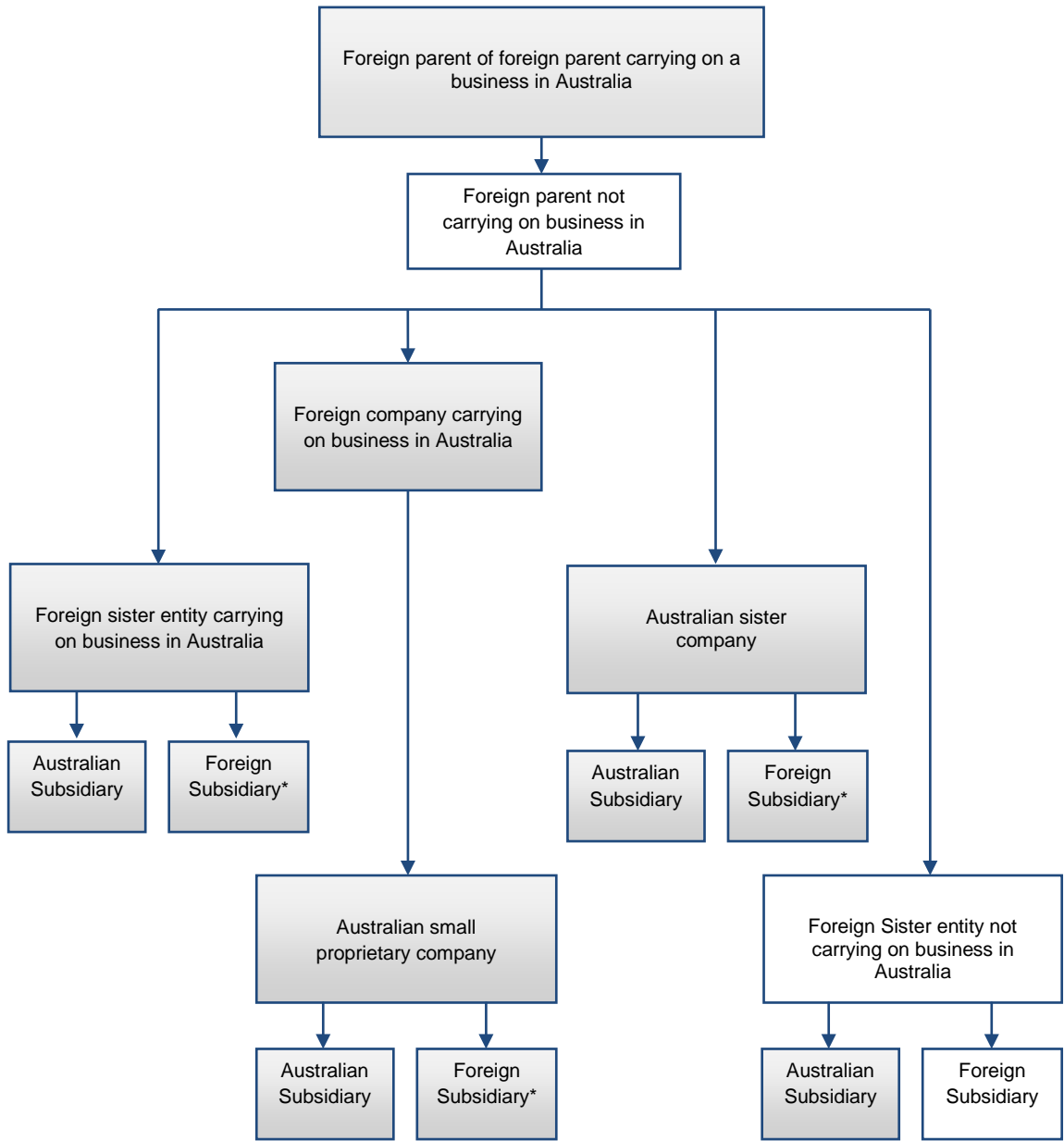
A group is large when it satisfies at least two of the following criteria for the financial year in question:

- combined revenue of the group for the financial year is \$25 million or more
- combined gross asset value of the group at the end of the financial year is \$12.5 million or more
- the group has 50 or more employees at the end of the financial year.

The tests for a large group are based on the large/small tests in S45A. See section [2.1.1](#) for further discussion on these tests.

Combining the financial information of the group is a process similar to consolidation. Therefore, all inter-entity transactions and balances should be eliminated to determine the combined financial information. Applicable AASBs should be used to prepare the combined financial information.

Definition of “group”



 These companies comprise the group

\* The definition of a group includes these foreign subsidiaries regardless of whether they are carrying on business in Australia.



### *New Zealand companies*

Separately, the Act relieves certain foreign companies from the requirement to lodge information with ASIC if:

- the company's place of origin is prescribed by the regulations
- the company has given the information to a regulatory authority equivalent to ASIC in its place of origin. [S 601 CTA]

So far New Zealand is the only country prescribed by the regulations.

This means that New Zealand companies operating in Australia do not have to lodge financial statements and certain other information with ASIC provided the information has been lodged with the New Zealand regulatory authorities. However, there may be a need to lodge supplemental financial information with ASIC if the financial reporting requirements in New Zealand differ from those in Australia. The New Zealand company must still be registered with ASIC.

It should also be noted that if the New Zealand company has or controls a small proprietary company and takes advantage of this relief under S601CTA, this does not qualify the small proprietary company for the S292(2)(b) financial report preparation, audit and lodgement exemption (see section [3.1.2.2](#)).

### **3.3.2.3 Small proprietary companies controlled by a foreign company**

ASIC CO 98/98 *Foreign controlled small proprietary companies* relieves small foreign controlled proprietary companies from the requirement to prepare financial reports if they are not part of a large group. Refer section [3.3.2.2](#) for the definition of a large group.

The directors must resolve to apply the relief annually, no earlier than three months before the commencement of the financial year.

A notice (Form 384) of this resolution must be lodged for the first financial year that the relief will be applied. The notice must be lodged no earlier than three months before the beginning of the financial year and no later than four months after the end of the financial year.

If a company ceases to rely on CO 98/98 for a financial year, it must either lodge an annual financial report prepared under Chapter 2M for that financial year or lodge a Form 394 during the period commencing three months before the beginning of the first non-reliance financial year and no later than four months after the end of that year.

See the [Appendices](#) for example Minutes of meeting of directors where a resolution to rely on the relief is made.

See section [3.1.2.2](#) for further consideration of financial reporting requirements for small proprietary companies controlled by a foreign company.



#### 3.3.2.4 Audit relief

As a general rule, financial reports prepared under the Act must be audited.

ASIC CO 98/1417 *Audit relief for proprietary companies* relieves proprietary companies from the audit requirements subject to a number of conditions relating to:

- shareholder and director approvals
- solvency
- management and financial condition
- preparation of the year end financial report by a prescribed accountant
- lodgement of the financial report within the deadlines.

These conditions must be met at all times. If they are not met, the company automatically loses the benefit of the class order and will need to have its financial report audited.

Under the class order the lodgement deadline for requests is four months after the relevant financial year. Further the lodgement of the directors' and shareholders' resolution to dispense with an audit is only required when first making the resolution (note however that the requirement to make the annual resolution continues).

ASIC CO 98/1417 applies to:

- a small proprietary company controlled by a foreign company for all or part of the relevant financial year (see section [3.1.2.2](#))
- a large proprietary company that is not grandfathered (see section [3.1.2.1](#))
- a company that has not had its financial report audited for any financial year ending 1993 or since (except for a financial year which ended after 9 December 1995 and before 24 April 1997 if the company was a small proprietary company for that financial year and was controlled by a foreign company for all or part of that financial year)
- a company that was not, at any time during the financial year, a disclosing entity, a borrower or guarantor of a borrower, a licensed securities dealer or a futures broker.

Relief under the class order is only available to companies that have not been audited in 1993 or any later year, apart from the exception noted above. Companies that were registered or incorporated since 1993 and have not had an audit since registration or incorporation may use the class order. For example, a small proprietary company that becomes large would not have been audited before and the directors may want to consider whether the class order would suit the circumstances of the company.

Other proprietary companies that have been audited in the past may apply to ASIC for relief. Any application for relief will need to include an explanation of why changes in the company's circumstances mean that an audit will impose unreasonable burdens in the financial year but did not impose unreasonable burdens in prior years.

ASIC RG 115 and the Editorial Note to the class order include guidelines on the factors that ASIC will consider and the conditions it is likely to impose on any entity seeking relief.

If ASIC grants audit relief, the conditions are likely to be similar to those set out in CO 98/1417.

A summary of the conditions for the relief is set out below.

### *Approvals*

- All directors and shareholders must resolve that an audit is not required within three months before the beginning of each financial year and one month after the beginning of the financial year. For example, if a company has a financial year commencing on 1 January 2014, the directors and shareholders must make the resolutions and lodge them between 1 October 2013 and 31 January 2014. Different periods apply for newly incorporated companies and small proprietary companies that become foreign controlled.
- In the information presented to shareholders with the proposed resolution, the directors must state whether in their opinion, the cost of having the financial report audited outweighs the expected benefits of the audit and give their reasons for this view.

### *Notice requiring an audit*

- A written notice requiring an audit has not been served on the company by a director, shareholders controlling 5% or more of the vote, a person who is owed subordinated debt, or ASIC.

### *Solvency*

- The directors' declarations in the past and for the current financial year must include unqualified solvency statements.
- The company must have adequate procedures in place to allow the directors to monitor and assess the solvency of the company.

### *Sound financial condition*

- Quarterly management accounts must be prepared within one month after the end of each quarter (or such other time as approved in writing by ASIC). The financial statements must include a statement of financial position, a statement of profit or loss and other comprehensive income and a statement of cash flows.
- The directors must consider the management accounts and any other information that has become available since the end of the quarter that is material to the assessment of the financial statements and resolve that at the end of the quarter, and the time the resolution was made:
  - total liabilities did not exceed 70% of total tangible assets, on a company and consolidated basis
  - the company was able to pay all its debts as and when they become due and payable.When making the directors' declaration for the year end financial report, the directors must again separately resolve that total liabilities did not exceed 70% of total tangible assets, on a company and consolidated basis.

### *Profitability*

- The company or group does not report a loss two years in succession, on a company and consolidated basis. If a company, or the group, makes a loss two years in a row it must have an audit in the second year.

### *Accounting standards*

- Asset, liability and profit figures must be determined in accordance with applicable accounting standards, (whether or not the company is a reporting entity), except that liabilities may exclude 'approved subordinated debt.'

Approved subordinated debt means debt which:

- has been subordinated under an agreement that has been executed by the company and the creditor and lodged with ASIC prior to the commencement of the financial year
- has been subordinated under an agreement that has been approved by ASIC in writing
- is not provided by a controlled entity of the company or funded directly or indirectly by the company or one of its controlled entities.

### Compilation of financial reports

- The year end financial report must be compiled by a 'prescribed accountant' and a compilation report prepared in accordance with APS 9 *Statement on Compilation of Financial Reports* (the class order refers to APS 9, however, APS 9 has been replaced by APES 315). This report must be attached to the financial report distributed to members and lodged with ASIC. The prescribed accountant may be a company employee.
- The company lodges its current financial report and has lodged its prior year financial reports with ASIC by the due date, i.e., within four months after the end of the financial year.  
[S319(1) and S319(3)(b)]
- The directors' report includes a statement that the financial report has not been audited in reliance on the class order and that the requirements of the order have been complied with.
- The financial report and directors' report for the current and previous financial year comply substantially with Chapter 2M.

#### 3.3.2.5 AFS licensees

Financial services licensees must prepare and lodge audited financial statements in accordance with S989B using prescribed forms (financial statements: Form 70 and audit report: Form 71) (see section [3.1.3](#)). ASIC has issued several class orders which vary this requirement. These class orders are:

- ASIC CO 03/823 *Relief from licensing, accounting and audit requirements for foreign authorised deposit-taking institutions (ADIs)* relieves foreign ADIs from the requirement to prepare audited financial statements and certain record keeping requirements, provided equivalent financial statements prepared for the foreign ADI's overseas regulator, and an auditor's report, are lodged with ASIC at least once in every calendar year and at intervals of not more than 15 months.
- ASIC CO 06/68 *Conditional relief for foreign licensees from financial reporting and record keeping obligations* relieves a foreign company AFS licensee (other than a foreign ADI) from the requirement to prepare audited financial statements and certain record keeping requirements, provided equivalent financial statements prepared for the foreign company's overseas regulator, and an auditor's report, are lodged with ASIC at least once in every calendar year and at intervals of not more than 15 months.
- ASIC CO 03/748 *Reporting requirements under S989B* permits a financial services licensee who is a natural person to exclude any revenue and losses that do not relate to a financial services business carried on by the licensee from the financial report prepared under S989B(1).

#### 3.3.2.6 Disclosing entities

Disclosing entities must prepare half-year financial reports and directors' reports. However, ASIC CO 08/15 *Disclosing entities – Half-year financial reporting relief* relieves disclosing entities from preparing their first half-year report where their first financial year is eight months or less.

The exemption is only available where the following apply:

- in the case of a listed disclosing entity – the entity gives a notice to ASX or another prescribed market operator on or before the deadline for lodging the half-year report, that the entity intends to rely on the order and an explanation of the effect of the order
- in the case of an unlisted disclosing entity – the entity gives a notice to ASIC, on or before the deadline for lodging the half-year report, that the entity intends to rely on the order
- the directors' report for the first financial year of the disclosing entity explains the effect of this order and states that the entity relied on it.

### 3.3.2.7 Combining financial reports of stapled security issuers

Under the Act, an entity's financial report is not permitted to include the financial statements of another entity. However, it is the practice of many issuers of stapled securities to include in their financial reports the financial statements of another entity whose securities are stapled to the issuer's own securities. As the securities can only be traded together, the entities will normally have the same members.

Transactions and operational or financial interrelationships between the entities mean that combined or consolidated financial statements covering the whole stapled group are necessary to give a true and fair view of the financial position and performance of the entities. Under the requirements of the Act, combined financial statements could only be included in the notes to the financial statements and consolidated financial statements covering the whole stapled group could only be included by the controlling entity in the group.

#### *The relief*

ASIC has therefore provided relief from the requirements of the Act to allow combined financial statements to be issued. ASIC CO 05/0642 *Combining financial reports of stapled security issuers* allows issuers of stapled securities to include in one financial report, the consolidated or combined financial statements of the entire stapled group, and the financial statements of the other stapled entities (single entity or consolidated depending if these other stapled entities are a parent in a sub-group). The relief applies to full year financial reports, concise financial reports and half-year financial reports.

The class order also permits any combined financial statements included to give a true and fair view to be relocated from the notes and given prominence. The controlling entity in the stapled group is required by accounting standards to present consolidated financial statements covering the entire stapled group.

#### *The conditions*

This relief is available only where all of the following apply:

- (a) the other reporting group members (but no other entities) were stapled issuers in the same stapled group as the reporting group member at the end of the relevant period and at all times from the end of that period to the date on which the directors' report required by S298(1) or S306(1) is signed by the directors of the reporting group member;
- (b) all of the other reporting group members are required to prepare financial reports for the relevant period in accordance with Chapter 2M;
- (c) all of the other reporting group members rely on this order for the relevant period;
- (d) one of the following applies:
  - (i) such financial statements of the reporting group member and all other reporting group members (including any single entity financial statements presented where ASIC CO 10/654 is applied) are presented in adjacent columns in the relevant report;
  - (ii) financial statements are presented as follows in separate sections of the relevant report:
    - (A) in the first section – the consolidated financial statements that cover all entities in the stapled group and, where ASIC CO 10/654 is applied, the single entity financial statements of the reporting group member that controls all of the entities in the stapled group; and
    - (B) in the second section in adjacent columns – all other consolidated financial statements of the reporting group member and all other reporting group members and any single entity financial statements (including those presented where ASIC CO 10/654 is applied); or
  - (iii) in the case of a financial report for a half-year or a concise report—one of the sets of financial statements permitted under subparagraphs (i) or (ii) (excluding any single entity financial statement that is not required under the Act and the accounting standard applicable to the report) is presented in adjacent columns in the relevant report where, if the set includes consolidated financial statements covering all of the entities in the stapled group, those financial statements are presented first;
- (e) the relevant report contains a summary of the effect of this order.

See section [8.2](#) for further discussion of CP 217 *Presentation of financial statements by stapled entities*.

3.3.2.8 Externally administered companies

A company’s financial reporting obligations under Chapter 2M continue to apply when an external administrator is appointed.

ASIC acknowledges that these obligations may be an unreasonable burden, particularly in the first few months of the administrator’s appointment. Furthermore, the cost of distributing an annual report may exceed the benefits, especially where the reports are sent to the shareholders but it is the creditors who ultimately bear the cost.

The table below presents a summary of ASIC CO 03/392 *Externally administered companies: Financial reporting relief*.

Financial reporting relief for externally administered companies

Type of external administration	Nature of relief	Conditions
Companies in liquidation (including companies concurrently in liquidation and controllership)	Exempt from all financial reporting obligations	None
Companies under administration: OR Companies where a managing controller has been appointed to the whole of the company’s property OR Companies in provisional liquidation	Companies may: <ul style="list-style-type: none"><li>• defer lodging and (where applicable) distributing the Part 2M.3 reports for a period of 6 months after the date of appointment of the relevant external administrator</li><li>• use specified alternative methods for distributing an annual report to members at the end of the deferral period.</li></ul> The relief applied where the external administrator is appointed no earlier than three months before the end of a financial year of half-year.	Companies must: <ul style="list-style-type: none"><li>• notify ASIC that they are relying on the class order</li><li>• if listed; notify the relevant market operator(s) that they are relying on the class order</li><li>• answer free of charge reasonable inquiries from members during the deferral period about the external administration.</li></ul>

ASIC will also grant individual relief from the financial reporting requirements on a case-by-case basis. ASIC RG 174 *Externally administered companies: Financial reporting and AGMs* discusses ASIC CO 03/392, the matters that ASIC will consider and the nature of the individual relief it will give.

3.3.2.9 Inclusion of parent entity financial statements in financial reports

ASIC CO 10/654 *Inclusion of parent entity financial statements in financial reports* permits entities to continue to include parent entity financial statements in their consolidated financial reports (See section 3.1.4). Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by Reg 2M.3.01.

The directors’ declaration and auditor’s report must include the relevant opinions in relation to the parent entity financial statements and related notes.

The class order may be applied to an entity’s annual financial report, concise report or half-year financial report.



### 3.3.2.10 Entities ceasing to be a disclosing entity before their deadline

ASIC CO 98/2016 *Entities which cease to be disclosing entities before their deadline* provides conditional relief from compliance with the requirements of Chapter 2M of the Act to the extent that the requirements apply to a disclosing entity. This relief applies when an entity was a disclosing entity at the end of its financial year but ceases to be a disclosing entity before the earlier of:

- 3 months after the end of the financial year; and
- 21 days before the date of the next annual general meeting after the end of the financial year, if the entity is required to have an annual general meeting.

The above is also conditional on the directors of the entity resolving that there are no reasons to believe that the entity may become a disclosing entity before the end of the next financial year.

In relation to half-year financial reports S302 provides that if an entity is not a disclosing entity when lodgement of the half-year financial report is due then a half-year financial report is not required to be prepared.

### 3.3.3 Grandfathered companies

Large proprietary companies that were exempt proprietary companies under the old Corporations Law are not required to lodge their audited financial reports with ASIC, provided they met certain conditions. These companies must still prepare audited financial reports and distribute them to members.

The 'grandfathered' exemption exists by virtue of S1408 which gives effect to the transitional provisions under the old Corporations Law S319(4). To take advantage of the grandfather exemption, a company must:

- meet and continue to meet at all times the definition of exempt proprietary company\* in operation at 30 June 1994
- have lodged an election for S317B(3), as in force at that time, to apply to the company. The election must have been lodged with ASIC within four months of the end of the first financial year after commencement of the *First Corporate Law Simplification Act*
- have been a large proprietary company at the end of the first financial year after commencement of the Act (i.e. 9 December 1995)
- have prepared and continue to prepare an audited financial report within four months of the end of each financial year since 1993.

If the company does not meet any of these conditions at any time, the benefit of the grandfathered exemption is lost permanently.

ASIC CO 05/638 *Anomalies preventing certain large proprietary companies from being grandfathered* ensured that certain grandfathered proprietary companies retained their grandfathered status even though they did not meet the above conditions in certain circumstances. For example, in the year of transition to IFRS, ASIC gave all unlisted companies an extra month to lodge and distribute their annual financial reports. ASIC CO 05/638 ensured that grandfathered large proprietary companies did not lose the benefit of grandfathering if they took advantage of the additional month to report.

Grandfathered companies preparing special purpose consolidated financial statements should continue to prepare separate parent entity financial statements to ensure they do not lose their grandfathered status. Technically the exemption from preparing separate parent entity financial statements (see section [3.1.4](#)) only applies when consolidation is required by accounting standards. Special purpose consolidated financial statements are not required by accounting standards.

\* An exempt proprietary company under the old Corporations Law means a proprietary company, no member of which is a non-exempt person, and a non-exempt person owns no share in the company. A non-exempt person is:

- a body corporate other than a company or an exempt foreign company (which is a foreign company declared exempt by ASIC)
- a public company
- a private company, a share in which is owned by a private company, or a share in which is owned by a person other than a natural person (a generational shareholder test), or
- a private company (other than an exempt foreign company) a share in which is owned by a body corporate that is a non-exempt person.

## 3.4 ASX Listing Rules

ASX Listing Rules ('ASX LR') govern the admission of entities to the ASX official list, quotation of securities, suspension of securities from quotation and removal of entities from the official list. They also govern disclosure and some aspects of a listed entity's conduct. Compliance with the ASX LR is a requirement for admission to the official list.

The key financial reporting requirements of the ASX relate to:

- application of ASX LR
- half-year disclosure
- annual disclosure
- change of balance date
- providing the annual report to shareholders
- quarterly cash flow report
- securities in an unlisted entity
- disclosure on ASX request
- continuous disclosure.

The ASX LR are enforceable under the Act which enables the relevant Court to make orders requiring compliance with the ASX LR on the application of ASIC, ASX, or an aggrieved person. Similar operating rules apply to other prescribed financial market exchanges, however they are not covered in detail in this section (see section [2.1.2.1](#)). [S793(C)]

A summary of the reporting requirements and lodgement deadlines for public companies and registered schemes, which includes requirements under ASX LR and the Act is set out in section [3.1.1](#).

### 3.4.1 Application of the ASX Listing Rules

ASX has absolute discretion concerning the admission of an entity to the official list (and its removal) and quotation of its securities (and their suspension). ASX also has discretion whether to require compliance with the ASX LR in a particular case (that is, apart from waiving the Listing Rules). In exercising its discretion, ASX takes into account the principles on which the ASX LR are based.

ASX may also waive compliance with an ASX LR, or part of a Listing Rule, unless the Listing Rule in question says otherwise. The ASX LR necessarily cast a wide net. However, ASX does not want to inhibit legitimate commercial transactions that do not undermine the principles on which the ASX LR are based. If ASX decides to grant a waiver, it may do so on conditions. The conditions must be complied with for the waiver to be effective. Waivers are published by ASX periodically and are also advised to ASIC.

The ASX LR themselves are to be interpreted:

- in accordance with their spirit, intention and purpose
- by looking beyond form to substance
- in a way that best promotes the principles on which they are based.

If an entity does not comply with the ASX LR, its securities may be suspended from quotation or it may be removed from the official list.

### 3.4.2 Half-year disclosure

For half-year reporting purposes, the ASX requires listed entities to give the ASX as a single document:

- a copy of the documents which a disclosing entity must lodge with ASIC, being the directors' report, financial report (which includes the financial statements, notes to the financial statements and the directors' declaration) and the auditor's report [S320]
- unless the entity is a mining exploration entity, the information required by ASX Appendix 4D.

See section [4.4](#) for further discussion on interim (half-year) financial reporting requirements under the Act.

The ASX requires that:

- the information disclosed under ASX LR 4.2A must be given to the ASX at the same time the half-year financial statements are lodged with ASX [ASX LR 4.2C.1]
- where the information comprises more than one document, the information must be merged into a single PDF file for electronic lodging
- the first page or any covering page should:
  - clearly identify the information as being all the half-year information required by ASX LR 4.2A
  - state prominently that the information should be read in conjunction with the most recent annual financial report
- information identified as “results for announcement to the market” must be set out at the start of the information
- when the statement of financial position is condensed, the line items for each significant class of asset, liability and equity element, with appropriate sub-totals, must be reported [ASX LR 42.C.4]
- when the statement of cash flows is condensed, the line items for each significant form of cash flow must be reported and the disclosure requirements of AASB 107 complied with. [ASX LR 42.C.4]

The ASX LRs do not require or prohibit a statement of profit or loss and other comprehensive income or a statement of changes in equity being provided in a condensed form. However, listed entities are required to provide any information that a reasonable person would expect to have a material effect on the price or value of the entity's securities and are required to look beyond the form of a requirement to the substance.

### 3.4.2.1 Entities other than mining exploration entities

The information or documents required by ASX LR 4.2A includes, for entities other than mining exploration entities, the requirements of ASX Appendix 4D. The information must be lodged no later than any financial report, directors' report and audit report is lodged with ASIC and in any event no later than two months after the end of the half-year. Appendix 4D requires, in summary, the following key information to be disclosed:

- percentage changes from the previous corresponding period for key financial information, commentary on results for the period, and a brief explanation of any of the figures necessary to enable the figures to be understood, including:
  - revenue from ordinary activities
  - profit (loss) from ordinary activities after tax attributable to members
  - net profit (loss) for the period attributable to members
- dividend details, including dividends per share/security, dates of dividends, dividend reinvestment plans
- net tangible assets and comparative amount
- acquisitions and disposals of subsidiaries during period, and impact on profit where relevant
- investments in associates and joint venture, and impact on profit where relevant
- if the financial report contains an independent audit or review report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph. The audit or review report must be provided as part of Appendix 4D.

Net tangible assets is defined in ASX LR 19 *Interpretations and definitions*. It is calculated as total assets less intangible assets less total liabilities.

- Total assets – in calculating total assets, the value of investments at the end of the period is calculated at ‘net market value’ (i.e. the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of the disposal).
- Total liabilities – include provisions for tax on realised income and gains; provisions for tax on unrealised income and gains; provisions for declared, but unpaid, dividends or distributions; and provisions for unpaid management fees earned.

Refer to ASX LR 19 for further details.



### 3.4.3 Annual disclosure

#### 3.4.3.1 Preliminary financial report

Following the end of the financial year an entity (except a mining exploration entity) must complete Appendix 4E (the preliminary final report) and give it to ASX. For listed trusts, the responsible entity or management company must complete Appendix 4E with any necessary adaptation. The Appendix requires a statement as to whether the report is based on financial statements and notes to the financial statements which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.

The information or documents required by ASX LR 4.3A which includes the requirements of ASX Appendix 4E listed below, must be lodged immediately once the information is available, no later than any financial report, directors' report and audit report is lodged with ASIC and in any event no later than two months after the end of the year.

Appendix 4E requires the following key information to be disclosed:

- Percentage changes from the previous corresponding period for key financial information, commentary on results for the period, and a brief explanation of any of the figures necessary to enable the figures to be understood, including:
  - revenue from ordinary activities
  - profit (loss) from ordinary activities after tax attributable to members
  - net profit (loss) for the period attributable to members.
- the primary financial statements, being statement of financial position, statement of profit or loss and other comprehensive income statement of changes in equity and statement of cash flows (note the income statement and cash flow statement may be presented condensed in the preliminary report)
- dividend details, including dividends per share/security, dates of dividends, dividend reinvestment plans
- net tangible assets and comparative amount
- acquisitions and disposals of subsidiaries during period, and impact on profit where relevant
- investments in associates and joint venture, and impact on profit where relevant
- any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.

The ASX also requires:

- where the information comprises more than one document, the information must be merged into a single PDF file for electronic lodging [GN 20]
- the first page or any covering page should clearly identify the information as being all the preliminary financial report required by ASX LR 4.3C
- information identified as 'results for announcement to the market' must be set out at the start of the information
- any circumstances that an entity becomes aware of after lodging an Appendix 4E that materially impacts the information reported be disclosed to ASX, together with an explanation and description of the effects the change in circumstance is expected to have on the entity. [ASX LR 4.3D, and 4.5A]

#### 3.4.3.2 Annual report

At the time it makes available the annual report (see section [3.1.1](#)) required by the Act to security holders, the entity (in the case of a trust, the responsible entity or management company) must give the ASX a copy of the annual report. However, an entity need not give the ASX the annual report if it comprises only the financial documents that have already been given to the ASX. The entity must tell the ASX if this is the case. [ASX LR 4.7]

A listed entity must include the following information in its annual report. The information must be current as at a specified date that is no more than six weeks before the report is made available to security holders:

- a statement disclosing the extent to which the entity has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed all of the recommendations the entity must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation had been followed for only part of the period, the entity must state the period during which it had been followed. Disclosures should cover the main governance processes which were in place such as board processes, director education, independent professional advice and access to company information. [ASX LR 4.10.3]
- the names of substantial shareholders in the entity, and the number of equity securities to which each has an entitlement (including entitlements of associates), as disclosed in substantial shareholding notices given to the entity. If a substantial shareholding notice discloses that related bodies corporate have the same entitlement in the same number of equity securities, the annual report need only include the name of the holding company. [ASX LR 4.10.4]
- the number of holders of each class of equity securities [ASX LR 4.10.5]
- the voting rights attaching to each class of equity securities [ASX LR 4.10.6]
- a distribution schedule of the number of holders in each class of equity securities, in the categories:
  - 1 – 1,000
  - 1,001 – 5,000
  - 5,001 – 10,000
  - 10,001 – 100,000
  - 100,001 and over [ASX LR 4.10.7]
- the number of holders holding less than a marketable parcel of the entity's main class of securities, based on the market price at the specified date [ASX LR 4.10.8]
- the names of the 20 largest holders of each class of quoted equity securities [ASX LR 4.10.9]
- the number of equity securities each holds and the percentage of capital (in the case of a trust, interests) each holds [ASX LR 4.10.9]
- the name of the entity's secretary (in the case of a trust, the name of the responsible entity or management company and its secretary) [ASX LR 4.10.10]
- the address and telephone number of the entity's registered office in Australia, and of its principal administrative office, if the two are different [ASX LR 4.10.11]
- the address and telephone number of each office at which a register of securities, register of depositary receipts or other facilities for registration of transfers is kept [ASX LR 4.10.12]
- a list of the other stock exchanges on which any of the entity's securities are quoted [ASX LR 4.10.13]
- the number and class of restricted securities or securities subject to voluntary escrow that are on issue, and the date from which they cease to be restricted securities [ASX LR 4.10.14]
- if the entity is a mining exploration entity, a list of its interests in mining tenements, where the tenements are situated and the percentage interest it holds in each [ASX LR 4.10.15]
- for each class of unquoted equity securities, the number of equity securities that are on issue and the number of holders. In addition, if a person holds 20% or more of the equity securities in an unquoted class, the name of the holder and number of equity securities held, unless the securities were issued or acquired under an employee incentive scheme [ASX LR 4.10.16]
- a review of operations and activities for the reporting period [ASX LR 4.10.17]
- whether there is a current on-market buy-back [ASX LR 4.10.18]
- for the first two annual reports following admission – a statement whether cash held by the entity at the time of admission was used in accordance with its business objectives. This rule applies to entities admitted on or after 1 September 1999 or otherwise required to comply with ASX LR 1.3.2(b) [ASX LR 4.10.19]
- if the entity is an investment entity, all of the following must be disclosed:
  - a list of all investments held by it
  - the total number of transactions in securities during the reporting period and total brokerage paid or accrued during the period and
  - total management fees paid or accrued during the period and a summary of any management agreements [ASX LR 4.10.20]
  - a summary of any issues of securities approved for the purposes of Item 7 of S611 which have not yet been completed. [ASX LR 4.10.21]

Refer to *Example Public Company Limited - Illustrative Disclosures* for an example of all of the above disclosures, including the corporate governance statement. ASX LR Guidance Note 9 provides an overview and further detail of the Corporate Governance Council Principles and Recommendations.

### 3.4.4 Listed entities – dual lodgement arrangements

ASIC and the ASX have made arrangements which avoid the need for disclosing entities to lodge the same set of financial reports with both bodies. This is applicable to both the annual financial reports and the half-year reports for listed entities and registered schemes under the Act. However, the relief for disclosing entities that are not companies or registered schemes is only applicable for preparation of half-year reports. [RG 28 CO 98/104]

ASIC has appointed the ASX as its agent to receive financial reports so that lodgement of financial reports with the ASX represents lodgement of these financial reports with ASIC. The arrangements only apply to financial reports which have been signed by the directors of the listed entity and which include the directors' declaration, directors' report and audit or review report and are lodged within the reporting deadline. The class order however does not waive ASIC's right to specifically request (separate to the general lodgement requirements) information that has been lodged with the ASX. [S1274]

### 3.4.5 Continuous disclosure

The continuous disclosure requirements are contained in ASX LR 3.1. The continuous disclosure requirements require timely reporting to the ASX of significant events and financial information that is likely to impact the price of the entity's securities. Information for release to the market must be given to ASX's company announcements office.

Both listed and unlisted disclosing entities must disclose certain price sensitive and other information to ASIC under the disclosing entity provisions of the Act (see section [6.4](#)). [Chapter 6CA]

ASX LR 3.1 contains an overriding general requirement to disclose information that a reasonable person would expect to have a material effect on price or value of securities, however the rule includes the following exceptions:

- it would breach the law to disclose information
- the information relates to an incomplete proposal or negotiation
- the information comprises matters of supposition or is insufficiently definite to warrant disclosure
- information is generated for internal management of the company
- information is a trade secret
- a reasonable person would not expect the information to be disclosed
- the information is confidential and ASX has not formed a view that has ceased to be confidential.

There are numerous instances requiring immediate notification to ASX detailed in ASX LR 3. These include, but are not limited to, the following:

- when ASX considers there is or likely to be a false market in an equity's securities and asks the entity to provide information to correct or prevent a false market
- when an entity or one of its subsidiaries makes a takeover bid or extends the offer period under a takeover bid
- when an entity makes a buy-back offer
- when there is change to the entity's capital (e.g. restructuring, issue of securities including bonus issues, dividend or distribution plan and the right of exercise on convertible securities)
- forthcoming release of restricted securities and securities subject to voluntary escrow
- options, including change in exercise price or number of options
- meetings including any prepared announcements and outcome of resolutions
- any change of registered office details such as address, telephone number or where the registers are kept
- change of chairperson, directors, responsible entity and auditors
- disclosure of directors' interests
- a transaction that will lead to a significant change in the nature or scale of the entity's activities
- a material mineral or hydro-carbon discovery
- a material acquisition or disposal
- the granting or withdrawal of a material licence
- the entry into, variation or termination of a material agreement
- becoming a plaintiff or defendant in a material law suit
- the fact that the entity's earnings will be materially different from market expectations
- the appointment of a liquidator, administrator or receiver
- the commission of an event of default under, or other event entitling a financier to terminate, a material financing facility
- under subscriptions or over subscriptions to an issue of securities (a proposed issue of securities is separately modifiable to ASX under ASX LR 3.10.3)
- giving or receiving a notice of intention to make a takeover
- any rating applied by a rating agency to an entity or its securities and any change to such a rating.

Additional guidance is found in Guidance Note 8 *Continuous disclosure: Listing Rule 3.1 – 3.1B*.

### 3.4.6 Other lodgement requirements

#### 3.4.6.1 Change of balance date

If an entity (except a mining exploration entity) changes its annual balance date so that its next annual financial documents cover a period that is more than 12 months, the entity must complete Appendix 4F covering the 12 months since its previous balance date and give it to ASX. This Rule does not require an entity whose balance date varies by up to one week each year to complete the Appendix for the changed period. The Appendix 4F requires financial statements to be prepared in accordance with AASB 134 Interim financial reporting or its foreign equivalent (if applicable), and must be audited or reviewed if the ASX or relevant law requires. [ASX LR 4.4A]

The entity must give ASX the Appendix immediately the information is available. It must do so in any event within 2 months after the end of the 12 month period). [ASX LR 4.4B]

#### 3.4.6.2 Quarterly cash flow report

An entity must complete Appendix 4C (Quarterly Cash Flow Report) and give it to ASX if one of the following applies:

- the entity was admitted after 1 September 1999 under ASX LR 1.3.2(b) (requiring entities holding more than half of net tangible assets in cash to have commitments in place to spend at least half of that amount)
- the entity has since been required to comply with ASX LR 1.3.2(b) in accordance with ASX LR 11.1.3
- if otherwise requested by ASX.

The information must be provided to the ASX within one month of the end of each quarter of the financial year for the first eight quarters following admission or compliance with ASX LR 11.1.13 or for the period set by the ASX, if longer. [ASX LR 4.7B]

#### **3.4.6.3 Investments in securities of an unlisted entity**

If securities in an unlisted entity, or loans or advances to it, are a listed entity's main asset, the listed entity must give the ASX the latest financial report of the unlisted entity (including any auditor's report or statement). The listed entity does not have to do so if the unlisted entity's financial statements are consolidated with the financial statements of the listed entity. [ASX LR 4.8] No exception is given for securities in an associate or joint ventures which are not consolidated by the listed entity.

#### **3.4.6.4 ASX Debt listings**

If an entity with an ASX debt listing is required to comply with S319 or S601CK, then it must give the ASX a copy of the documents at the same time it lodges with ASIC. If the entity was admitted based on a guarantee given by a parent company, the entity must provide the ASX with a copy of the documents the parent lodges with ASIC at the same time lodgement occurs.

#### **3.4.6.5 Disclosure on ASX request**

If securities in an unlisted entity, or loans or advances to it, are included in a listed entity's assets, the listed entity must give ASX the latest financial reports of the unlisted entity if ASX makes such a request. [ASX LR 4.9]

## 4. Financial reports

### Overview

- A complete set of financial statements includes a statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, and notes to the financial statements, including accounting policies.
- A third comparative statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, correction of an error, or a reclassification.
- Financial years typically last for 12 months, however, the first financial year of a company following incorporation or registration under the Act may be up to 18 months.
- A subsequent financial year typically lasts for a period of 12 months unless certain conditions set out in S323D(2A) are met.
- An entity that is required to prepare consolidated financial statements must ensure the financial statements of its subsidiaries are synchronised. A foreign owned entity, however, must comply with certain conditions if it is to receive relief for its Australian subsidiaries to synchronise financial year ends.
- Comparative information is required for the immediate reporting period for all reporting entities.
- Entities may need to restate their financial statements if it is determined they are not in compliance with the Act.
- Entities reporting under the Act are prohibited from presenting pro-forma financial statements in their financial report.
- Rounding is permitted in the financial reports where assets are in excess of \$10 million, except for certain director and auditor disclosures which must be disclosed with a lesser degree of rounding. Rounding differs depending on the size of the entity.
- A directors' declaration and statement as to the solvency of an entity must be included in financial reports under the Act.
- Disclosures in the directors' report depend on whether an entity is listed, is a disclosing entity, a company limited by guarantee (other than a small company limited by guarantee), a registered scheme or a large proprietary company.
- Disclosures include remuneration details for key management personnel in a specific remuneration report for disclosing entities that are companies.
- Concise financial statements may be prepared and made available to members in lieu of annual financial reports if certain conditions are met except in the case of companies limited by guarantee.
- All disclosing entities must prepare interim financial reports.



## 4.1 What are financial reports?

This section provides an overview of the contents of financial reports under Australian Accounting Standards (AASBs) and the Act, including:

- a comparison of the relationships between ‘financial statements’, ‘complete set of financial statements’ and ‘financial report’
- financial years.

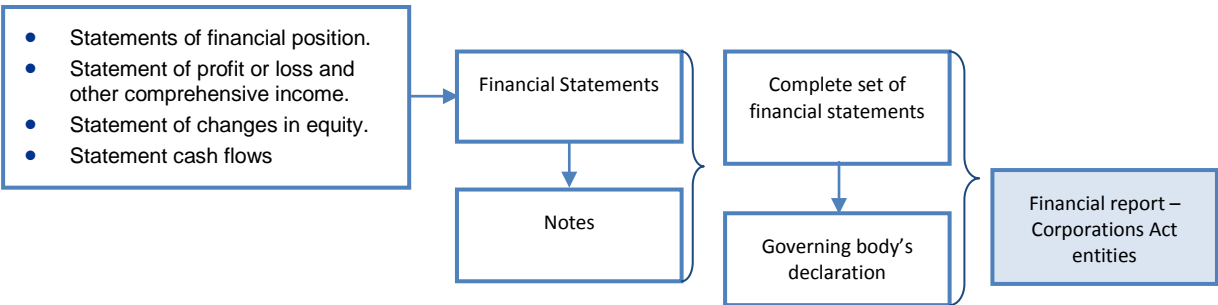
### 4.1.1 Financial report objectives

The AASB Framework: *The Framework for the Preparation and Presentation of Financial Statements* sets out the objectives of financial statements as:

- to provide information about the financial position, financial performance and cash flows of an entity that are used by a wide range of users in making economic decisions
- to meet the common needs of most users, but not provide all the information that users may need, since they largely reflect the financial effects of past events and may not provide non-financial information
- to allow users to assess the stewardship or accountability of management in making economic decisions; users may then make decisions as to whether to hold or sell their investment or whether to reappoint or replace the management.

### 4.1.2 Financial statements vs. financial report

The following diagram represents the current relationship between ‘financial statements’, ‘complete set of financial statements’ and ‘financial report’.



It is not mandatory that entities use the terms used in the accounting standards to describe the four financial statements. Entities may use alternative titles such as ‘income statement’, ‘balance sheet’ and ‘cash flow statement’.

Paragraph 10 of AASB 101 requires a complete set of financial statements comprising:

- statement of financial position
- statement of profit or loss and other comprehensive income, including income and expenses and any amount recognised directly in equity in either of the following formats:
  - single statement (with profit or loss presented in one section and, directly following, other comprehensive income presented in a second section) or
  - separate statements (a separate statement of profit or loss immediately preceding a statement presenting comprehensive income)
- statement of changes in equity (i.e. changes in equity arising from transactions with owners in their capacity as owners)
- statement of cash flows
- notes to the financial statements, including significant accounting policies and other explanatory information
- comparative information in respect of the preceding period
- a third statement of financial position as at the beginning of the preceding period following a retrospective change in accounting policy, the retrospective restatement or the reclassification of items in the financial statements.

In our view, the requirement to present a third statement of financial position should be interpreted having regard to materiality based on the particular facts and circumstances. In other words, a third statement of financial position would be required when there is a material impact on the statement of financial position at the beginning of the preceding period. AASB 101 was amended, effective 1 January 2013, to only require a third statement of financial position where the retrospective change in accounting policy, retrospective restatement or reclassification has a material effect. [AASB 101.40A]

The date of that opening statement of financial position is as at the beginning of the preceding period regardless of whether an entity's financial statements present comparative information for earlier periods.

When an entity presents a third statement of financial position, it is not required to present the related notes. However, it includes the explanatory disclosures required by AASB 101.41-44 and AASB 108, i.e. the relevant reason(s) why the third statement of financial position is presented. [AASB 101.40C]

If there has been a retrospective change in accounting policy, retrospective restatement or the reclassification of items in the financial statements, but a third statement of financial position is not presented on the basis that it is judged not to be material, then, we recommend considering whether this fact should be disclosed. [Insights 2.1.30.20]

### 4.1.3 Financial years and half-years

Financial statements are presented for the period ending on the balance sheet date (end of the reporting period). The terms 'balance sheet date' and 'end of the reporting period' are used interchangeably in IFRSs and AASBs.

Entities preparing financial statements in accordance with the Act are required to use a financial year (or half-year) as their reporting period.

#### 4.1.3.1 Changes in annual reporting dates

If the annual reporting date does change, then the financial statements for that period will cover either more or less than 12 months, and disclosure of that fact is required under AASB 101.36. In such cases comparative information is not adjusted and subsequent financial years must commence at the end of the previous financial year.

For example, Company A has a financial year ending 31 December 2010 and after lodging these financial statements decides to change its year end to 31 March 2011. Company A will prepare financial statements for the three month period ended 31 March 2011 with comparatives for the 12 month period ended 31 December 2010, as previously reported. [AASB 101.39(b)]

When a change in reporting period occurs, the financial statements should clearly indicate the period covered by the financial statements, the reason for using a longer or shorter period and the fact that amounts presented in the financial statements are not entirely comparable. [AASB 101.36]

Pro-forma information for the comparable preceding reporting period may be presented in the notes to the financial statements, however entities reporting under the Act should be aware that such information should not be presented in a form that is misleading to users of financial reports (see section [4.1.6](#) for what would constitute 'misleading' to users).

In the example above, Company A might provide additional pro-forma information for the three month period 31 March 2010. However, there may be difficulties in auditing this pro-forma information.

On top of changing their financial year in accordance with the Act, when an entity that is listed on the ASX changes its financial year such that it is longer than 12 months, the ASX requires that they submit Appendix 4F for the 12 month period beginning immediately after their previous financial year (see section [3.4.6.1](#)).



#### 4.1.3.2 Corporations Act requirements

##### *Financial year*

Under the Act, a financial year typically lasts for 12 months. However, the first financial year of a company, registered scheme or disclosing entity following incorporation or registration may be up to 18 months. [S323D(1)]

Subsequent financial years must commence at the end of the previous financial year of the company, registered scheme or disclosing entity and generally be of 12 months duration.

The Act permits directors of companies, registered schemes and disclosing entities to alter the length of the financial year by way of directors' determination by no more than seven days. [S323D(2)]

Generally those entities that operate on 52 week cycles take advantage of the ability to shorten or lengthen their financial year by seven days. For example, many retailers operate on this basis.

A subsequent financial year may last for a period of less than 12 months if it commences at the end of the previous financial year; there has not been a period during the previous five financial years in which there was a financial year of less than 12 months and the change to the subsequent financial year is made in good faith in the best interests of the company, registered scheme or disclosing entity. [S323D(2A)]

Other reasons for changing year ends include the occurrence of reverse acquisitions, requiring the 'legal' acquirer to change its year end for consistency with the 'accounting' acquirer. See *Insights* 2.6.170 for more details on reverse acquisitions.

For other entities, the financial year will normally be defined in the governing legislation or constitution.

#### 4.1.3.3 Synchronisation of financial years of controlled entities

The directors of a company, registered scheme or disclosing entity that is required to prepare a consolidated financial report for a financial year must ensure that the financial years of all consolidated entities are synchronised with its own financial year end. This must be achieved within 12 months after the obligation to prepare a consolidated financial report arises. If the need to prepare a consolidated financial report arises due to an acquisition, this means the entity must adjust the year end within 12 months from the date of acquisition to achieve synchronisation. [S323D(3)]

In order to synchronise the financial years of all consolidated entities, the financial years of the consolidated entities will need to be extended or shortened to coincide with the parent's year end. If a financial year needs to be extended, the entity has 12 months from the date of acquisition to synchronise year ends. It cannot be extended for more than 18 months. [S323D(4)]

S323D(4) applies to a single year end, therefore synchronisation must be achieved by adjusting the length of a single financial year. Entities are not permitted under this section to adjust the length of multiple financial years to achieve synchronisation.

If an entity needs to synchronise its year end with a foreign parent, they cannot do this under S323D. Such entities should refer to ASIC CO 98/96 which may allow a foreign controlled company to have a financial year of up to eighteen months in order to synchronise its financial year with that of its foreign parent. Refer to ASIC CO 98/96 for further guidance.

An Australian company/group which has already synchronised its year end with an overseas parent is unlikely to be granted relief from S323D for a subsequent change of year end.

#### 4.1.3.4 Other changes in financial years

If an entity wishes to change its financial year for a reason that is not covered by S323D (no reduction in financial years within the last five years (see section [4.1.3.2](#)) and synchronisation of subsidiary financial years (see section [4.1.3.3](#))) they may apply to ASIC for relief under S340. In order for ASIC to provide relief under S340, ASIC would need to be satisfied that complying with the normal requirements would:

- make the financial report or other report misleading
- be inappropriate in the circumstances or
- impose unreasonable burdens.

#### 4.1.3.5 Half-year

A half-year for a company, registered scheme or disclosing entity is the first six months of a financial year. The directors may determine that the half-year is to be shorter or longer by not more than seven days. An exemption exists where a disclosing entity's first financial year is eight months or less where certain conditions are met (see section [3.3.2.6](#)). [S323D(5)]

#### 4.1.4 Comparative information

Comparative information is required for the immediately preceding period for all reporting entities. Unless there is a specific exemption provided in a standard or an interpretation, all of the previous period's numerical information (amounts) must be presented as part of the comparatives. Generally, the related narrative and descriptive information is required only when relevant for an understanding of the current period's financial statements. For example, comparative segment information generally would be disclosed, as it is relevant for an understanding of segment changes and performance for the period.

[AASB 101.38]

An entity may present comparative information in addition to the minimum comparative financial statements required by accounting standards, as long as that information is prepared in accordance with accounting standards. For example, an entity may present a third statement of profit or loss and other comprehensive income (thereby presenting the current period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to present, in the notes to the financial statements, the comparative information related to that additional statement of profit or loss and other comprehensive income. [AASB 101.38C, 38D]

No particular format is required for the presentation of comparatives. Most entities reporting under AASBs provide comparative information alongside that for the current period. More extensive comparatives may be presented voluntarily or to meet regulatory or stock exchange requirements.

Restatement of comparative information does not of itself require replacement of the original financial statements of the preceding period.

#### 4.1.5 Restatement of financial statements

Financial statements may need to be restated and reissued if it is determined that they are not in compliance with the Act or accounting standards. Sometimes restatement in the next financial year without reissuance of the current financial year financial statements may suffice.

Auditing Standard ASA 560 *Subsequent Events* discusses the situation where, subsequent to the issuance of the financial statements the auditor becomes aware of a fact that existed at the time of signing the audit opinion which would have impacted the opinion. These would be grounds upon which to reissue the financial statements.

ASA 560 requires the auditor to reissue the audit opinion if the financial statements are reissued in this situation. The reissued audit opinion would include an emphasis of matter. If the financial statements are not reissued when the auditor believes they should be the auditor will seek to prevent reliance on the audit opinion previously issued.

If an entity reissues a financial report after it has been lodged with ASIC, the entity must lodge the amended report with ASIC within 14 days after the amendment and give an amended report free of charge to any member who requests one. [S322(1)]

If the amendment is material (generally financial statements are only reissued for material errors) then the entity must also ensure that it notifies its members of the nature of the amendment and that the member has the right to obtain an amended report free of charge.

Where an entity corrects an error in the next period financial statements by restating the prior period, appropriate disclosures are required by AASB 108 and there may need to be an emphasis of matter in the audit opinion and reporting the issue by the auditor to ASIC under S311. [RG 34]

#### 4.1.6 Presentation of pro-forma information

AASBs generally are silent on the presentation of pro-forma information within the financial statements, with the exception of the requirement in AASB 3 *Business Combinations* to present, following a business combination, revenue and profit or loss of the combined entity determined as if the acquisition had been effected at the beginning of the period.

In some cases an entity may wish to present pro-forma information that is not required by IFRSs, for example pro-forma comparative financial statements following a change in the end of its reporting period or a pro-forma statement of profit or loss and other comprehensive income following significant changes in the composition of the entity. In our view, such additional information generally is acceptable to the extent that it is allowed by local regulations and relevant stock exchange rules, and provided that:

- the information is labelled clearly to distinguish it from the financial statements prepared in accordance with IFRSs and is marked clearly as unaudited if that is the case;
- the entity discloses the transaction or event that is reflected in the pro-forma financial information, the source of the financial information on which it is based, the significant assumptions used in developing the pro-forma adjustments, and any significant uncertainties about those adjustments; and
- the presentation indicates that the pro-forma financial information should be read in conjunction with the financial statements and that the pro-forma financial information is not necessarily indicative of the results that would have been attained if, for example, the transaction or event had taken place at a different date. [Insights 2.1.80.20]

Entities that are reporting under the Act are prohibited from presenting pro-forma financial statements in their annual financial report. S295 permits the financial report to include only the specified financial statements and notes prepared in accordance with accounting standards, along with the directors' declaration.

The ASIC Draft RG 89 *Disclosing Pro-forma Financial Information* notes pro-forma financial statements include:

- information presented in the form of an additional or 'third' column within a set of financial statements, even if it is described as a note to the financial statements or
- information presented in the notes to the financial statements in a form that resembles financial statements.

Other pro-forma information may be included in the financial report in accordance with S295(3)(c) in order to provide a true and fair view. However as financial reports prepared in accordance with accounting standards will generally provide a true and fair view of an entity's financial position and performance, ASIC's view is that additional pro-forma information will only be necessary in very rare and exceptional circumstances. If an entity is considering disclosing pro-forma information in their annual report the directors/management should discuss this with their auditor at the earliest opportunity to ensure that the disclosures do not contravene the Act.

Pro-forma information is defined in ASIC Draft RG 89 as any financial information, financial figure, measure or ratio that:

- is not specifically required to be disclosed in a financial report by the requirements in Chapter 2M of the Act and/or
- is not prepared in accordance with accounting standards.

Whenever an entity provides pro-forma information it must ensure that such information is not misleading and can be clearly distinguished from the information provided under the accounting standards. Whilst ASIC has not released the draft regulatory guide as a final document, ASIC's view is that it considers that aspects of the Draft Guide are already required under the Act, for example the requirement to not present financial statements other than those required by the accounting standards. Other aspects of the guidance are consistent with other existing class orders or relief provisions.

Further to ASIC Draft RG 89, ASIC RG 230 *Disclosing non-IFRS financial information* was released in December 2011. Consistent with ASIC Draft RG 89, ASIC RG 230 would not permit the disclosure of such proforma information, unless it was part of the segment information presented to the chief operating decision maker and in the segment note. For further information refer to section [4.1.7](#).

#### 4.1.7 Non-IFRS financial information

On 9 December 2011, ASIC released RG 230 *Disclosing non-IFRS financial information*. The regulatory guide outlines ASIC's views on how the Act should be interpreted regarding the way non-IFRS financial information should be disclosed.

RG 230 defines non-IFRS financial information as "financial information that is presented other than in accordance with all relevant accounting standards". Non-IFRS financial information addressed by the regulatory guide includes:

- *Non-IFRS profit information*: is profit information calculated on a basis other than in accordance with accounting standards, or adjusted from profit calculated under accounting standards in some manner. Such measures are often called underlying profits, and
- *Pro-forma financial information*: financial information intended to present the effects of proposed or completed transactions for illustrative purposes.

While the regulatory guide explicitly addresses these two types of non-IFRS financial information, it is ASIC's intention for the principles of the guidance to be applied to all non-IFRS financial information presented.

Disclosures of financial information which are not calculated in accordance with all applicable Australian accounting standards are considered as non-IFRS financial information.

The regulatory guide specifically considers the location and presentation of non-IFRS financial information in financial reports, documents accompanying financial reports and transaction documents. ASIC's intention is that the location and presentation requirements within RG 230 apply to all documents where non-IFRS financial information is disclosed.

##### 4.1.7.1 Where is non-IFRS financial information typically disclosed?

###### *Directors' report*

Directors' reports are required by the Act to include an operating and financial review (OFR). The OFR outlines the company's operations, activities, financial position, business strategies and prospects for future financial years. RG 230 does not preclude the disclosure of non-IFRS profit information in the OFR if the presentation and disclosure requirements below are adhered to.

###### *Financial report*

The regulatory guide requires the financial report, being the primary financial statements, notes to the financial statements and directors' declaration, to not include non-IFRS financial information. Companies that wish to include additional information in their financial report regarding non-IFRS financial performance may consider the requirements of S295(3)(c) and S303(3)(c), that allow for the presentation of additional information in the financial report in order to give a true and fair view. It is ASIC's view that disclosure of non-IFRS financial information to give a true and fair view would only be in extremely rare and unusual circumstances.

RG 230 allows for the disclosure of an alternative earnings per share ((EPS) measure in the EPS note. This measure can be based on a component of profit and loss and other comprehensive income or on a non-IFRS profit. See AASB 133.73 for further details.

An entity may disclose a non-IFRS measure in the segment reporting note as long as it was part of the segment information presented to the chief operating decision maker (CODM). RG 230 does not specifically allow the disclosure of a non-IFRS measure as a sub-total in the segment reporting note when reconciling the sum of operating segment profit/loss to net profit/loss before tax. However, in our view if the entity uses the non-IFRS measure in decision making and the non-IFRS measure is reported to the CODM, then we would consider such disclosure in the financial report as in compliance with AASB 8.

Refer to latest *Example Public Company Limited – Illustrative Disclosures* for further note disclosures.

#### *Location in transaction documents and other documents where non-financial information is disclosed*

Non-IFRS financial information may be disclosed throughout transaction and other documents provided the requirements around presenting and disclosing non-IFRS information is followed.

### **4.1.7.2 Presentation and disclosure of non-IFRS financial information in other documents**

Where non-IFRS financial information is presented, RG 230 requires it to comply with the presentation and disclosure requirements set out below. The regulatory guide allows for disclosure of non-IFRS financial information in the directors' report, transaction documents or any other document, including profit announcements, analyst briefings, investor presentations and other market announcements. The requirements below are applicable for companies wishing to disclose non-IFRS financial information in such other documents. Specific presentation and disclosure requirements exist for the publication of pro-forma financial information in transaction documents. These requirements are discussed separately below.

#### *Prominence*

IFRS financial information should be presented with equal or greater prominence, emphasis or authority compared to non-IFRS financial information. Considerations include:

- order in which IFRS and non-IFRS financial information is presented
- similar levels of information and commentary on reconciling items between IFRS and non-IFRS financial information is given to components of non-IFRS measures based upon their relevance and materiality
- emphasis between IFRS and non-IFRS financial information should not change (i.e. emphasis should not be given to whichever figure gives the most favourable outcome) and
- impact on the overall document.

#### *Appropriate label*

Non-IFRS financial information should be clearly labelled in a way that distinguishes it from related IFRS financial information.

#### *Calculation*

The method used to calculate the non-IFRS financial information should be clearly explained.

#### *Reconciliation*

A reconciliation between the non-IFRS financial information and related IFRS financial information should be provided, separately itemising and explaining each significant adjustment. Where comparative non-IFRS financial information is provided this should also be reconciled.



Considerations include:

- a reconciliation is required for each document where the non-IFRS financial information is disclosed
- a reconciliation is only required once in each document and
- a reconciliation is required in the first instance where the non-IFRS measure is disclosed in each document. This may be a summarised reconciliation cross-referenced to a more detailed reconciliation within the document.

#### *Equivalence with AASB 8 Operating Segments disclosures*

ASIC expects that any non-IFRS profit information disclosed will not differ from the segment measure of profit or loss disclosed in the financial report. If these measures differ, and it is due to more than normal intersegment eliminations or corporate expense allocations, then additional disclosures justifying the differences are required.

#### *Why the non-financial information is useful*

An entity specific statement regarding why the directors believe the disclosure of non-IFRS financial information is useful for investors is required.

#### *Consistency*

A consistent approach should be adopted from period to period. If there is a change, the nature, financial impact and reasons for the change should be disclosed.

#### *Adjustments*

For each adjustment made to IFRS financial information, corresponding items should be adjusted in any comparative disclosures. Considerations include:

- adjustments should be consistent between periods, for example if unrealised gains are excluded one year they should be excluded in the following period and
- adjustments should be consistent in type, for example if excluding unrealised losses or impairment losses on certain financial assets, realised gains, interest dividends and rent from those financial assets should also be excluded.

#### *Unbiased*

Non-IFRS financial information should be unbiased and not used to avoid presenting 'bad news' to the market.

#### *One-off items*

Items that have occurred in the past, or are likely to occur in future periods, should not be described as 'one-off' or 'non-recurring'. Considerations include:

- items such as impairments or restructuring costs should not be described as 'non-recurring' as they are generally recurring in nature (albeit they may only arise in some years) and
- companies should avoid using terms such as 'non-recurring', 'exceptional' or 'unusual' as these are synonymous with 'one-off'.

#### *Audited or reviewed*

A clear statement should be made about whether the non-IFRS financial information has been audited or reviewed in accordance with Australian Auditing Standards.

### **4.1.7.3 Pro-forma financial information in transaction documents**

The regulatory guide specifically addresses the presentation and disclosure of pro-forma financial information in transaction documents such as prospectuses, PDSs, takeover target and bidder statements, schemes of arrangement documents and notices of meetings.

ASIC considers that users of transaction documents reasonably expect financial information to be presented in accordance with accounting standards to facilitate:

- comparability to other financial periods and other entities and
- users’ understanding of the information presented by ensuring it is prepared on a basis consistent with that with which users are accustomed.

However ASIC acknowledges that “there are many instances where providing non-IFRS financial information as pro-forma financial information in transaction documents may be useful or necessary to fulfil disclosure obligations”. In ASIC’s view:

- this pro-forma financial information should be presented in accordance with the recognition and measurement requirements of accounting standards subject to relevant notional assumptions and
- the assumptions, and the differences between the pro-forma financial information and related IFRS financial information, should be disclosed to avoid the risk of the pro-forma financial information being misleading.

Notably, ASIC has not sought to stipulate the nature or types of transactions or events for which adjustment may or may not be made in the preparation of pro-forma financial information for inclusion in a transaction document, other than to reiterate the Act requirement that the resulting pro-forma financial information not be misleading.

ASIC also accepts that there may be circumstances where complying with all accounting standards may not be possible, such as when the issuer of the transaction document has insufficient access to information when undertaking a hostile takeover. If this is the case, ASIC recommends the issuer discloses in the transaction document the following to ensure that the financial information disclosed is not misleading:

- a statement that the impacts of adjustments cannot be determined and
- why such a determination is not possible.

Refer to KPMG Reporting Update 11RU-020 and KPMG publication *Underlying profits report 2011* for further details.

4.1.8 Rounding of amounts

ASIC CO 98/100 *Rounding in Financial Reports and Directors’ Reports* permits an entity or consolidated entity with assets in excess of \$10 million at the end of the current year to round the amounts in their financial report (annual and half-year) and directors’ report as follows:

Total assets	General rounding	Exception rounding
\$10m < Total assets < \$1bn	Nearest thousand dollars (\$'000)	Nearest dollar
\$1bn < total assets < \$10bn	Nearest hundred thousand dollars	Nearest thousand dollars
\$10bn < total assets	Nearest million dollars	Nearest hundred thousand dollars

A lesser level of rounding may be used provided that the level of rounding used is also a prescribed rounding amount under ASIC CO 98/100 and is consistently applied to all amounts in the financial and directors’ report.

For example, an entity with total assets greater than \$10 billion may elect to round to the nearest thousand dollars instead of the nearest 1 million dollars.

Where amounts are rounded to the nearest hundred thousand dollars, for example where assets exceed \$1 billion, those amounts are presented in a whole number of million dollars and one place decimals, with column headings of millions of dollars.

The class order excludes the following disclosures from the general rounding provisions, requiring them to meet the exception rounding provisions:

Directors' report	Notes to the financial statements
Options S300(1)(d)	Related party transactions AASB 124.17-19
Indemnification and insurances for officers or auditors S300(1)(g), S300(8) and (9)	Remuneration of auditors AASB 1054.10-11
Payments to auditors for non-audit services S300(11B) and (11C)	Share-based payment transactions AASB 2.44, 46 and 51
Director and KMP remuneration and transactions S300A(1)(c) and (e), Reg 2M.3.03(1) items 17-24	

In addition:

- earnings per share disclosures must not be rounded further than the nearest one tenth of a cent
- amounts in relation to options disclosed in accordance with S300(6)(c), (7)(d) and (7)(e) must not be rounded further than the nearest one cent
- there is no requirement to include a symbol and footnote where an amount has been rounded to zero.

Companies taking advantage of this class order must state in the directors' report or the financial report that the company is of a kind referred to in the class order and that the amounts have been rounded off in accordance with the class order.

The financial report and directors' report must clearly disclose on each page where amounts have been rounded, and the extent to which those amounts have been rounded, e.g. '\$'000' or 'in thousands of AUD'.

Amounts may not be rounded if rounding has the potential to adversely affect decisions on the allocation of resources made by users relying on the financial or directors' report; or where they impact the discharge of accountability by management, directors or the auditors.

4.1.9 Audit requirements

Companies, registered schemes or disclosing entities (excluding Tier I and II companies limited by guarantee) that prepare annual financial reports under S292(1) must have that financial report audited and obtain an audit report. The audit must be performed in accordance with Div 3 of Chapter 2M of the Act by a registered auditor. Certain relief is provided under ASIC CO 98/1417 for proprietary companies where specified conditions are met (see section [3.3.2.4](#)).

If a small proprietary company is preparing financial reports because of a shareholder direction under S293, these financial reports do not have to be audited unless the shareholder directed the company to do so.

Tier II companies limited by guarantee (see section [3.1.1](#)) may have their financial statements for a financial year reviewed, rather than audited, if the company is not a Commonwealth company, a subsidiary of a Commonwealth company or a subsidiary of a Commonwealth authority.

If a Tier I (small) company limited by guarantee (see section [3.1.1](#)) is preparing financial statements because of a member direction, under S294A these financial statements do not have to be audited or reviewed unless the member directed the company to do so. [S285A, S301(3), S301(4)]

When an audit or review is performed in accordance with the Act, the auditor is required to report all significant contraventions of the Act to ASIC as soon as practicable, and in any case within 28 days of becoming aware of the contravention. [RG 34] Similarly, auditors must report to ASIC any attempts to influence or manipulate the audit/review or in any other way interfere with the proper conduct of the audit/review. [S311]



## 4.2 Annual financial reporting

Chapter 2M of the Act and the related regulations identify who must prepare financial reports and the reporting requirements for these entities. This section provides a summary of the annual financial reporting requirements. Section [3.1](#) discusses who must prepare financial reports under the Act.

The content of an annual financial report prepared by voluntary preparers is addressed in section [5.3.2.2](#).

### 4.2.1 Content of financial reports

Annual financial reports prepared under the Act are required to give a true and fair view in accordance with S297.

Financial reports prepared in accordance with Chapter 2M of the Act consist of:

- the financial statements for the year – S295(1)(a) – (the primary statements)
- notes to the financial statements – S295(1)(b) and
- the directors' declaration about the statements and notes – S295(1)(c).

The annual financial report must be accompanied by a directors' report for each financial year. [S298(1)]

The financial statements for the year comprise the financial statements of the company, registered scheme or disclosing entity required by AASBs if not required to prepare consolidated financial statements by AASB 10, or the consolidated financial statements (see section [5.4](#)). [S295(2)]

Parent entities in Australia intending to present their separate financial statements alongside the consolidated financial statements must use ASIC CO 10/654 (see section [3.3.2.8](#)).

*Example Public Company Limited – Illustrative Disclosures* provides an example of the contents of a financial report.

#### 4.2.1.1 IFRS compliance

An entity whose financial statements and notes comply with IFRSs is required to make an explicit and unreserved statement of compliance in the notes. S295(4)(ca) requires the directors to indicate in the directors' declaration that this statement has been included in the notes to the financial statements. However, it is important to note that entities that comply with Australian Accounting Standards are not automatically in compliance with IFRS, particularly where the Australian specific exemptions for not-for-profit and public sector entities are utilised. [AASB 101.16]

These Australian specific requirements are contained in paragraphs prefixed with 'Aus' within AASBs 1-141. All Australian Accounting Standards numbered 1000 and above and Australian Interpretations numbered 1000 and above are Australian specific standards and interpretations and the application of these may impact an entity's ability to claim compliance with IFRSs.

The financial statements and notes should not be described as complying with IFRSs unless they comply with all the requirements of IFRSs. Each entity will need to perform its own assessment of whether it should and/or can also claim compliance with IFRS. There is no requirement to state if you are not compliant with IFRS, although KPMG considers this best practice.

#### 4.2.1.2 Early adoption of accounting standards

All Australian Accounting Standards have a specific application date. Under S334(5), entities may elect to early adopt a new accounting standard and apply that standard to an earlier period unless the standard prohibits early adoption. However entities cannot early adopt an International Financial Reporting Standard until it is adopted into Australian Law i.e. an approved Australian Accounting Standard. An entity may early adopt an approved Australian Accounting Standard where that approval has taken place after balance date, but before the financial statements are approved and signed.

Any election to early adopt an accounting standard must be made in writing by the directors. [S334(5)] This may be documented in the minutes of a board meeting, or an audit committee meeting if applicable and should clearly identify:

- the standard(s) being early adopted, including any related amending standards
- the period for which the standard is being early adopted
- how the standard is to be applied taking into account the transitional provisions of the standard.

Financial reports must include the disclosures required under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 29 in relation to the early adoption of a standard.

#### 4.2.2 Directors' declaration

All companies, registered schemes and disclosing entities required to prepare an annual financial report under the Act must prepare a directors' declaration about the financial statements. [S295(4)]

In accordance with S295(4), the directors' declaration must state:

- whether, in the directors' opinion, the financial statements and notes have been prepared in accordance with the Act, including: (see section [4.2.2.1](#))
  - compliance with accounting standards
  - that a statement of compliance with international financial reporting standards has been included in the notes to the financial statements (if the company, registered scheme or disclosing entity has included in the notes to the financial statements, in compliance with the accounting standards, an explicit and unreserved statement of compliance with international financial reporting standards) [S295(4)(ca)]
  - that they give a true and fair view
- whether directors have been given declarations required by S295A by the chief executive officer and chief financial officer (listed entities)
- whether, in the directors' opinion, there are reasonable grounds to believe that the company, registered scheme or disclosing entity will be able to pay its debts as and when they become due and payable
- if CO 98/1418 applies, whether there are reasonable grounds to believe that the entity and its subsidiaries covered by a Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they may become subject under the Deed (see section [3.3.2.1](#)).

ASIC RG 22 *Director's Statement as to Solvency* and ASIC RG 68 *New Financial Reporting and Procedural Requirements* provide guidance to directors and their advisors on the directors' declaration outlining the obligations of directors and auditors in relation to the declarations. An example directors' declaration for listed companies is included in the *Example Public Company – Illustrative Disclosures*, whilst an example director's declaration for reduced disclosure regime general purpose financial reports prepared in accordance with the Act is included in *Example Proprietary (Reduced Disclosure Regime) Limited*. The factors relevant to going concern in section [5.5](#) may also be relevant in relation to the solvency declaration.

##### 4.2.2.1 Accounting standards, true and fair view

For all companies, registered schemes and disclosing entities required to prepare an annual financial report under the Act the directors must be satisfied that the financial reports comply with Australian Accounting Standards (and IFRS, if an explicit and unreserved statement of compliance is included in the notes to the financial statements) and present a true and fair view of the financial position and performance of the company, registered scheme or disclosing entity. [S296(1)] If complying with accounting standards results in the financial statements not presenting a true and fair view, the directors must still comply with the accounting standard but also add information in the notes to the financial statements so that they do present a true and fair view. [S297]

Where a company meets the definition of a non-reporting entity, they may prepare special purpose financial statements. Such financial statements must meet all recognition, measurement and classification requirements of Australian Accounting Standards, but are only required to meet certain minimum presentation and disclosure requirements. See section [5.3.2](#) for further discussion.

Where additional information is added, the directors' report must:

- set out the directors' reasons for forming the opinion that the inclusion of that additional information was necessary to give a true and fair view required by S297 and
  - specify where the additional information can be found in the financial statements.
- [AUS15.1]

There is no requirement to include a statement where the true and fair override is not required.

Entities not reporting under the Act that are for-profit Tier 1 entities, will in rare circumstances, where compliance with an accounting standard does not result in a true and fair view, be permitted to not comply with that accounting standard. Not-for-profit entities and Tier 2 (reduced disclosure regime) entities must comply with all accounting standards and provide additional note disclosure, in terms of AASB 101.20, if necessary for a true and fair view. [AASB 101.19, Aus 19.1 and 20]

AASB 101.20 requires the following disclosure when an entity departs from a requirement of an Australian Accounting Standard:

- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
- (b) that it has complied with Australian Accounting Standards, except that it has departed from a particular requirement to achieve a fair presentation;
- (c) the title of the Australian Accounting Standard from which the entity has departed, the nature of the departure, including the treatment that the Australian Accounting Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
- (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

#### 4.2.2.2 Directors requirement to obtain CEO or CFO sign-off

For companies, disclosing entities or registered schemes that are listed, the directors must state that they have been given the declarations required by the chief executive officer (CEO) and chief financial officer (CFO) in accordance with S295A.

In accordance with S295A, the CEO and CFO must declare whether in their opinion:

- the financial records of the company, disclosing entity, or registered scheme for the financial year have been properly maintained in accordance with S286 (see section 6.1)
- the financial statements and notes for the financial year comply with the accounting standards
- the financial statements and notes for the financial year give a true and fair view and
- any other matters that are prescribed by regulations for the purposes of S295A(2).

The CEO and CFO declarations must be in writing; specify the date on which the declarations are made, the capacity in which the person is making the declaration; and be signed by the person making the declaration. A person who performs both a CEO and CFO function may make a single declaration in both capacities.

When consolidated financial statements are required, the directors' declaration on financial statements refers only to the consolidated financial statements unless an election has been made to present the parent and consolidated financial statements together, see section 3.3.2.8. [S295(1)]

#### 4.2.2.3 Solvency

ASIC RG 22 makes a number of points about the matters that directors are required to consider in making their statement as to solvency under S295(4). ASIC has also released RG 217 *Duty to prevent insolvent trading: Guide for Directors* which sets out four key principles directors need to consider when complying with their duty to prevent insolvent trading under S588G – be informed, investigate immediately, obtain advice and act quickly.

Directors need to consider:

- those debts that are incurred as at the date they sign the statement (rather than as at the end of the financial year)
- future debts, to the extent that they will compete for payment with existing debts.

For this purpose, when the dividend is paid or, if the company has a constitution that provides for the declaration of dividends, when the dividend is declared, the company incurs a debt. [S254V]

Directors should have a reasonable basis for believing that the company is solvent. It should be decided on an objective basis – not based on ‘unquenchable optimism’. Before making the statement, directors should consider, among others:

- profit and cash flow budgets
- the company's ability to realise current assets
- the company's ability to comply with normal terms of credit
- the possibility of removal of financial support by major lenders
- the material effect of any contingent liabilities.

The board minutes should record the basis on which the resolution making the declaration was made.

In determining a company's solvency, directors may also consider the following points:

- deficiency of share capital and reserves
- net current liabilities or negative working capital
- excessive reliance on short-term borrowings to finance long-term loans or fixed assets
- excessive long-term debt compared with share capital and reserves
- impending maturity of substantial borrowings without the prospect of renewal or replacement
- removal of financial support by major lenders
- failure to comply with the terms of normal trade credit
- difficulties in complying with debenture or other loan agreements and
- difficulties in realising current assets (especially inventory and debtors).

Other factors that may provide warning signs of solvency problems are:

- a history of major operating losses
- a deterioration in financial position
- loss of major markets for finished goods or services
- existence of significant guarantees given
- difficulties in obtaining supplies of vital raw materials
- unfavourable general economic or industry conditions
- changes in legislation.

The solvency statement relates only to the individual entity. If the entity prepares consolidated financial statements there is no requirement to report on the consolidated entity's solvency. However, if the parent is party to a Deed of Cross Guarantee under ASIC CO 98/1418, directors must state whether there are reasonable grounds to believe that the parent and subsidiaries covered by the Deed will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed.

ASIC's view, set out in RG 217, is that directors must:

- ensure proper financial records are kept and stay informed about the financial position and cash flow requirements of the company
- investigate the existence of indicators of insolvency and take positive steps to confirm the company's financial position immediately
- obtain advice from a suitably qualified person immediately on identifying concerns
- act quickly if grounds to suspect insolvency.

Other considerations in relation to solvency are also discussed in the context of the assumption of preparation of financial statements on a going concern basis in section [5.5](#), and to determine whether the company meets the S254T solvency test, in accordance with accounting standards, to pay dividends, see section [6.5](#).

#### 4.2.2.4 Qualified statements and negative statements

A directors' solvency declaration may be qualified if there are material uncertainties (such as the company's ability to renegotiate loans due for repayment). However, a qualified statement will not limit the directors' liability. When there is a qualification directors should also justify why it is appropriate to continue preparing financial statements on a 'going concern' basis.

A negative solvency statement is required if doubts over the ability to pay debts are so great that a qualified statement is inappropriate. In this instance the directors should not prepare financial statements on a going concern basis, nor should they allow the company to incur more debts as they consider the company to be insolvent. In these circumstances legal advice should be sought immediately.

Qualified and negative solvency declarations must be clearly worded. If there is a qualification, the solvency declaration should identify the reason for the qualification and provide quantitative disclosures where practicable.

#### 4.2.2.5 Non-reporting entities and special purpose financial statements

Entities reporting under the Act may still be non-reporting entities and prepare special purpose financial reports. Accounting Professional and Ethical Standard (APES) 205 and AASB 1054 require that the financial statements be clearly identified as being special purpose financial statements. Accordingly, it is recommended that the directors' declaration state that the entity is a non-reporting entity. See section [5.1.2](#) for more details.

#### 4.2.2.6 Timing and signature

In accordance with S295(5) the directors' declaration must:

- be made out in accordance with a resolution of the directors
- state the day on which the declaration was made and
- be signed by a director.

The directors' declaration must be made out before the deadline for the financial year. The deadlines for preparing annual financial reports, lodging them with ASIC and sending them to members are set out in section [3.1.1](#) for public companies and registered schemes and section [3.1.2](#) for proprietary companies.

The directors' declaration must be completed before the auditor reports on the financial report since the directors' declaration forms part of the financial report upon which the auditor reports.

4.2.3 Directors’ report

The following entities are required to prepare a directors’ report to accompany the financial report for each financial year, in accordance with the following sections. [S292(1)]

Type of Entity	S299	S299A	S300	S300A	S300B
<b>Public companies</b>					
Limited by shares – listed	✓	✓	✓	✓	
Limited by shares – unlisted	✓		✓		
Limited by guarantee – Tier II					✓
Limited by guarantee – Tier III					✓
Limited by shares and guarantee – unlisted					✓
Unlimited liability with share capital – unlisted	✓		✓		
No liability – listed	✓	✓	✓	✓	
No liability – unlisted	✓		✓		
<b>Large proprietary company</b>	✓		✓		
<b>Registered schemes</b>					
Registered scheme – listed	✓	✓	✓		
Registered scheme – unlisted	✓		✓		

Small proprietary companies and Tier I (small) companies limited by guarantee are generally exempt from the requirement to prepare a directors’ report for a financial year except when directed to prepare one by shareholders or ASIC or where they were controlled by a foreign company and their financial statements are not included in consolidated financial statements lodged with ASIC. [S293, S294A, S294B, S292(2), S292(3)]

The directors’ report should provide a discussion of the operations of the entity and the financial statements. It provides readers with an understanding of the business and an insight into the management of the business from the perspective of the directors. To ensure consistency between different entities the Act contains specific requirements as to what should be included in the directors’ report. [S298] It breaks these down into:

- general requirements
- specific requirements.

See sections [4.2.3.1](#) and [4.2.3.3](#) for more details.



4.2.3.1 General information

In accordance with S299(1) the directors' report for a financial year must include the following general information set out in the table below:

		Companies			Registered schemes		
		Large proprietary company	Public company		Listed company	Unlisted registered scheme	Listed registered scheme
	Disclosure requirement		Other	Ltd by guarantee			
S299(1)(a) S299A(1)(a) ASX GN 10	Review of operations during the year and the results of those operations	✓	✓	✓	✓	✓	✓
S299A(1)(b)	Financial position of the entity				✓		✓
S299A(1)(c)	Business strategies, and prospects for future financial years				✓		✓
S300B(1)(a)	Description of the short and long term objectives of the entity			✓			
S300B(1)(b)	Strategy for achieving the objectives			✓			
S300B(1)(e)	Key performance indicators used by the entity to measure performance			✓			
S299(1)(b) ASX GN 10	Details of any significant changes in the entity's state of affairs during the year	✓	✓		✓	✓	✓
S299(1)(c) S300B(1)(c) ASX GN 10	Principal activities during the year and any significant changes in the nature of those activities during the year.	✓	✓		✓	✓	✓
S300B	State how those activities assisted in achieving the entity's objectives			✓			
S299(1)(d) ASX GN 10	Details of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect:						
	(i) The entity's operations in future financial years; or	✓	✓		✓	✓	✓
	(ii) The results of those operations in future financial years; or						
S299(1)(e) ASX GN 10	(iii) The entity's state of affairs in future financial years						
	Likely developments in the entity's operations in future financial years and the expected results of those operations	✓	✓		✓	✓	✓
S299(1)(f) ASX GN 10	Details of the entity's performance in relation to environmental regulation. If the entity's operations are subject to any particular and significant environmental regulation under a law of the commonwealth or of a state or territory.	✓	✓		✓	✓	✓

When providing general information the directors report should report on:

- the company, registered scheme or disclosing entity (if consolidated financial statements are not required) or
- the consolidated entity (if consolidated financial statements are required). [S299(2), S300B(2)]

### *S299A – Additional general requirements for listed entities*

S299A's *Operating and Financial Review* (OFR) enables directors of listed entities to explain the drivers underlying the statutory performance and financial position of the entity, to users of the financial report. The OFR should provide users of the financial report with meaningful information about the operations, financial position, business strategies and prospects of the entity for future years.

In response to these concerns and the inconsistency in the quality of the OFR's of listed entities, ASIC, in March 2013, released RG 247 *Effective disclosure in an operating and financial review*. RG 247 applies to the OFR's of listed entities issued after 27 March 2013. The regulatory guide is not intended to be an exhaustive list of information required to be disclosed in an OFR in order to meet the Corporations Act requirements. Rather, RG 247 provides directors with principles, illustrative examples and considerations to assist in preparing an OFR that meets the requirements of the Act and aims to promote better communication of more meaningful information.

RG 247 provides key principles, illustrative examples and considerations when preparing an OFR. The regulatory guide acknowledges that some of the information required in an OFR might already be provided in other documents outside the annual report, however this does not relieve an entity from addressing these disclosures in the annual report under the Act.

The purpose of the OFR requirements is to help ensure that the financial report and directors' report are presented in a manner that maximises their usefulness, with a particular focus on the needs of people who are unaccustomed to reading financial reports.

RG 247 highlights some *good disclosure practices* that should be considered when preparing the OFR including:

- locating the OFR in a single location in the annual report
- information is consistent with and complements the financial report
- information is consistent with other documents such as continuous disclosure announcements
- disclosures are balanced and unambiguous
- information is presented in a clear, concise and effective manner
- information is not false or misleading.

ASIC emphasises that the OFR need only include information that shareholders would '*reasonably require*' to make an informed assessment of an entity's financial performance, position, business strategies and future prospects and provides guidance on what to consider in making this assessment.



*Satisfying Act requirements*

The objectives of the OFR requirements are to provide shareholders with a narrative and analysis to supplement the financial report and assist shareholders in understanding the operations, financial position, business strategies and prospects of an entity.

Act requirements	RG 247 key principles/considerations
Operations of the entity [S299A(1)(a)]	<ul style="list-style-type: none"><li>• Discuss significant factors affecting total income and overall expenses for the group and major operating segments</li><li>• Ensure information is useful and meaningful and not just a self evident analysis of income statement items</li><li>• Ensure it is clear why particular operating segments are significant to the business</li><li>• Provide information to assist a user to understand the entity's business model</li><li>• Where non-IFRS financial information is included, consideration is given to the requirements of RG230 (see section <a href="#">4.1.7</a>)</li></ul>
Financial position of the entity [S299A(1)(b)]	<ul style="list-style-type: none"><li>• Discuss significant changes in assets and liabilities from major business acquisitions or disposals</li><li>• Discuss changes in funding or dividend strategy</li><li>• Disclose any solvency issues or uncertainties about the entity as a going concern</li><li>• Provide information about the impact of unrecognised/undervalued assets or exposures such as off-balance sheet items</li><li>• Discuss any unusual contractual conditions impacting on financial position</li></ul>
Business strategies and prospects for future years [S299A(1)(c)]	<ul style="list-style-type: none"><li>• Set out the entity's business objectives and strategies for a period extending beyond the next financial year, focusing on strategies which may have a significant impact on the financial performance or position of the entity</li><li>• Include a discussion of the significant plans that form part of these strategies and the significant factors on which achievement of these strategies depends</li><li>• Provide a balanced discussion on future prospects including material business risks that could adversely affect the future financial outcomes described</li><li>• Specify how the company will control or manage risks relating to factors within management's control</li><li>• No forecasts need to be provided. Should they be, consider guidance within RG170 <i>Prospective financial information</i>.</li></ul>

*Omitting information on strategies and future prospects*

S299A(3) provides relief for entities from including information on business strategies and future prospects in their OFR where this information is expected to result in unreasonable prejudice to the entity or any member of its consolidated group. If such information is omitted, the directors' report must say so. ASIC has provided guidance in RG247 to help determine when the exemption can be used.

In considering whether the exemption should be used, it is ASIC's view that consideration should be given to the following questions:

- Is the information already publicly accessible?
- What are the adverse consequences that are likely to occur if the information is provided?
- Is it likely that this information will result in unreasonable prejudice?
- Have appropriate disclosures been made where information is not disclosed?

A KPMG publication *Operating and financial review: Review of practice* (April 2013) provides an overview of RG 247, observations of current market practice and examples of good practice disclosures.

#### *Other references*

Listed entities may also wish to have regard to the guidance in the International Accounting Standards Board's *Practice Management Commentary: A Framework for Presentation* (issued in December 2010) and the Group of 100's *Guide to Review of Operations and Financial condition* (issued in 2003).

Where the OFR does not satisfy the requirements of S299A, it may necessitate a S311 notice by the incumbent auditor.

### 4.2.3.3 Minimum disclosure requirements

As well as the general information discussed above, the Act requires entities to provide the following specific information:

Specific information required to be disclosed in directors' reports

Disclosure Requirement	Companies				Registered schemes	
	Large proprietary company	Public company		Listed company	Unlisted registered scheme	Listed registered scheme
		Other	Ltd by guarantee			
<i>S300(1)(a)</i> <i>S300(1)(b)</i> <i>S254SA</i> <i>S300(1)(c)</i> <i>S300B(3)(a)</i>	✓	✓	N/A	✓	✓	✓
<i>S300B(3)(b)</i> <i>S300B(3)(c)</i>	✓	✓	✓	✓	✓	✓
<i>S300(11)</i>				✓		
<i>S300(11)</i> <i>S300(12)</i>				✓		✓
<i>S300(1)(d)</i>	✓	✓		✓	✓	✓
<i>S300(1)(e)</i> <i>S300(1)(f)</i>	✓	✓		✓	✓	✓
<i>S300(8)</i>	✓	✓		✓	✓	✓
<i>S300(11B)</i> <i>S300(11C)</i>				✓		
<i>S300(13)</i>					✓	✓
<i>S300(13)</i>					✓	✓
<i>S300(13)</i>					✓	✓
<i>S300(14)</i> <i>S300(15)</i>	✓	✓		✓		
<i>S300A</i>	✓*	✓*		✓*		
<i>S300B(3)(d)</i>			✓			
<i>S300B(3)(e)</i>			✓			

\* Companies that are disclosing entities are required to prepare a remuneration report (see [4.2.3.4](#)).

The requirements set out in the above table are also applicable to small proprietary companies and Tier I (small) companies limited by guarantee that are required to comply with the reporting requirements of Chapter 2M of the Act (see [3.1.1](#) and [3.1.2](#)).

4.2.3.4 Remuneration reports

All companies that are disclosing entities must include a remuneration report in the directors' report. Other disclosing entities are not required to prepare a remuneration report and only need comply with the disclosure requirements set out in AASB 124 *Related Party Disclosures*, in the notes to the financial statements.

The table below summarises the information required to be disclosed for KMPs as applicable for annual reporting periods ending on or after 30 June 2014.

Remuneration report disclosures

	Disclosing entities that are companies		Other disclosing entities <sup>b</sup>
People covered	KMP <sup>a</sup>		KMP
Location of disclosure	Remuneration report	Notes to the financial statements	Notes to the financial statements
S300A(1)(a)-(b) Board's policy on KMP remuneration	✓		
S300A(1)(h) Disclosures relating to remuneration consultants	✓		
S300A(1)(ba) Information on performance hurdles	✓		
S300A(1)(c), Reg 2M.3.03(1) Items 6-9, 11-13, AASB 124.17	Information on:		
	• Short term employee benefits	✓ <sup>c</sup>	✓ <sup>c</sup>
	• Post-employment benefits	✓ <sup>c</sup>	✓ <sup>c</sup>
	• Long-term employee benefits	✓ <sup>c</sup>	✓ <sup>c</sup>
	• Termination benefits	✓ <sup>c</sup>	✓ <sup>c</sup>
	• Share-based payments	✓ <sup>c</sup>	✓ <sup>c</sup>
S300A(1)(d) Explanation of issued shares that was not dependent on a performance hurdle	✓		
S300A(1)(e), Reg 2M.3.03(1) Items 14-16	Information on options used as remuneration	✓	
S300A(1)(c)(vii) Information on fixed term contracts	✓		
Reg 2M.3.03(1) Item 10 Information on employment inducement benefits	✓		
Reg 2M.3.03(1) Items 17-19 Information on equity instruments (including rights and options) in relation to the entity and any of its subsidiaries held and/or transacted	✓		
Reg 2M.3.03(1) Items 20-24 Information on loans and other transactions and balances	✓		
AASB 124.18-24 Information on transactions and outstanding balances, generally in aggregate by nature, with KMP and their related parties		✓	✓

<sup>a</sup> Remuneration disclosures are only required for KMP of the consolidated entity. If consolidated financial statements are not required then remuneration disclosures are made for KMP of the company. See section [4.2.3.4.1](#).

<sup>b</sup> This includes registered managed investment schemes.

<sup>c</sup> Only total amount in compensation in respect of each category required.

S308(3C) requires that the entire remuneration report be audited to determine its compliance with S300A and the remuneration report should be clearly identified as having been audited. The auditor is required to make an explicit statement about that compliance in their auditor's report. This extends the scope of the audit beyond those disclosures that are required by AASB 124.

#### 4.2.3.4.1 Remuneration disclosures only required for KMP of the consolidated entity

Remuneration disclosures are only required for the KMP of the consolidated entity. Where consolidated financial statements are not required, then disclosures are only required for the KMP of the company.

#### 4.2.3.4.2 Prohibition on hedging of incentive remuneration

S206J prohibits KMP and their closely related parties from hedging KMP's incentive remuneration arrangements, entered into on or after 1 July 2011. Specifically a 'hedging arrangement' cannot be entered into if it has the effect of limiting the KMP's exposure to risk.

Any element of remuneration that is unvested (due to time or other condition) or, is vested but remains subject to a holding lock, is covered.

Arrangements considered to be a hedge, and therefore prohibited, are described in Reg 2D.7.01 and include:

- a put option on incentive remuneration
- a short position on shares that forms part of incentive remuneration
- an income protection insurance contract in which the insurable risk event affects the financial value of remuneration or equity or an equity-related instrument for the KMP.

A foreign currency risk arrangement or an income protection insurance contract in which the insurable risk event is the death, incapacity or illness of any of the KMP is excluded. [Reg 2D.7.01(2)]

S206J applies to incentive remuneration arrangements entered into on or after 1 July 2011, irrespective of whether the remuneration was for services rendered before, on or after 1 July 2011.

#### 4.2.3.4.3 Disclosures required regarding advice from remuneration consultants

Some boards of directors have historically engaged experts to assist in managing remuneration policies and arrangements.

While the Act does not require a disclosing entity to engage a remuneration consultant, the Act includes rules governing their appointment, if they are engaged, as well as requiring disclosures in the remuneration report relating to their use. [S206K, S206L, S206M, S300A(1)(g)]

The following details are disclosed in the remuneration report relating to advice given by remuneration consultants, under contracts executed on or after 1 July 2011:

- name of consultant
- statement that the consultant made such a recommendation
- if provided, a statement that the consultant provided any other kind of advice for a financial year
- amount and nature of the consideration payable for the remuneration recommendation
- amount and nature of the consideration payable for any other kind of advice referred to above
- information about the arrangements the company made to ensure that the making of the remuneration recommendation would be free from undue influence
- a statement about whether the board is satisfied that the remuneration recommendation was made free from undue influence, including the board's reasons for being satisfied of same. [S300A(1)(h)]

#### 4.2.3.4.4 Disclosures required regarding a negative shareholder vote on the remuneration report

The remuneration report is subject to a non-binding vote of adoption by shareholders at the AGM. Where 25 percent or more of the votes cast at the most recent AGM were against adoption of that report, the subsequent remuneration report must include an explanation of the board's action in response, or if the board does not propose any action, the board's reasons for inaction. [S300A(1)(g)]

#### 4.2.4 Lead auditor's independence declaration

Under S307C(1), if an individual auditor conducts an audit or review of the financial report for a financial year, they must give the directors of the company, registered scheme or disclosing entity a written declaration that either there have been no contraventions of their auditor independence or the only contraventions are those detailed in the furnished declaration.

The lead auditor is defined under S324AF(1) as the registered company auditor who has primary responsibility to the audit firm for the conduct of the audit. This declaration states that to the best of the lead auditor's knowledge and belief, there have been no contraventions of the auditor independence requirements of the Act or any applicable code of professional conduct in relation to the audit. Where contraventions of the independence requirements have occurred details must be provided in the declaration.

The independence declaration must be given to the directors when the audit report is given to the directors. However, S307C(5A), allows the auditor's independence declaration to be given to the directors before the directors' report is signed as long as:

- the directors' report is signed within seven days after the independence declaration is given
- the auditor's report is made within seven days after the director's report is signed and includes a statement to the effect that:
  - the independence declaration would be on the same terms if it had been given to the directors at the time the audit report was made or
  - circumstances have changed since the independence declaration was given to the directors, and sets out how the declaration would differ if it had been given to the directors at the time the audit report was made.

#### 4.2.5 Transfer of information from the directors' report

ASIC CO 98/2395 *Transfer of Information from the Directors' Report* permits information required for the directors' report to be located elsewhere in the annual report as outlined below. The table also outlines what information needs to be replicated in an entity's concise report.

**Information from the directors’ report able to be transferred**

Class order 98/2395 permits information required for the directors’ report to be located elsewhere as follows:

	Annual report				Concise report <sup>a</sup>
	Location of information – any of:			Clear cross-reference in directors’ report to location of information	Include information ?
	Directors’ report	Document with directors’ report	Notes to financial statements		
Lead auditors independence declaration (S298(1)(c))	Yes	Yes	No	Yes (CO 98/2395)	✓
Additional information to give true and fair view (S298(1A)) <sup>b</sup>	Yes	Yes	No	Yes (CO 98/2395)	✓
General information (S299)	Yes	Yes	No	Yes (CO 98/2395)	✓
Additional requirements for listed companies (S299A)	Yes	Yes	No	Yes (CO 98/2395)	✓
Specific information (S300 except for S300(11B) and S300(11C))	Yes	Yes <sup>a</sup>	Yes <sup>a</sup>	No (S300(2))	<sup>c</sup>
Fees for non-audit services (S300(11B)(a) and S300(11C(b))	Yes	No	Yes	Yes (S300(2A))	Yes
Key management personnel remuneration (S300A)	Yes	No	No	N/A	Yes

- a Note, however, companies limited by guarantee cannot prepare concise reports.  
b AASB 101.23 also requires disclosures in the notes to the financial statements if this occurs.  
c The specific information only needs to be included in the concise report if it has been included in the directors’ report in the annual report. However, directors should consider whether this information is necessary for the concise report even if there is no legal require to do so.

The relief provided by ASIC CO 98/2395 is conditional on the following:

- all of that information which is not included in the directors’ report is included in a document which is included with the directors’ report or the notes to the financial statements. Refer to the table above for allowable location of information
- clear cross-reference from the directors’ report to the pages containing the information (where required – refer to table above)
- if the information is in a separate document, the directors’ report and financial report must not be made available or distributed without the document
- the document containing the relevant documentation is lodged with ASIC as if it were part of the annual report
- a directors’ report is included in the concise report which is identical to the directors’ report in the full report except that page references are updated as necessary.

The class order also provides for the information required for the directors’ report for the half-year under S306 to be located elsewhere in the half-year report, except for that information required by S306(2) which is not permitted to be located in the half-year financial report (i.e. it must be included in the directors’ report or document with the directors’ report).

The relief for the half-year is conditional upon:

- clear cross-reference from the directors’ report to the pages containing the information
- if the information is in a separate document, the directors’ report and financial report must not be made available or distributed without the document
- the document containing the relevant documentation is lodged with ASIC as if it were part of the half-year report.



## 4.3 Concise financial reports

All entities required to report under the Act may issue a concise report to members in preference to a detailed report, except for companies limited by guarantee.

This section provides a summary of the concise financial report requirements.

### 4.3.1 Corporations Act requirements

A concise report under the Act must consist of:

- a concise financial report drawn up in accordance with accounting standards (AASB 1039 *Concise Financial Reports*)
- the directors' report for the financial year
- a statement by the auditor:
  - that the financial report has been audited and
  - whether, in the auditor's opinion, the concise financial report complies with the accounting standards made for this purpose and
- a copy of any qualifications made by the auditor, or any statement made by the auditor in the emphasis of matter section of the auditor's report on the financial report and
- a statement that the report is a concise report and that any member who wishes to receive the full financial report must be sent the full report free of charge. [S314(2)]

The financial statements and disclosures contained in a concise financial report must be derived from the full financial report of the entity. [AASB 1039.12, AASB 1039.13] Certain entities are not permitted to present parent entity information where consolidated financial reports are prepared, see section [5.4.6.1](#).

### 4.3.2 Directors' declaration

The Act does not specifically require a directors' declaration in relation to a concise report. However, it is recommended that one be provided.

### 4.3.3 Directors' report

A concise report must include a directors' report complying with S298 to S300A of the Act. Generally, the directors' report prepared for the full financial report for lodgement with the ASX and/or ASIC will suffice. However, where ASIC CO 98/2395 has been applied, information may have been transferred to other documents or to the notes to the financial statement in the full financial report. However, the general information required by S299 must be included in the concise report regardless of its location in the full financial report. See section [4.2.5](#) for a summary of CO 98/2395.

### 4.3.4 Content of a concise financial report

AASB 1039 requires that the concise financial report contain:

- a statement of financial position
- a statement of profit or loss and other comprehensive income
- a statement of cash flows
- a statement of changes in equity.

Entities are not required to include all the notes required by other accounting standards in the concise financial report. However, if an entity prepares the statement of cash flows using the direct method it must provide a reconciliation of profit to operating cash flows in the notes to the concise financial statements. [AASB 1039.21]

In general, information should be disclosed in the concise financial report if the nature and magnitude of the item is such that failure to disclose it would make the concise report misleading.

Some specific disclosures are required in the notes including information on:

- reportable segments (reduced disclosure from annual reports)
- revenue
- dividends
- earnings per share
- events after balance sheet date
- changes in accounting policies or estimates or the correction of a prior period error. [AASB1039.16]



#### **4.3.5 Discussion and analysis**

AASB 1039 requires a discussion and analysis section for entities other than listed companies. Listed companies are not required to provide discussion and analysis in the concise financial report because under S299A they are required to provide an operating and financial review in the directors' report, see [4.2.3.1](#).

AASB 1039 requires the inclusion of a discussion and analysis to assist the understanding of members. The standard suggests that information reported in the financial statements will be enhanced by a discussion and analysis of the principal factors affecting the entity's financial performance, financial position and financing and investing activities. The extent of the discussion and analysis will vary between entities, and from year-to-year, as considered necessary in the circumstances.

The discussion and analysis included in the concise financial report is subject to audit. Accordingly, it must be able to be verified and therefore it is inappropriate to include forecast or subjective information. Consequently, the scope and nature of the information to be discussed should be limited to an analysis of factual information. S314(3) requires an auditor to form a view as to whether the discussion and analysis complies with AASB 1039. This requires the auditor to consider whether the discussion and analysis will assist the understanding of members. The auditor is not otherwise required to audit the statements made in the discussion and analysis.

#### **4.3.6 Lead auditor's independence declaration**

As with a full financial report, the concise report must include the auditor's independence declaration. See section [4.2.4](#) for more information.

## 4.4 Interim financial reports

The Act requires a disclosing entity to prepare a half-year financial report and directors' report. This section provides a summary of the interim financial reporting requirements.

### 4.4.1 Corporations Act and Accounting Standards requirements

All disclosing entities must prepare interim financial reports. These financial reports must be audited or reviewed.

There is no requirement for disclosing entities to send their half-year reports to members. However, they must be lodged with ASIC or the ASX.

A disclosing entity is not required to prepare a half-year financial report if it is not a disclosing entity when lodgement with ASIC is due. [S302]

The financial report for a half-year consists of:

- the financial statements for the half-year
- the notes to the financial statements and
- the directors' declaration about the statements and notes.

Section 303(2) specifies that the financial statements for the half-year are:

- the financial statements in relation to the disclosing entity required by the accounting standard if not required by the accounting standards to prepare consolidated financial statements or
- the financial statements in relation to the consolidated entity required by the accounting standards.

Entities that are preparing half-year reports in accordance with S303 of the Act are not required to include parent financial statements with their consolidated half-year financial statements and are therefore unaffected by the 'parent entity dropout', see section [5.4.6.1](#).

An interim financial report may contain a complete set of financial statements (see section [4.1.2](#)) or a set of condensed financial statements. Condensed financial statements include the same headings and sub-totals as the most recent annual financial report but do not have to include line items or additional notes unless this would be otherwise misleading.

A set of condensed financial statements includes:

- a condensed statement of financial position
- a condensed statement of profit or loss and other comprehensive income
- a condensed statement of changes in equity
- a condensed statement of cash flows
- selected explanatory notes.

The notes to the financial statements include:

- disclosures required by the Regulations
- notes required by accounting standards and
- any other information necessary to give a true and fair view.

The Regulations do not currently contain any disclosure requirements for the notes to the half-year financial statements.

Refer *Example Public Company Limited Interim Financial Report* for example disclosures.

#### 4.4.1.1 Foreign entities

Foreign companies that are disclosing entities as defined by the Act are excluded from the periodic reporting requirements, as they are not incorporated in Australia (see section [2.1.3](#)). [S285(2)]

However foreign entities listed on the ASX are subject to ASX requirements for periodic financial reporting unless they satisfy the ASX definition of 'exempt foreign company' and will need to prepare and lodge interim financial statements.

#### 4.4.1.2 Accounting standards, a true and fair view

Interim financial statements and reports must comply with both accounting standards and prescribed regulations and present a true and fair view of the financial position and performance of the company, registered scheme or disclosing entity. [S304, S305] When compliance with accounting standards results in financial statements that do not present a true and fair view, the directors must still comply with the accounting standards and include sufficient additional information in the notes to the financial statements so as to ensure that they present a true and fair view. [S303(C)]

If the financial report for the half-year includes additional information under S303(3)(c) in order to give a true and fair view of the entity's financial position and performance, the directors' report for the half-year must also:

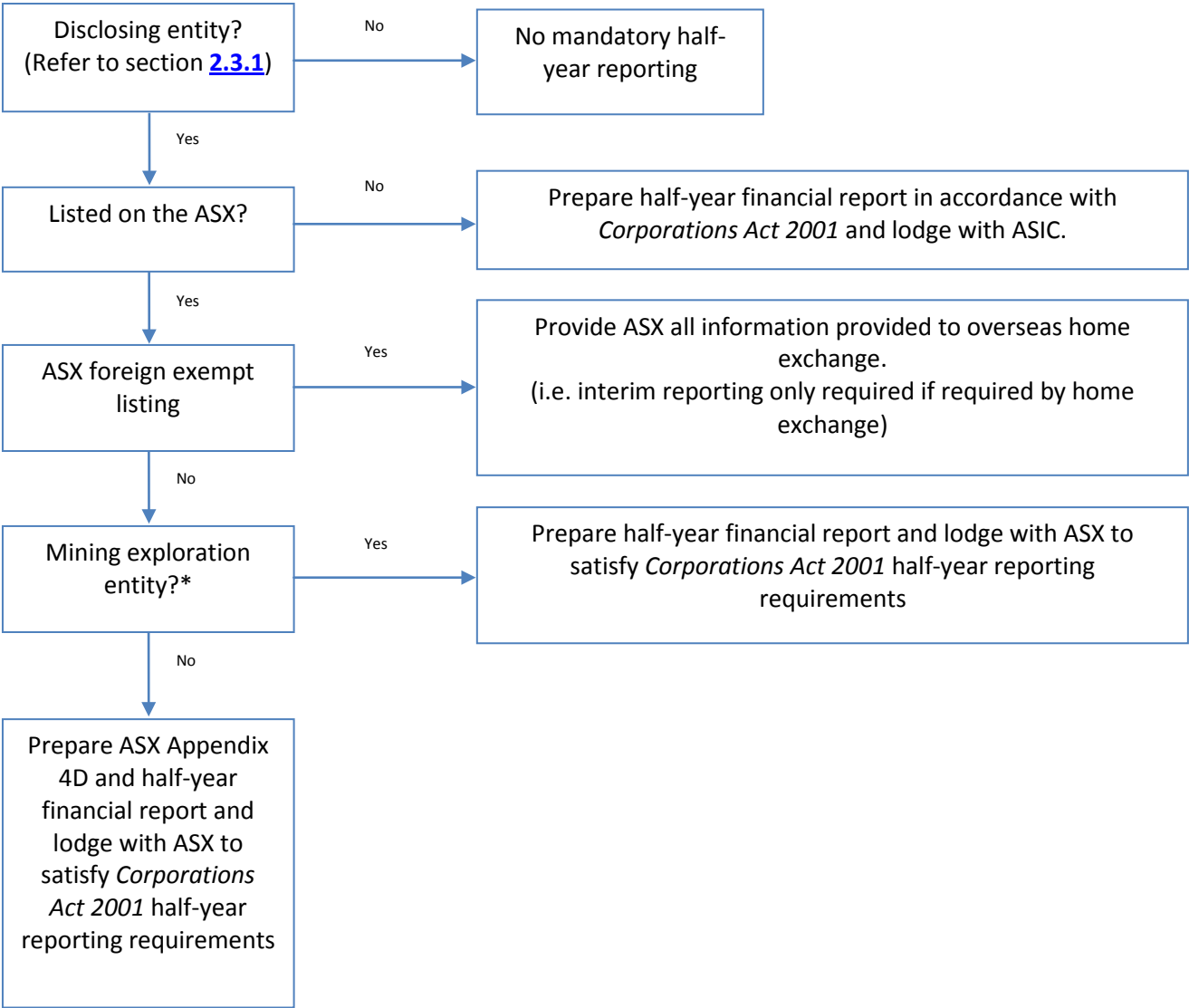
- set out the directors' reasons for forming the opinion that the inclusion of that additional information was necessary to give the true and fair view required by S305 and
- specify where that information can be found in the financial report. [S306(2)]

#### 4.4.1.3 Rounding of amounts

The requirements for rounding of amounts in a half-year financial report are consistent with those applying to annual financial reports. See section [4.1.8](#) for further details.

4.4.1.4 Requirements to prepare a half-year financial report

The requirements to prepare a half-year financial report are summarised in the following decision tree:



\* A mining exploration entity is defined in the ASX Listing Rules (ASX LR) as an entity whose activities, or the principal part of whose activities, consist for the purposes of the ASX LR, in the ASX's opinion, of exploration for a mineral, oil or gas. Mining exploration entities are required to comply with Chapter 5 of the ASX LR, which includes completion and lodgement of ASX Appendix 5B on a quarterly basis. ASX Appendix 5B need not be audited or reviewed. Mining exploration entities must also lodge the half-year reports required by the Act with the ASX.

#### 4.4.2 Directors' declaration

The half-year directors' declaration is similar to that attached to the annual financial report. However, there is no requirement for the Chief Executive Officer and Chief Financial Officer to provide a declaration in relation to half-year financial reports, or for the directors to refer to any statement of compliance with IFRS that may be made in the notes to the financial statements.

The directors' declaration must declare that the half-year financial statements and notes are in accordance with the Act including compliance with the accounting standards and that they give a true and fair view. [S303(4)(d)]

The directors must also declare whether, in their opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable.

The directors' declaration must:

- be made out in accordance with a resolution of the directors
- state the day on which the declaration is made
- be signed by a director. [S295(5)]

The directors' declaration must be completed before the auditor reports on the half-year financial report since the directors' declaration forms part of the financial report upon which the auditor is required to report.

#### 4.4.3 Directors' report

The half-year directors' report must include:

- a review of the entity's operations during the half-year and the results of those operations
- the name of each person who was a director of the entity at any time during or since the end of the half-year period and the period for which they were a director. [S306]

Where consolidated financial statements are prepared, the review of the entity's operations must cover the consolidated entity.

The directors' report must include a copy of the lead auditor's independence declaration in relation to the audit or review of the half-year financial report.

#### 4.4.4 Lead auditor's independence declaration

As with a full year financial report, a half-year financial report must include the auditor's independence declaration. See section [4.2.4](#) for more information.

## 5. Compliance with Accounting Standards

### Overview

- The reporting entity concept is fundamental to determining the type of financial statements that an entity prepares and the minimum requirements which apply.
- A reporting entity is an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources.
- Reporting entities are required to prepare general purpose financial statements whereas non-reporting entities may prepare special purpose financial statements.
- There are two tiers of general purpose financial statements. Tier 1 entities must comply with all accounting standards in full, Tier 2 entities comply with all classification, recognition and measurement requirements of the accounting standards, but have reduced disclosures. Tier 1 entities are for-profit entities with public accountability and federal, state and local governments. All other entities are Tier 2, unless a regulator specifies they are Tier 1. A entity meeting the public accountability definition will not be able to prepare special purpose financial statements.
- 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; or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- Minimum requirements for special purpose financial statements depend on whether an entity reports under the Act and whether an entity pays dividends out of accounting profits or after satisfying the S254T solvency test, in accordance with the accounting standards.
- Changing status from a non-reporting entity to a reporting entity will require general purpose financial statements and may result in significantly increased disclosures, as well as potentially reapplying AASB 1 and different classification, recognition and measurement requirements for entities not required to prepare financial statements under the Act.
- Consolidated financial statements must be prepared by a parent entity where the parent entity is a reporting entity, unless that entity meets specific exemptions under AASB 10 *Consolidated Financial Statements*.
- Specific exemptions from AASB 10 apply when:
  - the parent entity is itself a wholly-owned subsidiary
  - the parent's debt or equity instruments are not traded in a public market
  - the parent is not filing with a security commission to issue instruments in a public market
  - the ultimate parent presents consolidated financial statements either in accordance with IFRS, Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements.
- Separate financial statements for a parent entity should not be presented with consolidated financial statements when consolidated financial statements are required under S295(b), unless CO 10/654 is used, or the entity is APRA regulated, or is a parent holding an AFSL.
- Individual financial statements are prepared where an entity is not required to prepare consolidated financial statements under AASB 10, but where it holds investments in associates in which it holds significant influence.
- In preparing its financial statements an entity is required to consider whether it is a going concern.
- An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.
- Directors assess an entity's ability to continue as a going concern each time financial statements are approved for issuance – annually for all entities under the Corporations Act 2001 and half-yearly for disclosing entities and when issues surrounding solvency are identified.
- The going concern assessment must be for at least the 12 months from the reporting date although it could be a longer period. Auditors must make their assessment based on at least 12 months from the date that they sign the audit report.
- If an entity is considered a going concern but material uncertainties exist relating to an entity's ability to continue as a going concern, these must be disclosed in the financial statements.
- Proposals for significant changes to the use of the reporting entity concept and identification of general purpose financial statements are still under review by the AASB (see section [8.1](#)).

## 5.1 Reporting entity vs. non-reporting entity

This section discusses the requirements under the Act and Accounting Standards relating to the basis of preparation of the financial statements. AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential financial reporting framework, which consists of two tiers of reporting requirements for reporting entities preparing general purpose financial statements. The two tiers apply to annual reporting periods beginning on or after 1 July 2013. See section [5.2](#).

Proposals to change the use of the reporting entity concept and identification of general purpose financial statements in Australia are still being reviewed by the AASB. These changes are discussed in section [8.1](#) and are expected to significantly change the basis of preparation of certain non-reporting entities.

### 5.1.1 Reporting entity

The reporting entity concept is fundamental to determining the type of financial statements that an entity prepares and the minimum requirements in preparing those financial statements. This is reflected in each accounting standard which specifically states its applicability to reporting entities versus non-reporting entities.

A reporting entity must prepare general purpose financial statements which comply with all applicable accounting standards, and interpretations (see section [5.3](#)). Tier 1 entities prepare general purpose financial statements complying with all accounting standard requirements. Tier 2 (reduced disclosure regime) entities prepare general purpose financial statements complying with all the classification, recognition and measurement requirements of the accounting standards but have reduced disclosure requirements.

Statement of Accounting Concepts 1 *Definition of the Reporting Entity* ('SAC 1') defines a reporting entity as an entity "in respect of which it is reasonable to expect the existence of users dependent on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources."

In this context users of financial statements include, for example, present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public.

The IFRS *Framework for the Preparation of Financial Statements*, however, previously defined reporting entities more narrowly, being:

"An entity for which there are users who rely on the financial statements as their major source of financial information about the entity".

The IFRS definition implies users are known to exist, whilst the SAC 1 definition includes users who are not known but are reasonably expected to exist.

The IASB is continuing its project to update the Framework, including the definition of a reporting entity.

#### 5.1.1.1 The Framework and SAC 1 guidance

The AASB *Framework for the Preparation and Presentation of Financial Statements* applies to financial reporting entities, whether in the public or private sector. The Framework is currently being updated by the AASB based on revisions made by the IASB. At present the guidance in SAC 1 is still applicable in Australia.

The Accounting Professional and Ethical Standards Board Standard APES 205 *Compliance with Accounting Standards* (APES 205) specifically requires preparers of financial statements to apply the guidance provided by the Framework and SAC 1 when assessing whether an entity is a reporting entity.

The auditor of an entity also needs to consider the reporting entity status of an entity when forming an opinion on whether the entity's financial statements comply with accounting standards.



SAC 1 has not been withdrawn following the introduction of IFRS and continues in operation, even though it has not been revised for the change in definition that arose on the transition to IFRS based standards.

SAC 1 provides guidance on the definition and concept of a reporting entity, including the primary factors to be considered in determining whether dependent users exist. These are:

- the separation of management from ownership or economic interest – the greater the extent of separation, the more likely dependent users will exist
- economic significance – the economic significance of some entities to their suppliers, clients or employees or to the public may result in those entities being reporting entities even though the members manage the entity
- political importance or influence – the greater the potential impact on the welfare of external parties, the more likely dependent users will exist
- the financial characteristics or indebtedness of an entity – the larger the size or the greater the indebtedness or resources allocated, the more likely dependent users will exist.

All of these factors need to be considered. The fact that there is little separation between the management and ownership of an entity does not mean that the company is not a reporting entity. The other factors need to be given equal consideration.

Generally, the following types of entities exhibit the characteristics of reporting entities:

- disclosing entities (including listed entities and registered schemes)
- government controlled business undertakings
- federal, state and local governments.

The definition of reporting entity does not automatically include Australian subsidiaries of listed overseas parents, and therefore their status must be analysed on a case by case basis.

For dormant companies, the assessment of whether they are reporting entities depends on the type of assets or liabilities held and if they intend to be dormant for the foreseeable future.

Given the concept of public accountability introduced by AASB 1053, which requires reporting entities to comply with all accounting standards, it will be difficult to argue that anyone meeting the definition of public accountability could currently prepare special purpose financial statements (see section [5.2](#)).

#### 5.1.1.2 ASIC guidance

ASIC RG 85 *Reporting requirements for non-reporting entities* states that in applying the definition of 'reporting entity', directors and auditors must consider whether there are existing or potential users who may be dependent on general purpose financial statements.

ASIC's view is that existing shareholders are not the only users to consider; therefore, an entity should not be regarded as a non-reporting entity solely because there is little or no separation between its members and management (e.g. the shareholders are involved in the day-to-day management of the company). ASIC's review of financial statements has revealed that some companies that claimed to be non-reporting entities should have been classified as reporting entities. These companies had a significant number of creditors and employees, and it was reasonable to expect the existence of users dependent on general purpose financial statements. The financial statements of these companies had been accessed on ASIC's public database on a number of occasions by external parties during a 12 month period. ASIC has stated it will look closely at cases where entities claim to be non-reporting entities and will seek explanations from directors where it appears reasonable to expect that there are users dependent on general purpose financial statements.



### 5.1.1.3 Australian Financial Services License guidance

S989B includes separate financial reporting requirements for an AFS Licensee (see section [3.1.3](#)), in addition to those under Chapter 2M.

The decision as to whether an AFSL is a reporting entity needs to be made on a case-by-case basis in accordance with SAC 1 and APES 205 *Conformity with Accounting Standards*. A requirement to prepare and lodge a financial report with ASIC pursuant to the Act does not deem that entity to be a reporting entity. Whilst in most cases an AFSL will be a reporting entity and hence required to comply with all accounting standards and interpretations, the guidance in ASIC Form 70 and Form 71 relating to the lodgement and audit of the licensee's Statement of profit or loss and other comprehensive income and Statement of financial position acknowledges that a licensee may not be a reporting entity (note the form requirements still refer to Profit and Loss and Balance Sheet as they have yet to be updated for changes under the revised AASB 101). This issue is discussed further in AUASB Guidance Statement GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*. [RG 85]

In addition, holders of AFSL's will need to consider whether they must meet the definition of public accountability. See section [5.2](#).

### 5.1.2 Non-reporting entity

Non-reporting entities are entities, in respect of which there is no expectation of the existence of users dependent on general purpose financial statements for information useful to them for making and evaluating decisions about the allocation of scarce resources. Non-reporting entities may prepare special purpose financial statements which need not comply with all accounting standards. The minimum requirements for special purpose financial statements will vary depending on whether an entity is required to prepare financial statements under Chapter 2M of the Act, and whether dividends are declared out of accounting profits or after considering the S254T solvency test, in accordance with accounting standards. These are discussed in section [5.3.2](#).

Whether an entity is a non-reporting entity depends on its own facts and circumstances. Non-reporting entities typically include:

- small proprietary companies
- tier I (small) companies limited by guarantee
- family trusts
- partnerships
- sole traders.

## 5.2 Application of AASB 1053 *Application of Tiers of Australian Accounting Standards*

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes for general purpose financial statements, a differential financial reporting framework, which consists of two tiers of reporting requirements:

- Tier 1: Australian Accounting Standards (full IFRS classification, recognition, measurement and disclosure)
- Tier 2: Australian Accounting Standards – Reduced disclosure requirements (full classification, recognition and measurement but reduced disclosure). The reduced disclosure is highlighted in each standard.

The standards apply to annual reporting periods beginning on or after 1 July 2013.

Each accounting standard continues to have its own application paragraphs, indicating they are only applicable to reporting entities, or those holding themselves out as reporting entities. **Accordingly, those entities preparing special purpose financial statements cannot use Tier 2.**

### 5.2.1 Tier 1

The following entities must apply Tier 1 requirements:

- for-profit entities in the private sector that have public accountability (see section [5.2.1.1](#))
- the Australian Government and State, Territory and Local Governments.

#### 5.2.1.1 Public accountability

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, 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.

The AASB has deemed that the following have public accountability:

- disclosing entities (see section 2.3.1), even if their debt or equity instruments are not traded in a public market or they are not in the process of issuing such instruments for trading in a public market
- cooperatives that issue debentures
- registered managed investment schemes
- superannuation plans registered with APRA, other than small APRA funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000
- approved deposit taking institutions ('ADIs').

The following should also be considered:

- family unit trusts and discretionary trusts are not likely to have public accountability unless the beneficiaries are a 'broad group of outsiders'
- if the fiduciary responsibilities are for reasons incidental to a primary business (for example, real estate and travel agents requiring deposits) they will not have public accountability
- captive insurers are not likely to have public accountability unless they provide insurance coverage to parties outside the group
- an entity holding an Australian Financial Services Licence ('AFSL') does not automatically have public accountability
- responsible entities/trustees generally do not have public accountability as a result of the assets they hold on trust, the trust or scheme itself is more likely to have public accountability.

It should be noted that the 'reporting entity' concept under SAC 1 is not entirely synonymous with the 'publicly accountable' concept under AASB 1053. Therefore, even if entities were correctly assessed as non-reporting entities for SAC 1 purposes, they could be regarded as being publicly accountable for AASB 1053 purposes. Therefore, it is important to assess an entity's status under AASB 1053. If an entity is regarded as being 'publicly accountable' under AASB 1053, then, that entity will need to prepare general purpose financial statements under Tier 1, i.e. comply with all IFRSs as adopted in Australia.

## 5.2.2 Tier 2

The following entities may apply either Tier 1 or Tier 2:

- for-profit private sector entities that do not have public accountability (for example, large proprietary companies)
- all not-for-profit private sector entities
- public sector entities other than the Australian Government and State, Territory and Local Governments.

However, other regulators might require the application of Tier 1 to the entities they regulate.

### 5.2.2.1 Impact of applying Tier 2

Entities applying Tier 2 reporting requirements are not able to state compliance with IFRS.

Entities considering moving to Tier 2 that are considering listing in the next few years should be aware that the transition requirements to return to Tier 1 are particularly onerous, as they require a full re-application of AASB 1 *First Time Adoption of Australian Accounting Standards*. These transition requirements are discussed in more detail in section [5.2.3](#).

Furthermore, entities previously preparing special purpose financial statements that did not previously comply with all the classification, recognition and measurement requirements of Australian Accounting Standards, will have to apply AASB 1 on transition to Tier 2.

However, entities are likely to benefit significantly from the reduced disclosures of Tier 2.

## 5.2.3 Transitional provisions (Moving between Tiers or from special purpose to general purpose)

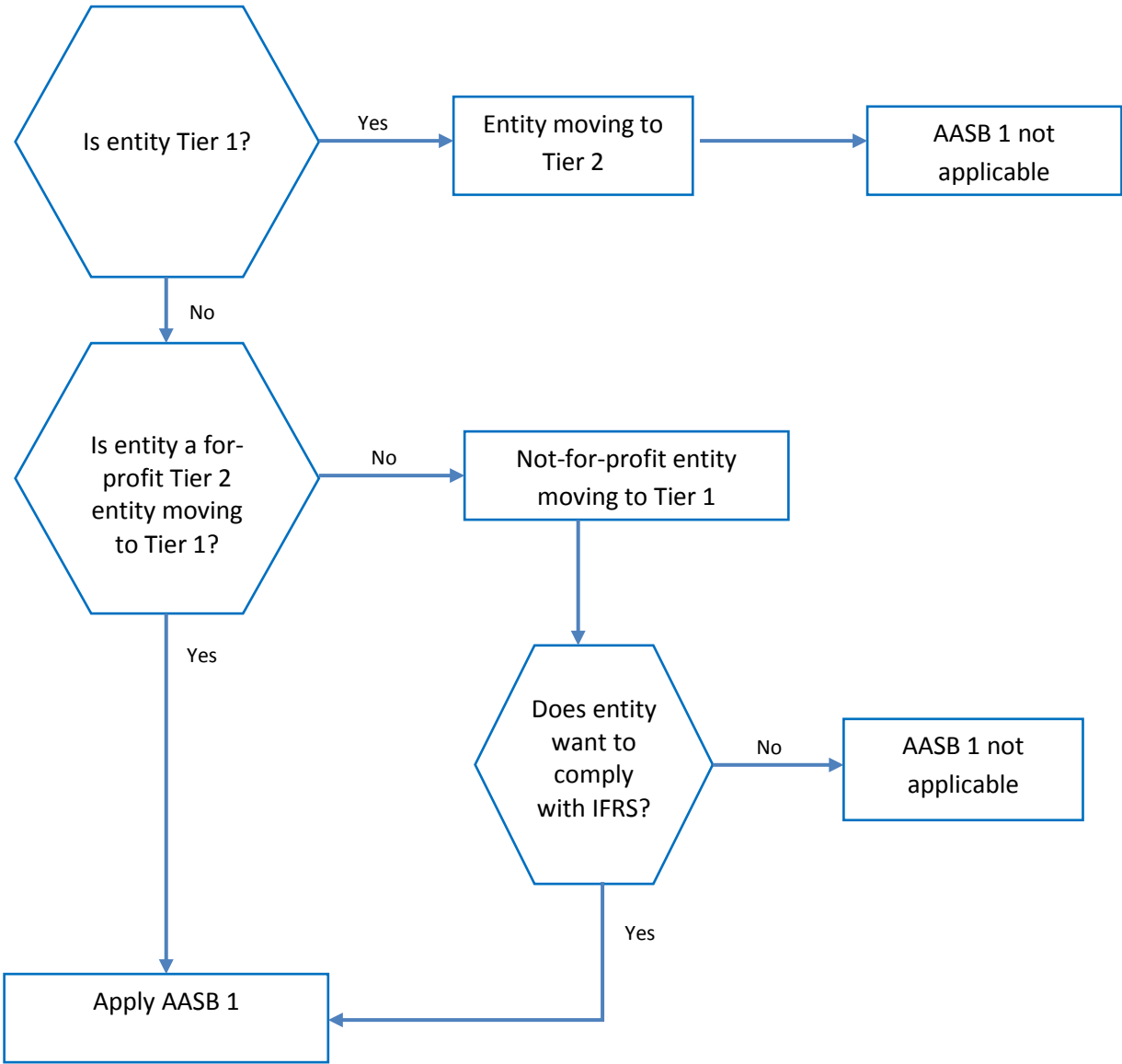
Any entity moving from Tier 1 to Tier 2 need only state they have moved.

If a for-profit entity moves from Tier 2 to Tier 1, AASB 1 must be applied, in full, on transition. This ensures the entity is capable of claiming IFRS compliance.

As not-for-profit entities are able to claim compliance with IFRS in very limited circumstances, they may not be required to apply AASB 1 when moving from Tier 2 to Tier 1. Rather they may need to just increase their disclosures, see [5.2.3.1](#).

5.2.3.1 Moving between Tiers

The following decision tree sets out the issues with moving between Tiers. Having to reapply AASB 1 may result in different amounts being recorded on transition.



5.2.3.2 Changing status from non-reporting entity

Section [5.3.2.5](#) sets out the requirements on changing status from non-reporting entity to reporting entity.

5.2.4 A non-reporting entity considering changing to Tier 2

Non-reporting entities that want to start preparing general purpose financial statements using Tier 2 (Reduced disclosure regime) may do so. If they are already applying the full classification, recognition and measurement requirements of AASBs, including consolidating subsidiaries, the transitional requirements only change their level of disclosure to that required for Tier 2 (Reduced disclosure regime), i.e. they do not have to apply AASB 1.

However, non-reporting entities that were previously not applying all the classification, recognition and measurement requirements of AASBs, including consolidating subsidiaries, are unlikely to want to consider using Tier 2 (Reduced disclosure regime) as AASB 1 would have to be applied in full.

## 5.3 General purpose and special purpose financial statements

The decision tree on the following page summarise the accounting standard requirements for general and special purpose financial statements which are discussed further in this chapter.

### 5.3.1 General purpose financial statements

AASB 101 defines general purpose financial statements, as those statements “intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information ends”. With the introduction of AASB 1053, general purpose financial statements are either Tier 1 (full compliance with all accounting standard requirements) or Tier 2 (full compliance with all classification, recognition and measurement requirements with reduced disclosures). See section [5.2](#).

#### 5.3.1.1 General purpose financial statements for *Corporations Act 2001* entities

The Act requires reporting entities to prepare financial reports that comply with Australian Accounting Standards. Each standard specifies whether it applies to all entities preparing financial reports under the Act or only general purpose financial statements. The standard AASB 1048 *Interpretation of Standards* requires compliance with each relevant Australian Interpretation. Thus general purpose financial statements under the Act must also comply with Australian Interpretations. Section [4.2.1](#) outlines the required content of general purpose financial statements prepared under the Act.

#### 5.3.1.2 General purpose financial statements for other entities

Reporting entities which are not required to prepare reports under the Act may be required to prepare general purpose financial statements in accordance with their governing legislation or constitution. Such governing documents may refer to the application of Australian Accounting Standards. Regardless of the governing documents, APES 205 requires that members of professional accounting bodies take “all reasonable steps” to apply Australian Accounting Standards when they prepare/present general purpose financial statements that purport to comply with the Australian Financial Reporting Framework (being defined as the framework that uses Australian Accounting Standards and is adopted by those charged with governance).

### 5.3.2 Special purpose financial statements

Special purpose financial statements are reports that are not general purpose financial statements. Typically they are produced by non-reporting entities for statutory purposes or to comply with other requirements.

AASB 1054.9 requires that the entity include a statement in the notes to the financial statements that the financial statements are special purpose financial statements.

Where the directors consider an entity is a non-reporting entity, we recommend they make a formal resolution to that effect. Refer to the [Appendices](#) for an example resolution.

When preparing special purpose financial statements, minimum standards must be adhered to. The standards vary according to whether the entity is reporting under the Act or not. Further discussion is set out in sections [5.3.2.1](#) and [5.3.2.2](#) below.

#### 5.3.2.1 Special purpose financial statements prepared for *Corporations Act 2001* entities

Entities required to prepare financial statements under Part 2M.3 must comply with all applicable accounting standards and interpretations. However where such entities meet the definition of a non-reporting entity, they may prepare special purpose financial statements, tailored specifically to the needs of the users of those reports, which whilst continuing to meet all recognition, measurement and classification requirements, are only required to meet certain minimum presentation and disclosure requirements.

Examples of such entities include:

- large proprietary companies that are non-reporting entities
- small proprietary companies that are non-reporting entities and that are required to prepare a financial report in the case of a request from members or as a result of being a subsidiary of a foreign company
- tier I (small) companies limited by guarantee that are non-reporting entities and that are required to prepare a financial report in the case of a direction from members or ASIC.

The financial reports and the financial statements components are the same as that of general purpose financial statements as noted in section [4.1.3](#).

Special purpose financial statements, however, need not comply with all disclosure requirements of the accounting standards. The directors must determine which disclosure requirements of accounting standards and principles are to be applied, however, there remains an overriding requirement to present a true and fair view, as discussed below.

### *True and fair view*

All financial statements prepared under the Act, including special purpose financial statements prepared by non-reporting entities, are required to give a true and fair view. In addition, all companies that must comply with the Act may only pay dividends after satisfying the S254T solvency test based on the financial statements prepared in accordance with accounting standards (see section [6.5](#)). Companies limited by guarantee may not pay dividends. Accordingly, in our view, minimum accounting standards under the Act for non-reporting, Corporation Act entities are: [S2967, S254T]

- application of the basic accounting principles of accrual accounting and substance over form
- mandatory compliance with:
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 1031 *Materiality*
  - AASB 1048 *Interpretation of Standards*\*
  - AASB 1053 *Application of Tiers of Australian Accounting Standards*<sup>^</sup> and
  - AASB 1054 *Australian Additional Disclosures*
- \* AASB 1048 clarifies that Interpretations must be applied where applicable. While AASB 1048 applies to all *Corporations Act 2001* entities and general purpose financial statements, the adoption of individual Interpretations will depend on whether the individual Interpretations apply to the entities.
- <sup>^</sup> AASB 1053 must be considered by all *Corporations Act* entities, however it only applies to reporting entities preparing general purpose financial statements.
- application of the classification, recognition and measurement guidance for recognising amounts in financial statements that determine the profit for the period and financial position that are contained in all Australian Accounting Standards (including Australian Interpretations) and the *Corporations Regulations 2001*
- application of other disclosure accounting standards as deemed necessary by the directors to give a true and fair view
- a statement in the basis of preparation note about the disclosure requirements that have been complied with and
- comparatives to be disclosed.

In addition to the above minimum standards, entities required to prepare financial reports under the Act must comply with other requirements of the Act, where applicable. For example the requirement in S295(4) to include a director's declaration as to presentation of a true and fair view, compliance with accounting standards, and a solvency declaration (see section [6.3](#)).

Compliance with AASB 101, 107, 108, 1031, 1048 and 1054 is explicitly required for special purpose financial statements prepared in accordance with Chapter 2M of the Act. However, certain requirements of AASB 101 relating to capital management disclosures are specifically limited to reporting entities, and thus not required for special purpose financial statements. The requirement to comply with the recognition, measurement and classification of all other standards is, in our view, implicit in the requirement to present a 'true and fair' view and also consistent with ASIC RG 85.



Where the recognition and measurement criteria related to an asset or liability are complied with, but not the disclosure aspects, for example applying the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*, but not the disclosure requirements of AASB 7 *Financial Instruments: Disclosures*, the basis of preparation note of the financial statements will need to disclose that fact. KPMG's *Example Proprietary Company Pty Ltd (Special Purpose – Non-reporting entity) Annual Financial Report* contains an example of this type of disclosure, as well as example notes and directors' declaration that might be included in a special purpose financial statements prepared in accordance with Chapter 2M of the Act.

Where shareholders/members have directed a small proprietary company/tier 1 (small) company limited by guarantee to prepare financial statements, the shareholders/members may specify that the financial statements do not have to comply with some or all of the accounting standards, which may include certain classification, recognition and measurement guidance. However, the directors continue to have an overriding responsibility to present a true and fair view of the financial position and performance of the entity, and thus care should be taken that preparation of the financial statements still comply with the true and fair requirements. [S293, S294A]

### *IFRS compliance*

AASB 101 requires an entity whose financial statements and notes comply with IFRSs to make an explicit and unreserved statement of compliance in the notes.

Whilst directors have the discretion to comply with the disclosure aspects of accounting standards only to the extent deemed necessary to give a true and fair view, material non-compliance with any disclosure requirement would mean the special purpose financial statements are not IFRS compliant. It would be extremely rare for special purpose financial statements to claim IFRS compliance.

### *Materiality*

Entities preparing general purpose financial statements and special purpose financial statements under the Act must apply the classification, measurement and recognition requirements of accounting standards except where the effect of the non-compliance is not material. The AASB has recently revised AASB 1031 to remove Australian specific guidance on applying materiality. The definition of materiality continues to be outlined in AASB 101. Under AASB 101, information is considered material, if its omission, misstatement or non-disclosure has the potential, individually or collectively, to influence the economic decisions of users. The revised AASB 1031 is applicable to annual reporting period beginning on or after 1 January 2014, and cannot be early adopted. The revisions to the guidance on materiality is not expected to change practice. Refer to section [7.3](#) for further detail.

For example, employee entitlements may not be measured in accordance with AASB 119 *Employee Benefits*. However, any difference between the provision calculated in accordance with AASB 119 and the amount recognised in the financial statements must not be material, otherwise the accounting standards would not be complied with. The lack of recognition or inappropriate measurement of liabilities could also impact the solvency test required by S254T for payment of dividends, see section [6.5](#).

### *Comparative information*

AASB 101 requires presentation of comparative information where directors prepare special purpose financial statements under the Act.

### *Dormant Companies*

Dormant companies required to prepare statutory financial reports under the Act must prepare a statement of financial position, statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows, even if the amounts recorded are nil. A note stating that revenues, expenses and cash flows are nil is not adequate. ASIC will not accept a financial report without all of the financial statements.



### 5.3.2.2 Special purpose financial statements for other entities

#### *Accounting framework*

Non-reporting entities that are not required to prepare financial reports under the Act, may voluntarily prepare financial statements or may be required to prepare financial statements under their governing legislation or constitution, see section [3.1.2](#).

When a non-reporting, non-Corporations Act entity, voluntarily prepares financial statements, the financial statements are typically prepared in accordance with the financial reporting framework, adopted by those charged with governance in preparing the financial statements. However, in our view, certain minimum requirements need to be met, based on the manner in which distributions are paid (see below). In all cases however, the financial statements should clearly identify that:

- the financial statements are special purpose financial statements
- the purpose for which they have been prepared
- the significant accounting policies adopted in preparation and presentation of the financial statements. [APES 205.6.1]

Where a company's special purpose financial statements are being used by parties external to the entity, KPMG recommends as a matter of best practice that a directors' declaration be prepared even though the financial statements are not prepared in accordance with the Act (see section [4.2.2](#)). An example director's declaration is included in KPMG's publication *Example Proprietary Company Pty Ltd (Special Purpose – Non-reporting entity) Annual Financial Report*.

In our view, special purpose financial statements must adhere to certain minimum requirements, even where there are no governing constitutions/agreements or legislative requirements that require compliance with specific accounting standards. In our view, these minimum requirements differ depending on whether distributions are paid out of accounting profits/ after satisfying the S254T solvency test, in accordance with accounting standards, or not.

Refer section [5.3.2.3](#) for discussion of audit issues associated with special purpose frameworks.

#### ***Distributions paid out of accounting profits/ after the S254T solvency test, in accordance with accounting standards***

Non-reporting entities that can only pay distributions out of accounting profits include non-corporate entities, where the governing legislation or constitution/agreement requires distributions to be based on accounting profits, for example, partnerships, trusts, unincorporated associations.

Non-reporting entities that can only pay distributions if the S254T solvency test, in accordance with accounting standards, is satisfied, include small proprietary companies even though they are not required to prepare financial statements under the Act. [Para 9.1, *Small companies guide*, Part 1.5]

When paying dividends out of accounting profits or after satisfying the S254T solvency test, in accordance with accounting standards, it is important that these entities have a consistent basis on which to determine the appropriate accounting profit or solvency test, and this should not be changed depending on the determination of the directors.

In our view, the financial statements for these types of entities should be prepared in accordance with the following minimum standards:

- accrual accounting and substance over form
- compliance with all classification, recognition and measurement requirements of accounting standards and other mandatory reporting requirements
- in accordance with AASB 108, the basis of preparation must be clearly set out in the statement of significant accounting policies, and the identification of the requirements the directors have complied with or alternatively those they have not complied with, should be included.
- disclosure requirements of accounting standards and other mandatory reporting requirements as deemed necessary by directors/partners/trustees to 'present fairly'
- AASB 101 and AASB 1054, setting out financial statement composition (for example preparation on a special purpose basis and areas of non-compliance with accounting standards) and AASB 107, applied to the extent considered necessary by the directors. However, KPMG recommends the adoption of AASB 101 and AASB 107 wherever possible to provide consistency and comparability across entities.

### *IFRS compliance*

AASB 101 specifically requires an entity whose financial statements and notes comply with IFRSs to make an explicit and unreserved statement of such compliance in the notes.

It will be extremely rare that IFRS compliance can be claimed for special purpose financial statements.

### *Comparative information*

No comparative information is required where directors elect not to apply AASB 101 in the preparation of special purpose financial statements that are not required under the Act.

However, it is necessary for the basis of preparation note to specify that the financial statements do not include the disclosure requirements of AASB 101. Example wording would be:

"The financial statements do not include the disclosure requirements of the following pronouncements having a material effect:

- AASB 101 *Presentation of Financial Statements*."

### *Statement of cash flows*

Whilst non-reporting entities that are not required to prepare financial statements under the Act do not have to apply AASB 101, AASB 107, and AASB 1054, KPMG recommends that a statement of cash flows be prepared for non-reporting entities that pay distributions out of accounting profits or after satisfying the S254T solvency test, in accordance with accounting standards, as a statement of cash flows is generally considered part of the primary financial statements.

### ***Distributions not paid out of accounting profits/after the S254T solvency test, in accordance with accounting standards***

A non-corporate entity's governing legislation may not require distributions to be paid out of accounting profits, or after the S254T solvency test, or may prevent dividends from being paid. For example a partnership agreement or trust deed may state that distributions to beneficiaries are to be paid out of taxable profits.

These financial statements need only apply the classification, recognition and measurement or disclosure aspects of those standards as deemed necessary by the partners or trustees to comply with the requirements of the entity's governing document (e.g. partnership agreement or trust deed). However, the basis of preparation note must clearly disclose the aspects of those standards that have or have not been complied with.

There is no prescribed format for the statement of profit or loss and other comprehensive income, statement of changes in equity or statement of financial position for entities that are not preparing financial statements in accordance with AASB 101. The most appropriate format should be developed having regard to the particular circumstances of the entity and the presentation of relevant and reliable information about its performance and financial position (see section [4.1.2](#)).

In assessing the appropriateness of accounting policies, preparers should consider whether non-disclosure of a particular item required under AASB 101 or non-compliance with classification, recognition or measurement aspects of standards would cause the financial statements to be misleading. KPMG recommends that all classification, recognition and measurement accounting standards be adopted wherever possible to provide consistency and comparability across entities and to prevent intergenerational inequity (i.e. non-compliance with revenue or provision measurement requirements may benefit current year shareholders at the expense of future shareholders).

### 5.3.2.3 Audit issues associated with special purpose frameworks

#### *Framework*

Auditors are required to determine the acceptability of the financial reporting framework applied in the preparation of the financial report (ASA 210 *Agreeing the Terms of Audit Engagements*) before accepting the audit engagement. In the audit of a financial report prepared in accordance with a special purpose framework, the auditor is required to obtain an understanding of the purpose for which the financial report is prepared, the intended users and the steps taken by management to determine that the applicable framework is acceptable in the circumstances. Where the auditor is not satisfied with the acceptability of the framework, it must be modified (either by amending the basis of preparation determined by management so that the auditor is satisfied that the special purpose framework is acceptable, or by adopting a general purpose framework) or the auditor cannot accept the engagement (ASA 210).

In KPMG's view certain minimum requirements need to be met when preparing special purpose financial statements depending on whether they are also prepared under the Corporations Act or not, and if not then depending on how dividends are paid (see [5.3.2.1](#)). The intended users are a key factor in determining the acceptability of the special purpose framework. Therefore, management should document reasons for non-compliance with classification, recognition and measurement requirements of a standard and the other steps they have taken to determine that the special purpose framework they have adopted is acceptable. Once documented by management the auditor will need to assess whether they can accept the engagement.

The auditor is also required to alert the readers of a financial report prepared in accordance with a special purpose framework to the basis of preparation of the financial report and the fact it may not be suitable for another purpose by the inclusion of an Emphasis of Matter paragraph in the auditor's report (ASA 800 *Special Considerations Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*). As special purpose frameworks are designed with the needs of specific intended users in mind, the auditor may also include appropriate restrictions on use and distribution of the report in the Emphasis of Matter paragraph. In KPMG's view, we usually do restrict both the use and distribution of the reporting in the Emphasis of Matter paragraph.

#### *Comparative information*

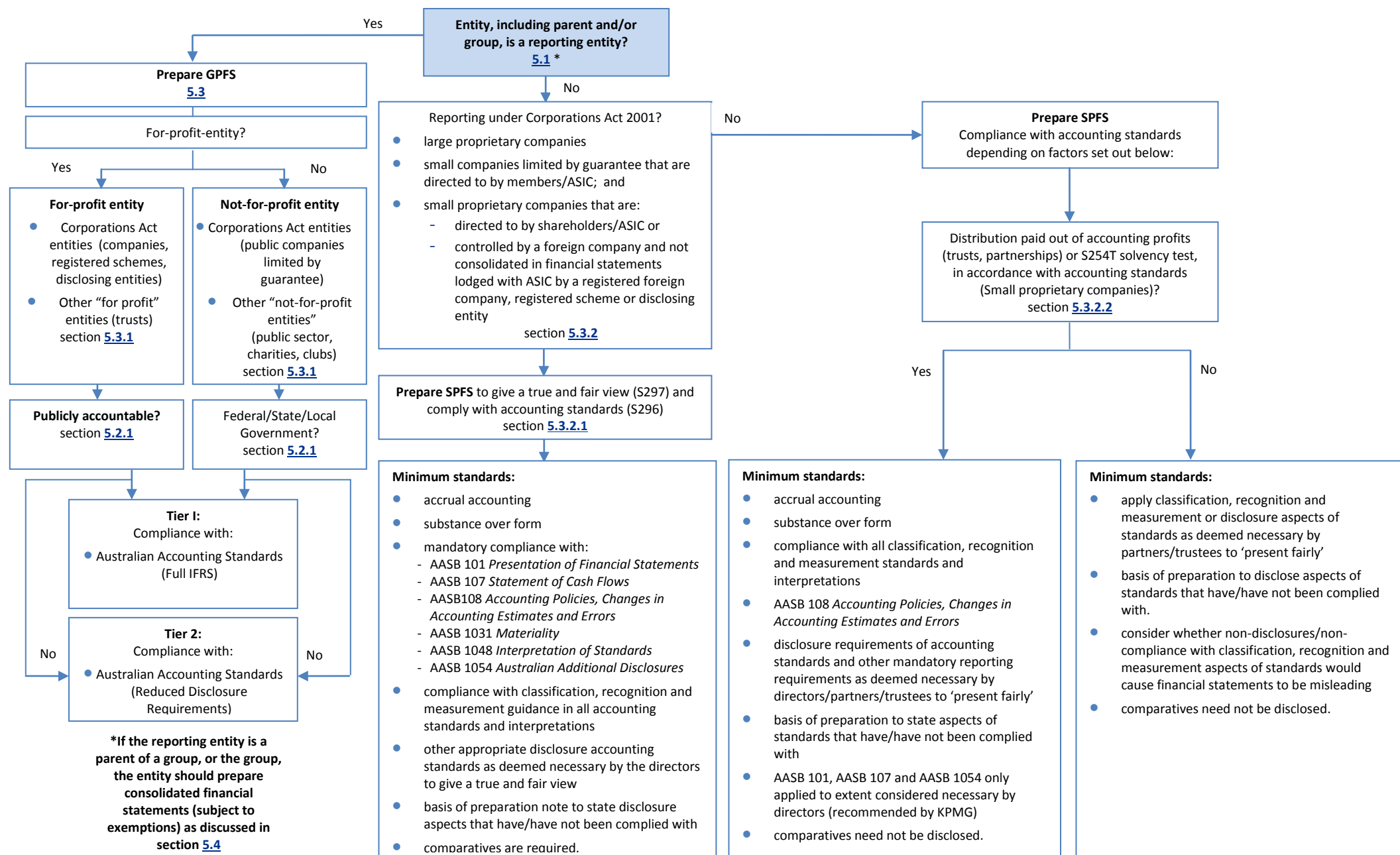
Non-disclosure of comparative information does not relieve an auditor from the responsibility to consider the opening balances of the financial report to determine if an unqualified opinion can be given, or if a qualification is needed in respect of opening balances. Audit guidance can be found in the Auditing Standards ASA 510 *Initial Audit Engagements – Opening Balances* (ASA 510) and ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* (ASA 710).

The AUASB issued *Explanatory Guide: Opening Balances* to make it clear that the auditor cannot provide a split opinion (on current year results, with a qualified opinion on prior year results), but must form an opinion on the financial statements as a whole. Further guidance can be found in the explanatory guide.

#### *Preparation of financial statements*

Where there is no requirement for special purpose financial statements to be audited, entities may elect to have them audited, or may be requested to by the banks or other third parties that requested the preparation of the financial statements. In such instances it may be possible for an external accountant to both prepare and audit the financial statements. In these situations the accountant should consider their professional body's code of conduct and particular care must be exercised to maintain professional independence. The accountant should ensure that they have not taken part in the executive decision making function of the entity and that the client accepts full responsibility for both the content of the financial statements and making the necessary management decisions in relation to their preparation.

## General purpose financial statements vs. special purpose financial statements decision tree



#### 5.3.2.4 Special purpose financial statements and Taxation of Financial Arrangement (TOFA) rules

The ATO's view is that special purpose financial statements cannot be relied upon in making TOFA choices.

During 2013 the ATO issued Draft Taxation Determination (TD 2013/D8) which sets out the ATO's preliminary view about whether a financial report prepared by an entity in accordance with accounting standards it is required to apply, but not in accordance with other relevant accounting principles, satisfy paragraphs 230-210(2)(a), 230-255(2)(a), 230-315(2)(a) or 230-395(2)(a) of the *Income Tax Assessment Act 1997* (ITAA 1997).

Division 230 of ITAA 1997 is about the taxation of financial arrangements. Generally, gains from financial arrangements are assessable and losses are deductible. Division 230 provides a range of elective methods for determining gains and losses, including the elective fair value method, the elective foreign exchange retranslation method, the elective hedging method and the elective financial reports method. Absent an elective method applying, relevant gains and losses will be dealt with under the accruals and realisation methods.

The elective methods are broadly designed to allow entities to better align tax treatment of gains and losses from a financial arrangement with the accounting treatment that applies to that arrangement. Each of these methods refers, to varying degrees, to the particular accounting treatment of relevant financial arrangements.

An entity can only elect to use one or more of the elective methods if, amongst other things, it prepares a financial report which meets certain requirements. One of those requirements ('the accounting requirement') is that the financial report is prepared by the entity in accordance with the accounting principles.

Subsection 995-1(1) of the ITAA 1997 provides that a matter is in accordance with accounting principles if it is in accordance with: accounting standards or if there are no accounting standards applicable to the matter – authoritative pronouncements of the Australian Accounting Standards Board that apply to the preparation of financial statements.

In the ATO's preliminary view, in considering whether a financial report was prepared in accordance with the accounting principles, the accounting standards applicable are not limited to those standards which are prescribed by the standards themselves to apply to the relevant entity. Instead, all of the accounting standards capable of being applied to the relevant report must be applied for the financial report to be said, as a whole, to have been prepared 'in accordance with' the accounting principles. As such special purpose financial statements, which do not apply all of the relevant accounting standards, cannot be said to be in accordance with the accounting principles for the purposes of the accounting requirement in Division 230.

The ATO has sought comment on the draft determination. It has indicated that it expects to finalise the determination in late May 2014. Refer to the ATO website for further details.

#### 5.3.2.5 Change in status from special purpose to general purpose financial statements

When an entity changes its status from a non-reporting entity to a reporting entity, it will be required to prepare general purpose financial statements.

When transitioning from special purpose to general purpose Tier 1, AASB 1 must be applied, regardless of whether all classification, recognition and measurement requirements have been complied with.

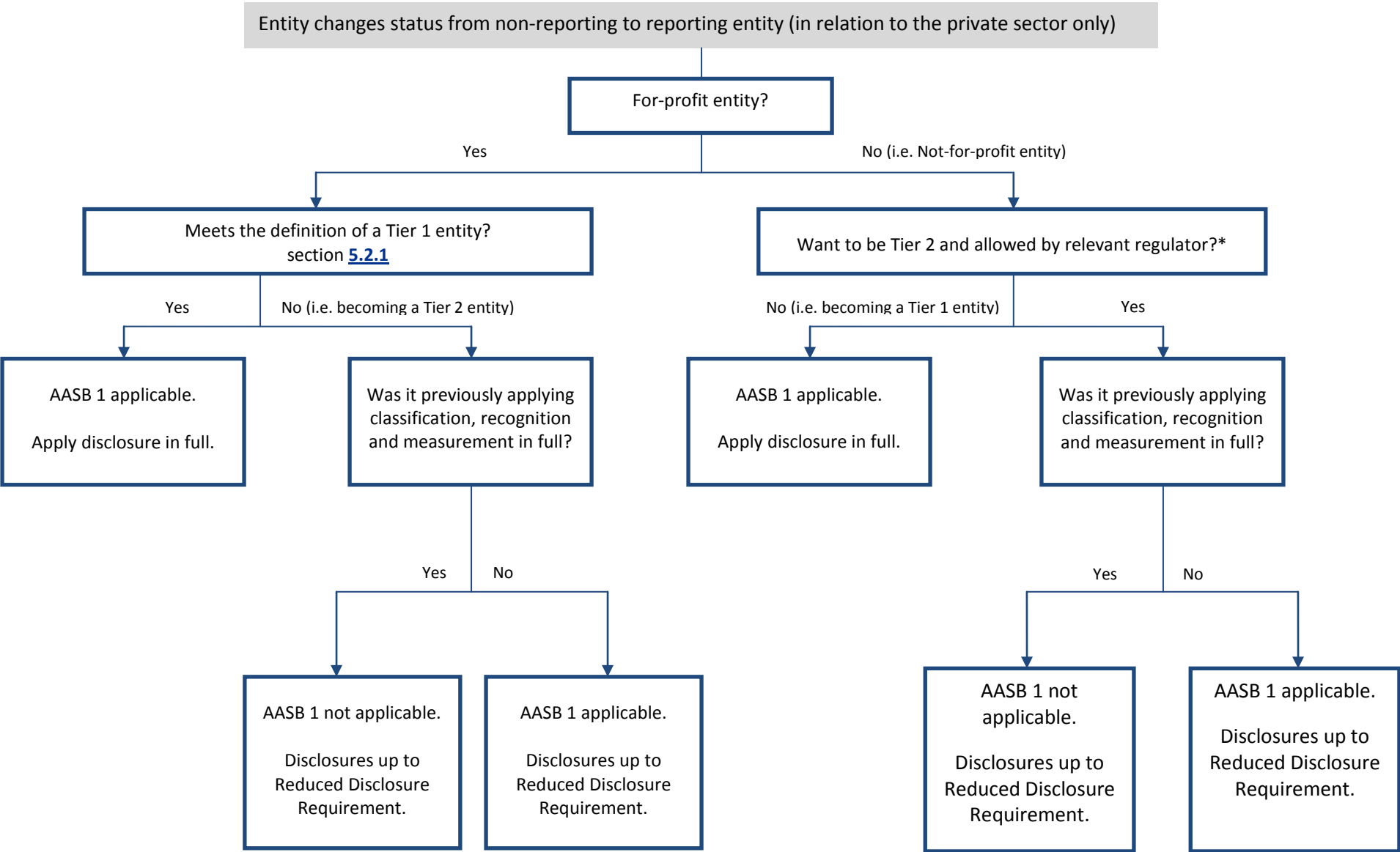
If transitioning from special purpose to general purpose Tier 2, if the special purpose entity had previously complied with all classification, recognition and measurement requirements it will not be required to use AASB 1, as Tier 2 entities cannot claim compliance with IFRS.

However, if the special purpose entity had not previously complied with all classification, recognition and measurement requirements, it will be required to use AASB 1 on transition to Tier 2.

Decision tree [5.3.2.5.1](#) illustrates some of the financial reporting impacts that apply when an entity changes status from a non-reporting entity to a reporting entity.

See section [5.2.3](#) regarding moving between general purpose Tier 1 and Tier 2.

5.3.2.5.1 Non-reporting to reporting entity – decision tree



\*All private not-for-profit entities have a choice of applying Tier 2 requirements unless the relevant regulator requires application of full IFRS as adopted in Australia



#### 5.3.2.6 A non-reporting entity considering changing to Tier 2

Non-reporting entities that want to start preparing general purpose financial statements using Tier 2 (Reduced disclosure regime) may do so. If they are already applying the full classification, recognition and measurement requirements of AASBs, including consolidating subsidiaries, the transitional requirements only change their level of disclosure to that required for Tier 2 (Reduced disclosure regime), i.e. they do not have to apply AASB 1.

However, non-reporting entities that were previously not applying all the classification, recognition and measurement requirements of AASBs, including consolidating subsidiaries, are unlikely to want to consider using Tier 2 (Reduced disclosure regime) as AASB 1 would have to be applied in full.



## 5.4 Consolidated and separate financial statements

### 5.4.1 Reporting entities – parent and group

The fundamental requirement of AASB 10 is that a parent entity that is a reporting entity must present consolidated financial statements in which it consolidates its investments over which it has control, except where the parent meets one of the exemptions discussed below.

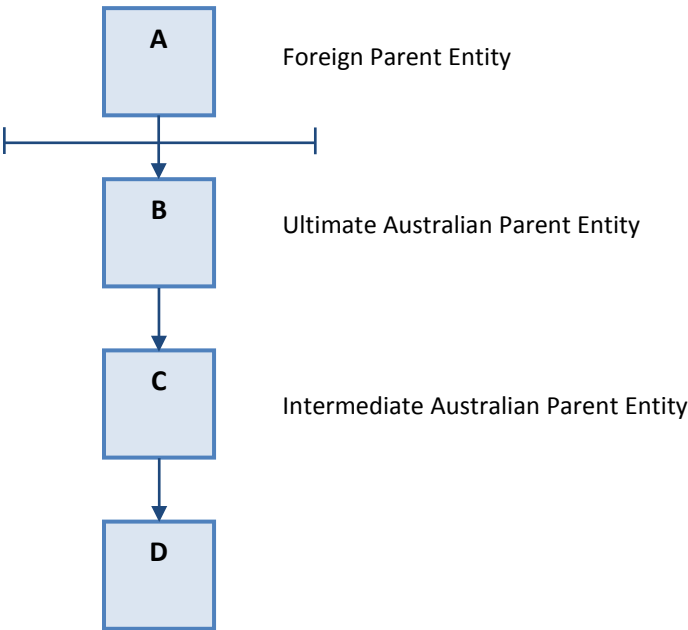
A reporting entity that is a parent must apply the requirements of AASB 10 *Consolidated Financial Statements*. The determination of whether a parent entity is a reporting entity is the same as for other entities, that is whether it is “reasonable to expect the existence of users who depend on the financial statements for information that will be useful for making and evaluating decisions about the scarce allocation of resources” (see section [5.1](#)). [AASB 10 Aus3.1]

Whilst the concept of reporting entity under the standard applies to a parent, the factors which would be considered in determining whether the group is a reporting entity are also generally relevant in determining whether a parent entity is a reporting entity.

#### *Exemptions from consolidation requirements for parent entities*

An unlisted group that is a subset of a larger group that prepares publicly available consolidated IFRS financial statements is excluded from the requirement to prepare consolidated financial statements. However, in AASB 10, this exemption is subject to an Australian amendment which requires the ultimate Australian parent of a group to present consolidated financial statements that consolidate its investments in subsidiaries when either the parent or the group is a reporting entity. The implication of the Australian amendment is illustrated below.

AASB 10 Aus4.2 is designed to address the following situation, where either B or the group BCD is a reporting entity, and B's foreign parent A prepares publicly available consolidated IFRS financial statements:



IFRS 10 would not require B to prepare consolidated financial statements because it meets the conditions for exemption. However, AASB 10 requires B, as the ultimate Australian parent, to prepare consolidated financial statements where either B or the group BCD is a reporting entity. [AASB 10 Aus 4.2]

Whilst it could be interpreted that only parent entities that are reporting entities prepare consolidated financial statements, in our view, based on AASB 10 Aus4.2, where the Australian group is a reporting entity, the ultimate parent of the Australian group must prepare consolidated financial statements regardless of the status of the ultimate parent entity as a reporting entity. [AASB 10 Aus4.2]

*Consolidation exemption extended – Tier 2 (Reduced disclosure regime) and not-for-profit entities<sup>1</sup>*

AASB 10.Aus4.1 extends the relief from consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent to be IFRS compliant in the circumstances, as discussed in the following paragraph.

Under Aus4.1 paragraph, in the case of consolidation, AASB 10.4(a)(i) to 4(a)(iii) must be met (see decision tree at [5.4.2.1](#)); however a parent need not present consolidated financial statements if its ultimate or any intermediate parent produces consolidated financial statements available for public use and:

- both are not-for-profit entities complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant) or
- both are entities (for-profit or not-for-profit) complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) or
- the parent entity (for-profit or not-for-profit) is complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) and its ultimate or intermediate parent is a not-for-profit entity complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant).

Under the Australian amendments the following situations will benefit:

- All Tier 2 (reduced disclosure regime) parent entities where the ultimate/intermediate parent is also Tier 2 (reduced disclosure regime) – irrespective of whether both entities are for-profit or not-for-profit
- All not-for-profit parent entities where the ultimate/intermediate parent is a Tier 1 not-for-profit entity
- All for-profit Tier 2 (reduced disclosure regime) parent entities where the ultimate/intermediate parent is a Tier 1 not-for-profit entity.

Section [5.4.2.2](#) provides a summary for all ultimate parent/intermediate parent/parent combinations.

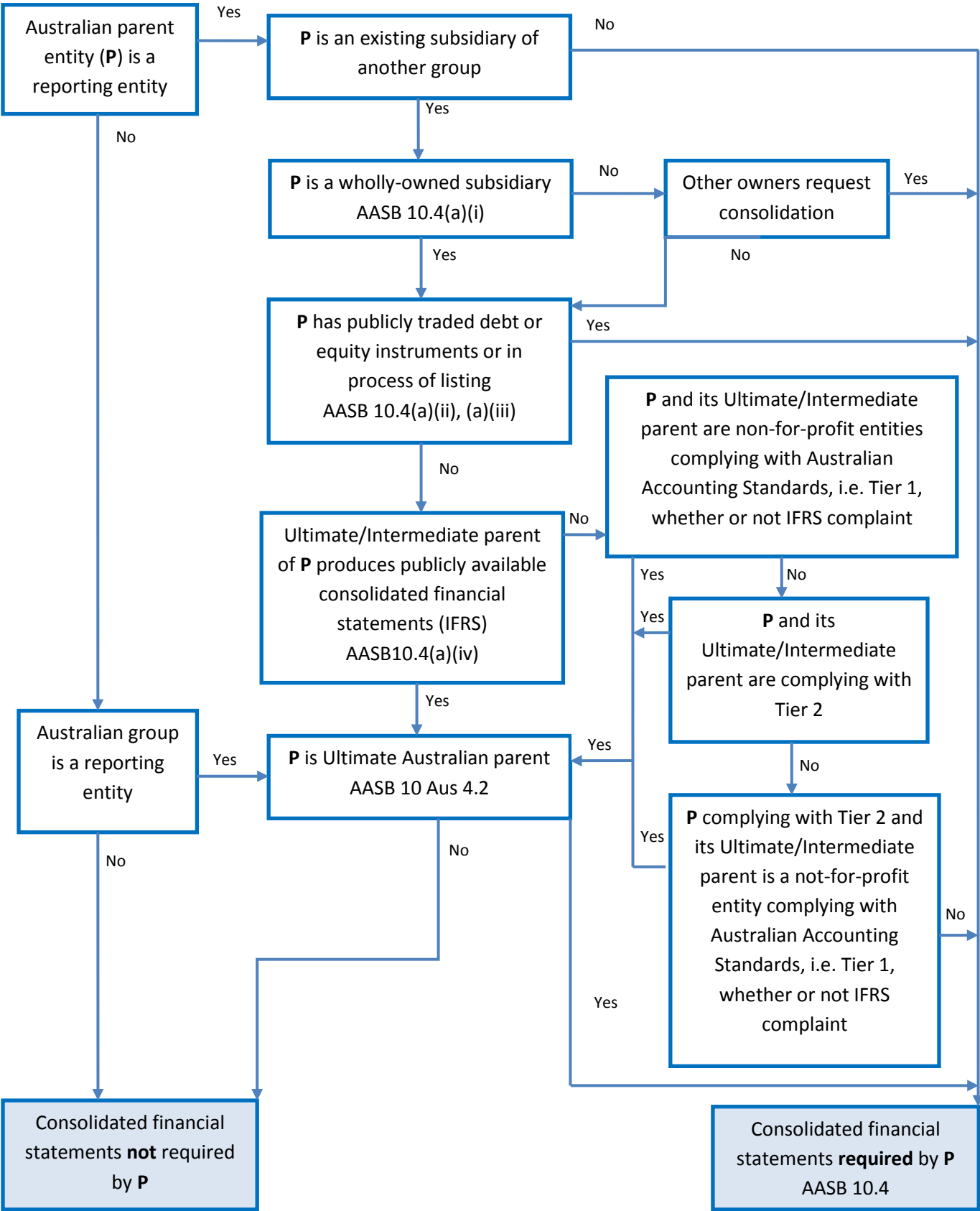
The flowchart in section [5.4.2.1](#) provide a decision tree for determining whether an Australian entity preparing general purpose financial statements (either statutory or non-statutory), must prepare consolidated financial statements.

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<sup>1</sup> The discussion in this and subsequent sections on consolidated financial statements is on the basis that an entity is applying AASB 10. As highlighted in section [1.2.4.4](#), the application date for not-for-profit entities for AASB 10 has been delayed by 12 months compared to the application date for for-profit entities, and is effective for annual reporting periods beginning on or after 1 January 2014, with early adoption permitted. Where a not-for-profit entity is still applying the former consolidation standard, AASB 127 *Consolidated and Separate Financial Statements*, equivalent consolidation exemptions exist with the same effect.

5.4.2 Exemptions from consolidation requirements for Australian parent entities

5.4.2.1 The consolidation requirements for Australian parent entities are summarised in the following decision tree:



5.4.2.2 Summary of whether AASB 10 Aus4.1 exemption may be available:

The following table summarises, per type of Australian entity and per tier, the circumstances in which the exemption from presenting consolidated financial statements may be available.

Same type of entity – same tier				
UP or IP (of P)	FP – Tier 1	FP – Tier 2	NFP – Tier 1 @	NFP – Tier 2
Parent (P)	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP – Tier 2
Exemption	Available*	Available	Available	Available

Same type of entity – Different tier				
UP or IP (of P)	FP – Tier 1	FP – Tier 2	NFP – Tier 1 @	NFP – Tier 2
Parent (P)	FP – Tier 2	FP – Tier 1	NFP – Tier 2	NFP – Tier 1
Exemption	Available*	Not available	Available	Not available

Different type of entity – same tier				
UP or IP (of P)	FP – Tier 1	FP – Tier 2	NFP – Tier 1	NFP – Tier 2
Parent (P)	NFP – Tier 1	NFP – Tier 2	FP – Tier 1	FP – Tier 2
Exemption	Available*	Available	Available ^	Available

Different type of entity – Different tier				
UP or IP (of P)	FP – Tier 1	FP – Tier 2	NFP – Tier 1 @	NFP – Tier 2
Parent (P)	NFP – Tier 2	NFP – Tier 1	FP – Tier 2	FP – Tier 1
Exemption	Available*	Not available	Available	Not available

UP = Ultimate parent                      IP = Intermediate parent  
FP = For-profit entity                      NFP = Not-for-profit entity

- \* The exemption would not be available by reference to the intermediate parent when it is for a for-profit public sector entity unable to claim compliance with IFRSs.
- ^ Exemption is not available when not-for-profit ultimate or intermediate parent is unable to claim compliance with IFRSs. Generally most not-for-profit entities do not claim IFRS compliance.
- @ Exemption available irrespective of whether not-for-profit ultimate or intermediate parent is able to claim compliance with IFRSs, provided it complies with Australian Accounting Standards

5.4.3 Non-reporting entities

Reports under the Act

Non-reporting entities that prepare special purpose financial statements under the Act must comply with the classification, recognition and measurement guidance in all accounting standards applicable to the entity.

However in our view, consistent with ASIC’s RG 85 *Reporting requirements for non-reporting entities* and industry practice, there is currently no requirement under the accounting standards for non-reporting entities to prepare consolidated financial statements.

Deliberations surrounding the issued IFRS for SME standard considered that consolidation is a recognition and measurement as well as a disclosure requirement. Further developments regarding consolidation requirements for non-reporting entities are thus likely to arise as the reporting entity concept is reviewed by the AASB as part of its differential reporting project (see section 8.1), or if ASIC changes its view in relation to this matter. However, until any further changes are announced non-reporting entities should apply the guidance discussed above.

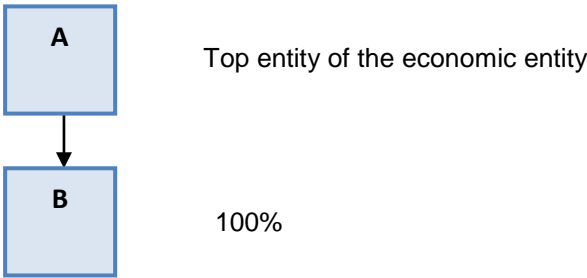
Reports outside the Act

In the absence of specific guidance on the consolidation requirements for non-reporting entities preparing reports outside the Act, preparers should apply the same guidance as entities that report under the Act discussed above in section 5.4.2.

5.4.4 Examples of when to prepare consolidated financial statements

Example 1 – Australian group, no foreign parent, reporting vs. non-reporting entity

Consider the following structure:



In each of these scenarios, assume A is the top entity of the group.

Scenario 1

If A is a reporting entity, general purpose financial statements must be prepared requiring A to prepare consolidated financial statements under AASB 10.4. This requirement applies even if B is a non-reporting entity.

Scenario 2

If A is a non-reporting entity under the Act, A may prepare special purpose financial statements. Entities preparing special purpose financial statements for statutory purposes under the Act are required to comply with all classification, recognition and measurement requirements of AASBs.

Applying the guidance in AASB 10 and ASIC RG 85, A would not be required to prepare consolidated financial statements on the basis that A is a non-reporting entity. If A was not reporting under the Act, KPMG would recommend that A should still apply the guidance in ASIC RG 85, and therefore would not be required to prepare consolidated financial statements.

Scenario 3

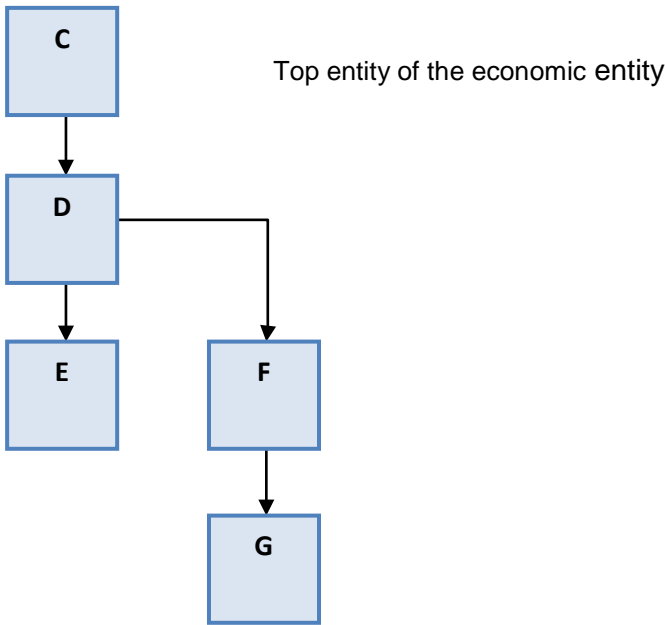
Generally, in KPMG’s view, a parent entity would be likely to be a reporting entity when any entity within the group is a reporting entity.

Assume *A* is a non-operating holding company and *B* (its only subsidiary) is a reporting entity. The parent *A* is likely to be a reporting entity and thus *A* will be required to consolidate.

There may be very limited circumstances when a parent is not a reporting entity if one of its entities is a reporting entity. In such a situation, KPMG would recommend preparers of financial statements consult with their advisors and auditors.

Example 2 – Australian group, no foreign parent, statutory entities

Consider the following structure:



Groups *CDEFG*, *DEFG* and *FG* are groups reporting under the Act. *C* is a non-operating holding company and the ultimate parent entity in the group. Assuming that *C* is a reporting entity, consolidated financial statements must be prepared for the *CDEFG* group.

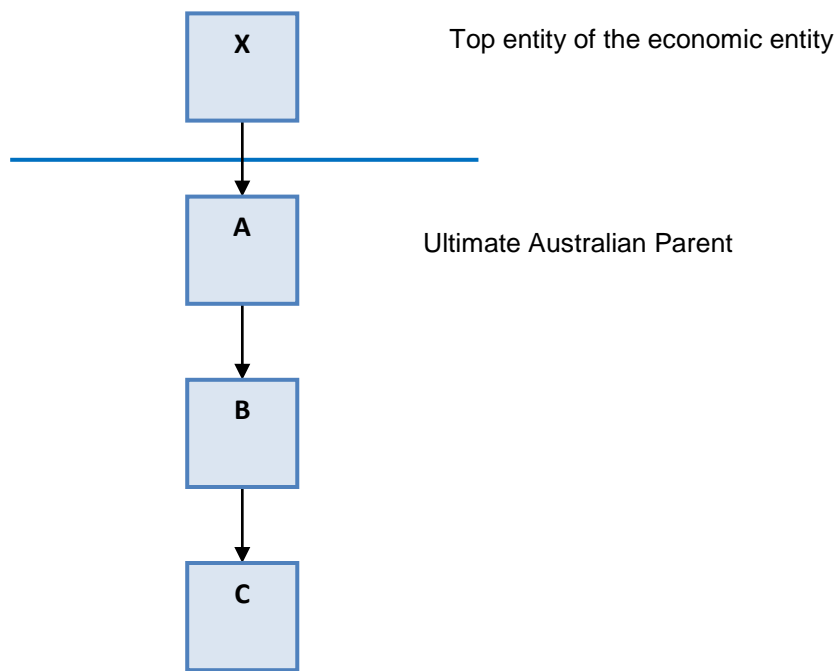
Under the Australian amended exemption in AASB 10, even if *D* and *F* are considered reporting entities, they may not have to prepare consolidated financial statements if:

- they are wholly-owned subsidiaries of the parent entity *C*
- they do not have publicly traded debt or equity instruments and are not in the process of listing such instruments, and
- they *and*, in the case of *D*, *C*, or in the case of *F*, *D* or *C*, are not-for-profit entities complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant) or
- they *and*, in the case of *D*, *C*, or in the case of *F*, *D* or *C*, are entities (for-profit or not-for-profit) complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) or
- they are a for-profit or not-for-profit entity complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) *and*, in the case of *D*, *C*, or in the case of *F*, *D* or *C*, is a not-for-profit entity complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant).

Regardless of whether *C*, *D* or *F* are assessed as reporting entities, to the extent the subsidiaries are wholly-owned, and the group, or part of the group *CDEFG* has in place a Deed of Cross Guarantee, the group may decide to prepare consolidated financial statements in order to take advantage of the ASIC class order exemption for wholly-owned subsidiaries. If applicable, this would result in the subsidiaries of the group being exempt from the requirement to prepare financial statements. For example, if the exemption applied at the *C* group level, preparation of financial statements for *D,E,F,G* would not be required (see section [3.3.2.1](#)).

**Example 3 – Australian group, reporting vs. non-reporting**

Consider the following structure:

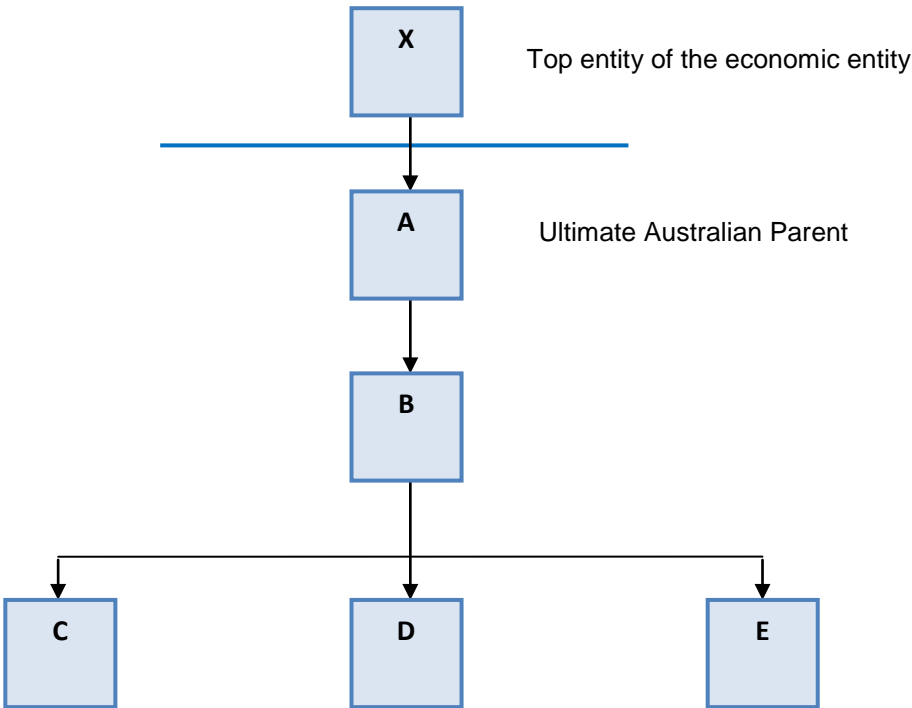


Assume *A* is a reporting entity. Regardless of whether *A* is required to report under the Act, *A* must prepare general purpose financial statements and is required to consolidate *B* and *C* even if the group *ABC* is not a reporting entity (refer AASB 10 Aus4.2).



**Example 4 – Australian group, foreign-controlled**

Consider the following structure:



The following assumptions describe the above structure.

A is the ultimate Australian parent of the group:

- A is a non-operating holding company reporting under the Act
- B is a large proprietary company reporting under the Act
- C, D and E small proprietary companies reporting under the Act
- B, C, D and E are 100% wholly-owned Australian entities.
- there are two Australian groups, BCDE and ABCDE.

**Scenario 1**

Assuming the group ABCDE is a reporting entity

Under AASB 10 Aus4.2, A as the ultimate Australian parent must consolidate B, C, D and E if either A, the group ABCDE or both is a reporting entity. It is important to note that the requirement to consider whether the group ABCDE rather than solely A is a reporting entity is applicable only to this situation (in a foreign owned group at the ultimate Australian parent level). Otherwise the consolidation requirement under the standard is applied only to where the parent entity is a reporting entity.

*B* may not have to prepare consolidated financial statements if:

- *B* does not have publicly traded debt or equity instruments and are not in the process of listing such instruments and
- *B* and *A* are not-for-profit entities complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant) or
- *B* and *A* are entities (for-profit or not-for-profit) complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) or
- *B* is a for-profit or not-for-profit entity complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) and *A* is a not-for-profit entity complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant).

#### Scenario 2

Assuming *A* and the group *ABCDE* are not reporting entities.

If neither *A* nor the group *ABCDE* is a reporting entity, then *A* is not required to consolidate (see section [5.3.2.1](#)). However, if *B* is a reporting entity, it will only meet the conditions for exemption from preparing consolidated financial statements in AASB 10.4 if *X* prepares publicly available consolidated financial statements in accordance with IFRS.

However, if either *A* or *ABCDE* or both are reporting entities *B* could get an exemption from consolidation under AASB 10 Aus4.2.

If neither *A* nor *B* prepare consolidated financial statements (i.e. they only prepare and lodge separate financial statements), *C*, *D* and *E* must prepare separate financial statements under the Act dealing with foreign-controlled small proprietary companies (see section [3.1.2.2](#)). [S292(2)(b)]

Due to this requirement, it may be more cost effective for *A* or *B* to prepare consolidated financial statements even though not required to do so, given they are not reporting entities, as the preparation of such financial statements would exempt *C*, *D*, and *E* from preparing and lodging separate financial statements. Consolidation at the *ABCDE* group level may be more practical – preparing one set of consolidated audited financial statements may be less costly than preparing four (or five) separate audited financial statements.

#### 5.4.5 Investment entities consolidation exception

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* was issued in August 2013 to provide an exception to consolidation for a class of entities that are defined as 'investment entities'. These amendments provide an industry-specific solution, generally requiring qualifying investment entities to account for investments in subsidiaries at fair value through profit or loss, in accordance with AASB 139.

Further discussion and illustrations of this exception can be found in *Example Managed Investment Scheme Financial Reports* series.

The amendments are effective for annual periods beginning on or after 1 January 2014. Early adoption is permitted.

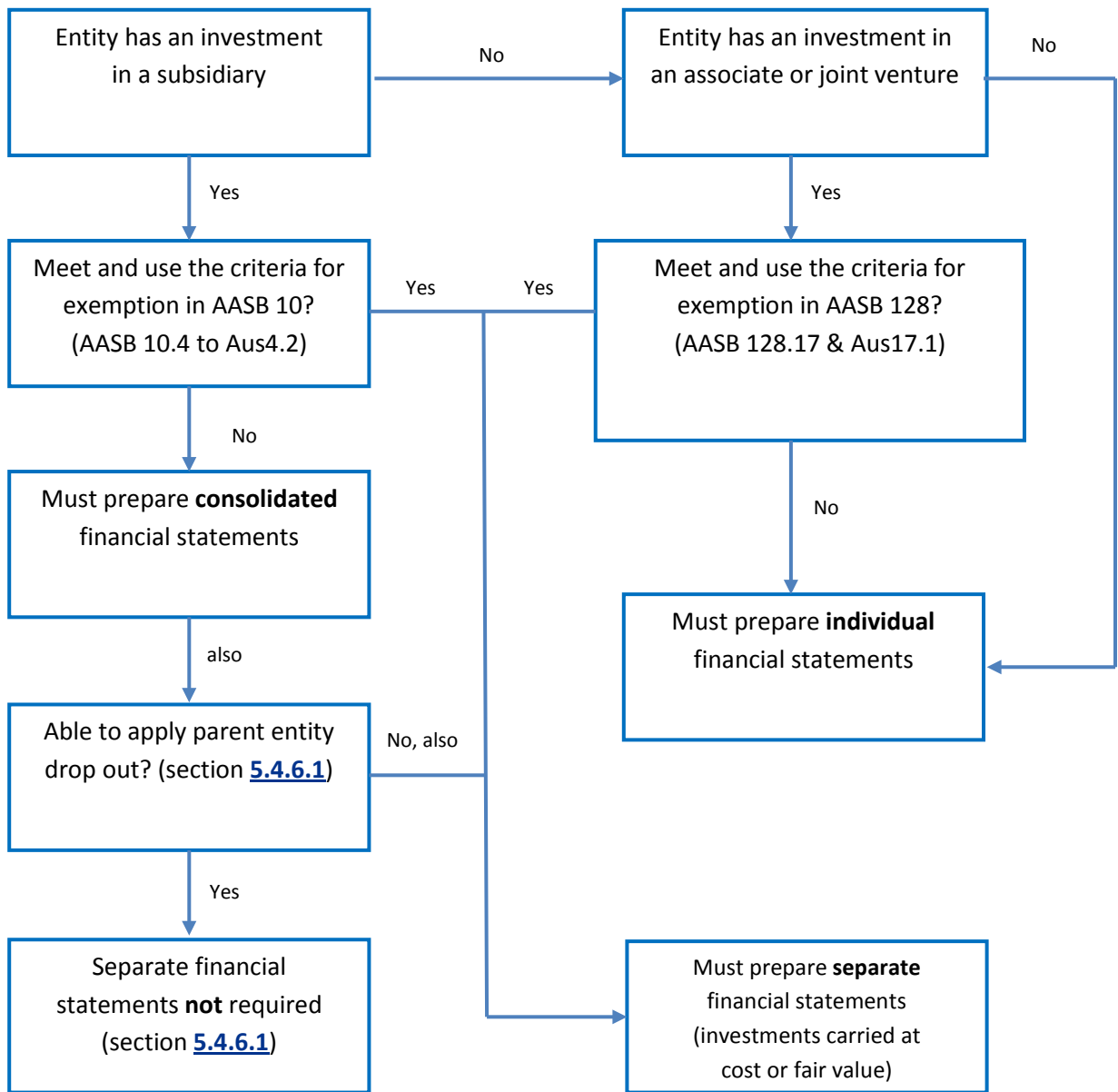
5.4.6 Types of financial statements

AASBs set out the requirements to prepare three distinct types of financial statements:

- consolidated financial statements (see section 5.4.6.1)
- individual financial statements (see section 5.4.6.2)
- separate financial statements (see section 5.4.6.3).

The nature of the reporting entity’s interests and investments in other entities determines the type of financial statements that the entity prepares.

The following decision tree illustrates these requirements if an entity is reporting under the Act:



Separate financial statements may be prepared in addition to consolidated or individual financial statements. An entity that is not required to prepare consolidated or individual financial statements may prepare separate financial statements.

A reporting entity that is not reporting under the Act that meets the exemption criteria in AASB 10.4 – AASB 10 Aus4.2 or AASB 128.17 – AASB 128 Aus17.1 is not required to prepare financial statements. Under accounting standards they have no obligation to prepare financial statements.

#### 5.4.6.1 Consolidated financial statements

Consolidated financial statements are financial statements that present the parent and its subsidiaries as a single entity.

Determining whether an entity is required to prepare consolidated financial statements can be complex. See sections [5.4.1](#) and [5.4.3](#) for further discussion. Accounting standards do not require preparation of both parent and consolidated financial statements. However legislation or the governing constitution may require both.

In consolidated financial statements, subsidiaries are consolidated and generally investments in associates and joint ventures are equity accounted (AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*).

##### *Parent entity drop out*

When consolidated financial statements are required to be prepared by AASB 10, S295(2) only requires financial statements for the consolidated entity, i.e. separate parent financial statements are no longer required ('parent entity drop out').

However, the parent entity information is not removed in its entirety from the consolidated financial statements. Regulation 2M.3.01(1) requires the insertion of a 'parent entity note', essentially a mini profit and loss and balance sheet with information regarding contingencies, capital commitments and guarantees, see further below.

*Example Public Company Limited – Illustrative Disclosures* also illustrates the working of the 'parent entity drop out' throughout the financial statements, with an illustration of the parent entity disclosure requirements in the notes to the financial statements.

##### *Application to general purpose financial statements*

Entities preparing general purpose financial statements are not permitted to provide parent entity financial statements under the Act, unless they avail themselves of ASIC CO 10/654.

However, AFSL holders that are the parent of a group cannot use the 'parent entity drop out' as the amendments did not affect Chapter 7 of the Corporations Act, which governs AFSL holders. Likewise, APRA has indicated that financial institutions governed by it should not use the 'parent entity drop out' either. That is, these types of entities need to apply ASIC CO 10/654 and include parent entity financial statements.

##### *Application to special purpose financial statements*

Entities preparing special purpose financial statements cannot currently 'technically' use the 'parent entity drop out' due to the wording of S295(2) and the wording of Regulation 2M.3.01(1).

S295(2) states that the financial statements for the year are:

- the financial statements in relation to the entity reported on that are required by the accounting standards; and
- if required by the accounting standards – the financial statements in relation to the consolidated entity that are required by the accounting standards.

S295(2) therefore limits the 'parent entity drop out' to instances where consolidated financial statements are required by the accounting standards.

Therefore, as AASB 10 is only mandatory for entities preparing general purpose financial statements, entities preparing special purpose financial statements cannot currently use the 'parent entity drop out', as there is currently no accounting standard requirement for non-reporting entities to prepare consolidated financial statements (see section [5.4.3](#)).

### *Alternatives for entities preparing special purpose financial statements*

Entities preparing special purpose financial statements have the following alternatives:

- prepare the parent entity in full and consolidated numbers as a note – unless whatever requirement is driving the consolidation requires consolidated numbers in full; or
- voluntarily prepare general purpose financial statements, requiring consolidated financial statements enabling them to use the 'parent entity drop out'. They could also then further elect to adopt the Tier 2 (Reduced disclosure regime) under AASB 1053, see section [5.2](#).

### *Parent entity note*

Where the 'parent entity drop out' is used, the following disclosures are required in the notes to the financial statements of the consolidated entity (i.e. the parent entity note comprises):

- current and total assets and liabilities of the parent entity
- shareholder's equity (showing separately issued capital and each reserves) of the parent entity
- profit or loss of the parent entity
- total comprehensive income of the parent entity
- details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries
- details of any contingent liabilities of the parent entity
- details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment and
- comparative information for the previous period for each of the above. [*Regulation, 2M.3.01(1)*]

### *Consolidated financial statements*

When only consolidated financial statements are prepared, the directors' declaration and audit report must reflect this fact.

In our view, if an entity meets and uses the conditions for exemption from preparing consolidated financial statements, in AASB10.4 – AASB 10 Aus4.2, then there is no requirement under IFRSs to prepare consolidated financial statements. However, if the entity has a statutory obligation under the Act to prepare financial statements, the financial statements prepared for the parent must be separate financial statements (see section [5.4.6.3](#)) even if they have other investments in associates or joint ventures.

This is because AASB 128 *Investments in Associates and Joint Ventures* also exempt entities from applying equity accounting to such investments when the exemptions in AASB10.4 – AASB 10 Aus4.2 are satisfied, therefore removing the need to prepare individual statements (see section [5.4.6.2](#)).

If an entity could apply the AASB 10 exemption from preparing consolidated financial statements, but chooses not to do so, then in our view the entity is required to apply all of the requirements of IFRSs that relate to consolidated financial statements; for example, the entity would be required to equity account investments in associates if they wished to claim IFRS compliance. In these circumstances the consolidated financial statements are required by the accounting standards, so the 'parent entity drop out' should be used, unless the entity avails itself of ASIC CO 10/654 (see section [3.3.2.8](#)).

In our view if an entity disposes of its last subsidiary during the current reporting period, then consolidated financial statements are not required to be prepared as the entity is no longer a parent at the end of the reporting period. In such cases we believe that the financial statements, including comparatives, should be presented as unconsolidated financial statements (i.e. individual or separate financial statements as appropriate) unless the consolidated financial statements are required by a regulator. However, the entity may wish to present supplementary information on a consolidated basis. [*Insights 2.1.100.100*]

#### 5.4.6.2 Individual financial statements

An entity that has no subsidiaries, but which has an investment in an associate and/or joint venture, must prepare individual financial statements. These may be the only financial statements prepared to meet the entity's statutory reporting requirements under the Act.

In its individual financial statements, generally an entity accounts for an investment in an associate or joint venture using the equity method.

Entities are not required to prepare individual financial statements if any of the following criteria are met:

- the entity is a venture capital organisation or similar entity and elects to measure the interest at fair value through profit or loss in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* or
- all interests are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or
- all of the following criteria are satisfied:
  - the investor/venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary and other owners (including those not otherwise entitled to vote), have been informed and they do not object to the investor/venturer not applying the equity method
  - the investor's/venturer's debt or equity instruments are not traded in a public market including stock exchanges and over-the-counter markets
  - the investor/venturer did not file, nor is it in the process of filing, its financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market and
  - any of the following is satisfied:
    - the investor/venturer and its ultimate or intermediate parent are both not-for-profit entities complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant) or
    - the investor/venturer and its ultimate or intermediate parent are both entities (for-profit or not-for-profit) complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) or
    - the investor/venturer entity (for-profit or not-for-profit) is complying with Australian Accounting Standards – Reduced Disclosure Regime (i.e. Tier 2) and its ultimate or intermediate parent is a not-for-profit entity complying with Australian Accounting Standards (i.e. Tier 1 and even if not IFRS compliant).

In our view, per *Insights* 2.1.120.60, if an entity meets and uses the exemption from preparing individual financial statements, then IFRSs do not require it to prepare financial statements. However, if such an entity has a statutory obligation under the Act to prepare financial statements such an entity may prepare separate financial statements (see section [5.4.6.3](#)) to meet their reporting obligations. If an entity does not report under the Act and still wishes to prepare financial statements it may also prepare separate financial statements as its only set of IFRS financial statements.

An entity that prepares individual financial statements also may elect to prepare separate financial statements in addition to the individual financial statements but there is no requirement to do so under the Act.

### 5.4.6.3 Separate financial statements

Separate financial statements may be prepared either:

- if the entity is not required to prepare consolidated financial statements or individual financial statements or
- they may be prepared in addition to consolidated or individual financial statements.

In separate financial statements interests in subsidiaries, associates and joint ventures are accounted for at cost or in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, unless they are classified as held-for-sale. [AASB 127.10]

If an entity does not have any investments in subsidiaries, associates or joint ventures, the separate and individual financial statements will follow the same recognition and measurement requirements, and therefore a single set of financial statements could be considered to be both the separate and individual financial statements of the entity.

IFRSs do not preclude an entity from including both consolidated and separate financial statements within the same report. If an entity chooses to do so, then there is no required format or order in which the financial statements must be presented. However, the information presented should be identified clearly as relating to either the separate or consolidated financial statements.

However, certain Australian entities are required to remove the parent entity financial statements, known as the 'parent entity drop out', unless they avail themselves of ASIC CO 10/654 (see section [5.4.6.1](#)).

If an entity prepares separate financial statements in accordance with AASBs, then all relevant standards apply to those separate financial statements.

All separate financial statements must disclose:

- the fact that the financial statements are separate financial statements
- a list of significant investments in subsidiaries, joint ventures and associates, including the name, principal place of business and, if different, country of incorporation, proportion of ownership interest and, if different, the proportion of voting power held, and
- a description of the method used to account for these investments. [AASB 127.16(b)-(c) & .17(b)-(c)]

Separate financial statements of a parent that meets and uses the criteria for exemption from preparing consolidated financial statements **also** must disclose:

- the fact that the exemption from consolidation has been used
- the name and principal place of business and, if different, country of incorporation of the entity whose consolidated financial statements that comply with IFRSs\* have been produced for public use
- the address at which those consolidated financial statements are obtainable. [AASB 127.16(a)]

\* When a not-for-profit parent, uses the criteria for exemption from preparing consolidated financial statements, this reference to IFRSs is replaced by a reference to Australian Accounting Standards. [AASB 127 Aus16. 1]

Separate financial statements of an entity that is not exempt from preparing consolidated or individual financial statements must disclose the reason for preparing them if it is not required to by law, and identify the related consolidated or individual financial statements. [AASB 127.17(a)]



## 5.5 Going concern

This section sets out a number of matters relating to the going concern assumption. Further reference should also be made to the KPMG Guide: *Accounting and auditing issues when an entity does not prepare its financial statements on a going concern basis* (August 2012) which provides detailed guidance in addressing various accounting issues around the basis of preparation of financial statements of entities that have assessed, or are in the process of assessing, that the going concern basis of preparation is not appropriate and the consequential impact that has on the audit report issued.

### 5.5.1 The going concern assumption

A key assumption underlying the preparation of financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. Unlike the day-to-day assessment of solvency (see section [4.2.2.3](#)), directors assess an entity's ability to continue as a going concern each time financial statements are approved for issuance – annually for all entities under the Act and half-yearly for disclosing entities.

#### 5.5.1.1 Over what period is going concern assessed?

There is no consistent definition of the period over which the assessment of going concern must be made.

Under Australian Accounting Standards, the assessment must be for at least 12 months from the reporting date although it could be a longer period. The directors must update this assessment at the date of signing the report.

Under Australian Auditing Standards, auditors must make that assessment based on the period of approximately 12 months from the date that they sign the audit report until the expected date of the auditor's report for the next reporting period ('the relevant period'). If management's assessment covers less than the relevant period, the auditor shall request management to extend their assessment to the corresponding period.

Both the accounting and auditing standards also require that directors examine a period beyond the 12 month period if there is significant doubt about the entity's ability to continue as a going concern.

#### 5.5.1.2 What factors should be taken into account when assessing the ability to continue as a going concern?

A detailed analysis may not be required if an entity has a history of profitable operations, there is little concern that the entity will continue to be profitable, and the entity has ready access to financial resources. However, economic or business uncertainties may make it more difficult to make this assessment. Directors should satisfy themselves that management has actively considered the extent to which past history can be assumed to continue.

ASA 570 *Going Concern* sets out factors to consider which include:

- The degree of uncertainty about the outcome of an event or condition increases significantly the further into the future the event or condition or outcome occurs
- Judgements about the future are made based on information that is available at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made. An assumption that was made in the last going concern assessment may not remain valid for the current assessment
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgements regarding the outcome of events or conditions.

### 5.5.1.3 What evidence should directors consider around going concern?

The types of evidence that need to be provided to indicate that an entity can continue as a going concern include:

- cash flow projections that show an ability to pay debts as and when they fall due that factor in realistic assumptions in the current market conditions, including if current conditions deteriorate further
- detailed business plans covering the period under consideration
- evidence that the business model adopted is sustainable in current conditions, or the strategies that are in place, to adapt the model to current market conditions
- support for the entity's ability to obtain new funding upon the maturity of existing funding arrangements that are in place, to adapt the model to current market conditions
- evidence that debt covenants have been assessed and any risk of breaching them has been managed, such that they do not provide significant risk
- asset valuations if asset sales are a relevant mitigating factor in determining solvency or going concern
- assessment of the ability of the entity to pay any guarantees made and the likelihood of the guarantees being called on.

### 5.5.1.4 What if the bank will not confirm that a facility will be renewed in the future?

In current economic conditions banks are often reluctant to provide confirmation that facilities will be renewed at a future rollover date. In addition, certain Australian branches of overseas banks may decide that they do not want to continue some or all of their Australian business lending operations, such as the withdrawal of automotive financing facilities. However, management may still be able to demonstrate to directors that this does not indicate that the entity is no longer a going concern.

This could include demonstrating that:

- the entity is currently in positive negotiations to renew the facility with the bank, until the process is completed
- the bank has a policy of not confirming future renewals
- the entity has just renewed the facility
- management plans to maintain adequate cash flows through other means, such as equity raisings, sales of non-core assets, postponing planned expenditures, or reducing overhead and administrative expenses.

## 5.5.2 Impact on financial statements and audit opinions

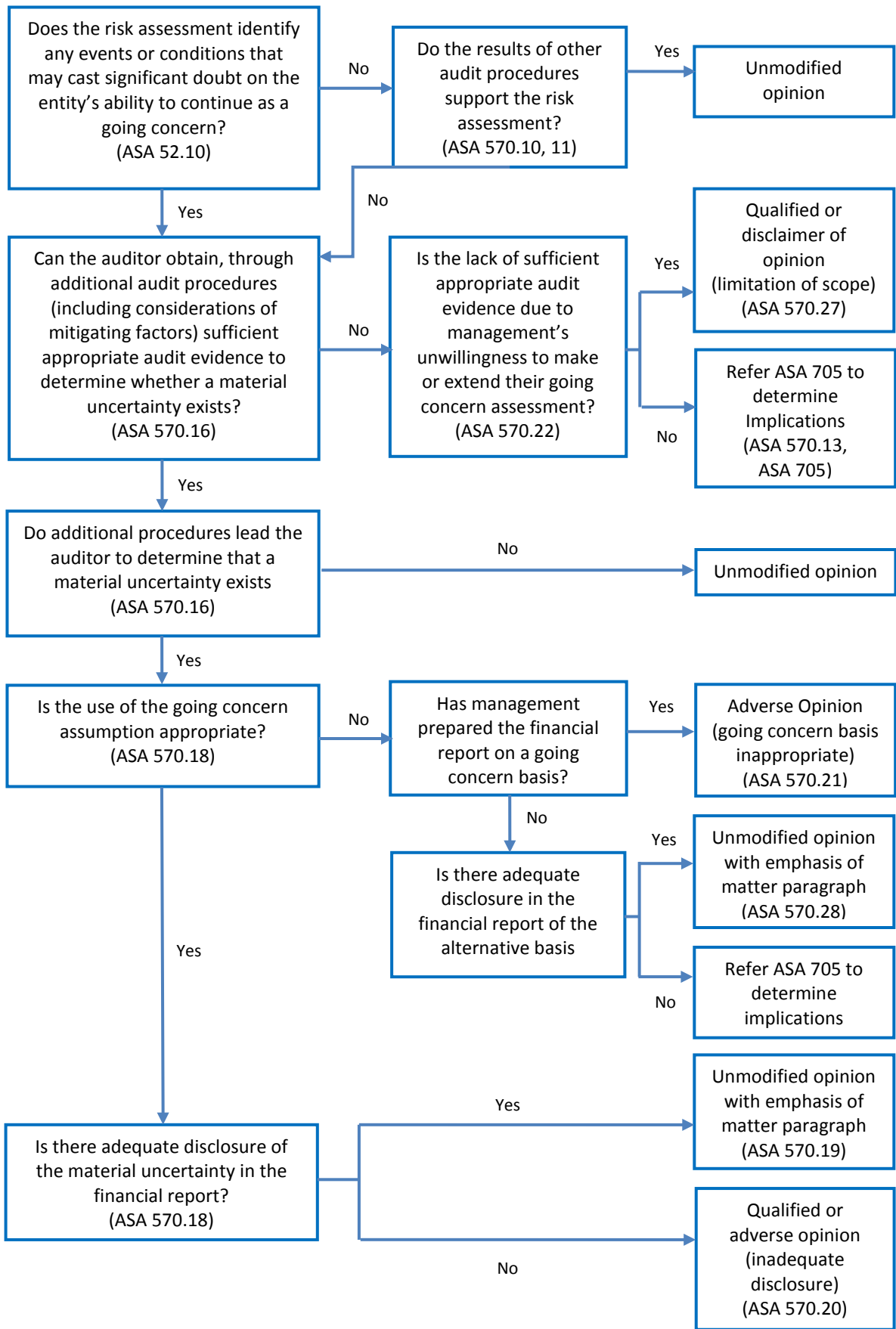
*How does the going concern concept impact the financial statement preparation process?*

Directors may come to one of four different conclusions with respect to the ability of an entity to continue as a going concern:

- The entity is considered to be a going concern, and there are no material uncertainties that lead to significant doubt over its ability to continue as a going concern, or
- There is material uncertainty around the ability of the entity to continue as a going concern, but mitigating factors exist, and are sufficiently disclosed, which lead to the conclusion that the entity will continue as a going concern. Mitigating factors could include the ability to sell assets, the availability of alternative forms of financing, or the ability to reduce or postpone expenditures, among others, or
- There is material uncertainty around the ability of an entity to continue as a going concern, which is not sufficiently reduced by mitigating factors, or
- The entity cannot be considered a going concern, and it is inappropriate to prepare financial statements on the going concern basis. A basis of preparation that is other than the going concern basis still requires the selection of certain accounting policies consistent with Australian Accounting Standards/IFRS, however, the selection will be tailored to represent the status of the entity as not anticipated to be continuing into the foreseeable future.

5.5.2.1 How do these going concern outcomes affect the audit report?

The following flow chart outlines the different scenarios that a business may find itself in with regards to going concern and the resulting audit outcomes:



*If the entity is still considered a going concern, does the entity need to disclose significant uncertainties that exist?*

Yes. Uncertainties would need to be disclosed in the following two places:

- AASB 101 *Presentation of Financial Statements* requires that any material uncertainties relating to an entity's ability to continue as a going concern be disclosed in the notes to the financial statements.
- The directors' declaration of solvency required under S295(4)(c) of the Act should also be qualified when there are significant uncertainties and those uncertainties should be disclosed in accordance with ASIC RG 22 *Directors' statement as to solvency* (see section [6.3](#)).

*What happens if an auditor does not agree with the directors' assessment that the entity is a going concern or with the directors' assessment of solvency?*

There will be two impacts:

- An adverse audit opinion will be issued if the auditor forms the view that it was not appropriate for the financial statements to be prepared on a going concern basis.
- Under S311 of the Act, the auditor has the obligation to report to ASIC any significant contraventions of the Act which they identify within 28 days of becoming aware of the situation. The obligation to report contraventions does not need the auditor to have proven the contravention has occurred, but only to have 'reasonable grounds to suspect' a contravention. In such circumstances, they would need to report that they have reasonable grounds to suspect that the entity was continuing to trade whilst insolvent.

*How do the AASB 7 Financial Instruments: Disclosures (liquidity risk disclosures) relate to the going concern disclosures?*

AASB 7 requires that entities disclose the expected cash outflows on financial instruments as part of the liquidity risk disclosures, as well as qualitative information on the way that an entity manages its liquidity risk.

Directors need to ensure that these liquidity risk disclosures are consistent with the going concern assessment and related disclosures, and allow a user to clearly understand why the liquidity risks arise and the steps the entity is undertaking to manage this risk.

### 5.5.3 Directors' responsibilities

*What are the ongoing responsibilities for directors of entities with financial difficulties?*

If there is significant uncertainty about the entity's ability to continue as a going concern, closer monitoring of the business is required to ensure that directors meet their responsibility to ensure that the entity is not trading whilst insolvent. Similar monitoring of mitigating factors is also required to ensure that these do not cease to exist and as such the entity is no longer a going concern.

If the entity is a listed company, any changes in significant uncertainties or mitigating factors should be analysed to determine if they trigger disclosures under the ASX continuous disclosure requirements. Changes in circumstances may require disclosure as they could materially impact the entity's share price even if the changes in circumstances do not actually cause the entity to cease being a going concern.

[ASX LR Chapter 3 & s674]

Disclosing entities also have similar continuous disclosure requirements under the Act. [S675]

It has been said that determining whether an entity is insolvent at a point in time is more art than science. So it is essential that directors of an entity facing significant financial uncertainty seek independent advice, before the entity becomes insolvent, to ensure that they comply with their legal obligations.

## 5.5.4 Summary of Regulations on going concern

The following outlines the key sources of regulation and guidance around going concern. It is a guide only and directors should refer to the documents below for further information.

### 5.5.4.1 Directors' obligations

ASX Listing Rules and Corporations Act 2001 S674	ASX listing rules have no specific requirements to disclose information about whether an entity is a going concern. However under the continuous disclosure requirements in chapter 3.1 changes in any significant uncertainties or mitigating factors relating to the entity's ability to continue as a going concern are likely to require disclosure.
Corporations Act 2001 S295(4)(c)	Directors must make a declaration in the annual financial report [S303(4)(c) for half-year] whether, in the directors' opinion, there are reasonable grounds to believe that the company, registered scheme or disclosing entity will be able to pay its debts as and when they become due and payable.
Corporations Act 2001 S299(1)(b)	The directors' report must give details of any significant changes in the entity's state of affairs during the year.
Corporations Act 2001 S296(1), S296(1A) and S296(1B)	Financial statements must be prepared in accordance with accounting standards, except for small proprietary companies and Tier I (small) companies limited by guarantee, where the financial statements are prepared in response to member direction and they don't require compliance with accounting standards.
Corporations Act 2001 S347A	The directors of a company must pass a solvency resolution within 2 months after each review date (as defined by S345A) for the company unless a financial report is lodged with ASIC under Chapter 2M within a period of 12 months before the review date.
Corporations Act 2001 Chapter 5 <i>External administration</i>	This chapter covers what happens and what is to be done, when an entity is insolvent or approaching insolvency, including the penalties that apply for breaches of this chapter.
ASIC RG 22 <i>Directors' statement as to solvency</i>	This regulatory guide note discusses the obligations of directors in making the statement on the solvency of the entity and clarifies the status of the statement required by S295(4) of the Corporations Act 2001.
ASIC Information Sheet 42 <i>Insolvency: a guide for directors</i>	This information sheet provides general guidance for directors of entities that are insolvent or suffering from financial difficulties and on the different forms of external administration available.
Accounting Standards AASB 101 <i>Presentation of Financial Statements</i>	Under paragraphs 25-26, management must make an assessment of the entity's ability to continue as a going concern and only prepare financial statements on a going concern basis (in accordance with Australian Accounting Standards) if it is a going concern. If material uncertainty exists about the entity's ability to continue as a going concern then this must be disclosed in the financial statements. This assessment should cover a period no shorter than 12 months after the end of the reporting period (see also auditor's obligations below).

Accounting Standards AASB 7 <i>Financial Instruments: Disclosures</i>	As well as the specific requirements relating to disclosures around the credit, liquidity and market risks associated with financial instruments, AASB 7 requires that an entity disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments that it is exposed to at the end of the reporting period. Therefore if financial instruments are exposing the entity to going concern or liquidity risks, AASB 7 would require that sufficient information be disclosed such that users can make an assessment of that risk.
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ASIC RG 217 <i>Duty to prevent insolvency trading: Guide for directors</i>	This regulatory guide sets out four key principles ASIC considers directors need to consider to comply with their duty to prevent insolvent trading – be informed, investigate immediately, obtain advice and act quickly.
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**5.5.4.2 Auditor obligations**

Corporations Act 2001 S311	Auditors are required to report to ASIC when they have “reasonable grounds to suspect” circumstances that amount to a significant contravention of the Corporations Act 2001 (not proof), within 28 days of the auditor becoming aware of the circumstances. This would include if the auditor believes that the directors have made a false statement of solvency or are allowing an entity to trade whilst insolvent.
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Corporations Act 2001 S307A	Auditors must comply with Australian Auditing Standards (see below).
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Auditing Standards ASA 570 <i>Going Concern</i>	This Standard also outlines an auditor’s responsibilities and the impact on the audit report if there are going concern issues. An auditor needs to consider going concern over the period from the date of the current audit report to the expected date of the next audit report for the corresponding period in the subsequent financial year.
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Additional guidance may be found in a publication issued by the Australian Institute of Company Directors (AICD) and the Auditing and Assurance Standards Board (AUASB) *Going Concern issues in financial reporting: a guide for companies and directors* in June 2009, which explains the concept of going concern and assists company directors in performing and reporting on their going concern assessment.



## 6. Other Corporations Act requirements for preparers

### Overview

Every company, registered scheme and disclosing entity must keep written financial records that correctly record and explain its transactions and its financial position and performance and that enable true and fair financial statements to be prepared and audited. These requirements are prescribed in Chapter 2M of the *Corporations Act 2001*. Entities reporting under the Act must comply with other non-financial reporting requirements.

This chapter provides an overview of some of the other Corporations Act requirements for preparers of financial statements, including:

- obligation to keep financial records
- annual statement
- solvency resolution
- continuous disclosure
- dividend requirements
- lost capital reductions.



## 6.1 Financial records

### 6.1.1 Obligations to keep financial records

A company, registered scheme or disclosing entity must keep written financial records that:

- correctly record and explain its transactions and financial position and performance and
- enable true and fair financial statements to be prepared and audited. [S286(1)]

The obligation to keep financial records of transactions extends to transactions undertaken as a trustee.

Section 9 of the Act defines 'financial records' to include:

- invoices, receipts, money orders, bills of exchange, cheques, promissory notes and vouchers
- documents of prime entry
- working papers and other documents needed to explain:
  - the methods by which financial statements are made up
  - adjustments to be made in preparing financial statements.

The sufficiency of records for the purposes of the Act should not be confused with the requirements of the income tax legislation. Section 262A of the *Income Tax Assessment Act 1936* ('the Tax Act') merely requires a person carrying on business to keep records sufficient to enable his or her assessable income and allowable deductions to be readily ascertained. Minimal compliance with the Tax Act would not be sufficient to comply with the more onerous requirements of the *Corporations Act 2001*.

#### 6.1.1.1 Period of time for which records must be kept

All companies, registered schemes and disclosing entities are required to retain their financial records for a period of seven years after the completion of the transactions to which they relate. [S286(2)]

### 6.1.2 Language, form and place of retention

Financial records may be kept in any language, however if the records are not kept in English, an English translation of the records must be made available within a reasonable time period to a person who is entitled to inspect the records and asks for an English translation. [S287]

If the records are kept in electronic form, they must be readily convertible into hard copy. The hard copy form must be available within a reasonable time period to a person who is entitled to inspect the records. [S288]

Companies, registered schemes or disclosing entities may decide where to keep the financial records. It is not necessary that the financial records be kept at the entity's registered office. [S289]

#### 6.1.2.1 Director access

A director of a company, registered scheme or disclosing entity has a right of access to the financial records of the entity at all reasonable times. On application by a director, the court may authorise a person to inspect the financial records on the director's behalf. [S290(1)]

### 6.1.3 Records kept outside Australia

Companies, registered schemes and disclosing entities may keep their financial records outside Australia, provided sufficient written records to enable the preparation of true and fair financial statements are maintained in Australia. The entity must notify ASIC of the location of the information in Australia using Form 313. [S289(2)]

The notification of the location of the records must be precise. Details to be disclosed include:

- street address
- floor level
- room number.

Form 313 must be signed by either a director or secretary and lodged within one month of the financial records being located outside Australia.

#### 6.1.3.1 ASIC may request records kept outside Australia

ASIC may direct a company, registered scheme or disclosing entity that maintains its financial records outside Australia to produce those records. Under S289(4) ASIC must make the request in writing and state:

- which records are to be produced
- where the records must be produced
- the day by which they must be produced, giving at least 14 days notice.

The records must be produced at a specified place that is reasonable in the circumstances, e.g. the registered office.

#### 6.1.4 Sanctions for contravention of Chapter 2M

A failure by the directors of a company, registered scheme or disclosing entity to comply with the provisions of Part 2M.2 (financial records) and Part 2M.3 (financial reporting) constitutes a contravention of the Act and is subject to the civil penalty regime. [S344(1)]

Action may be brought by ASIC for contraventions of the Act. Penalties are set out in Schedule 3 of the Act.

The civil penalty regime does not apply to the following sections:

- S310 (auditor's power to obtain information)
- S312 (assisting the auditor)
- S323A (auditor's power to obtain information from controlled entity) and
- S323B (obligation of controlled entity to provide assistance to auditor).

If an individual is both a director and an officer of an entity, although they may have taken all reasonable steps to comply with the Act and may not be liable under S344 as a director, they may still be liable as an officer of the entity. This is because S344 does not affect the statutory duties imposed on individuals in their capacity as an officer of an entity even if they are also a director.

## 6.2 Annual statements

Within 14 days after a company or registered scheme's review date (usually the anniversary of the entity's registration date), ASIC must provide the entity with the following documents either online or in hard copy:

- a statement of particulars which shows a snap shot of the company or scheme's details as at the review date
- a multipurpose form to be used by the entity to correct or update any of the particulars
- an invoice statement for the annual fees. [S346A]

For registered schemes, statements will be sent to the responsible entity for the scheme.

### 6.2.1 Content of statement of particulars

The statement contains the information recorded by ASIC regarding:

Company	Registered Scheme
Name and ACN	Name
Registered office	Registration number
Principal place of business	Name and ACN of responsible entity
Officeholders	Financial year end date
Share structure	Issued interests
Details of top 20 members and the details of the different shares held by each members (proprietary companies only)	

There is no requirement for the company or registered scheme to lodge the multipurpose form if there are no changes, however, the annual review fee must still be paid. If any changes are needed they must be lodged within 28 days or a late review fee will be charged. These changes should be submitted on the forms provided by ASIC along with the statement of particulars. [S346C(3)]

Examples of changes required to be lodged are:

Company – Form 484	Scheme – Form 491
Change of address	Changes in issued interest structure
Change of name – officeholder of members	Change to top 20 interest holder details
Change of ultimate holding company	
Cessation of company officeholder	
Appointment of company officeholder	
Commencement or cessation of being: <ul style="list-style-type: none"><li>• A home unit company</li><li>• A superannuation trustee company</li><li>• For charitable purposes only</li></ul>	
Cancellation of shares	
Issue of shares	
Change in share structure	
Changes to the register of members	

Entities may decide to lodge Forms 484 or 491 to update all changes in the entity's details during the year and this will satisfy any other requirement to notify ASIC of changes as they arise. However submitting these forms as part of the annual review does not remove the entity's liability for any late lodgement fees it has incurred for not updating those details during the year as required. [S346C(5)]

### 6.2.2 Payment of annual fee

The annual review fee shown on the invoice statement received with the annual statement must be paid within 2 months. This fee must be paid regardless of the accuracy of the information shown in the statement for the company or registered scheme. If the review fee is not paid within 2 months of the annual review date, a late payment fee will be charged.

## 6.3 Solvency resolution

Company directors must pass a solvency resolution within 2 months after each review date, unless the company has lodged a financial report with ASIC under Chapter 2M of the Act, within the previous 12 months. [S347] The solvency resolutions can be either a:

- positive solvency resolution – the directors have reason to believe that the company will be able to pay its debts as and when they become due and payable
- negative solvency resolution – the directors have reason to believe that the company will not be able to pay its debts as and when they become due and payable.

A negative solvency resolution must be lodged on Form 485 within 7 days after the resolution is passed. A positive solvency resolution need not be lodged. If directors are unable to make a solvency resolution within two months after the annual review date, they need to lodge Form 485 within 7 days after the two months stating that fact.

If an entity makes a negative solvency resolution or if the directors are unable to make a solvency resolution then they need to consider their responsibilities to stop trading and seek legal advice. This is due to the directors' duty to prevent insolvent trading. [S588G] These solvency statements are the same requirements as the solvency declaration that directors are required to make as part of their directors' declaration for financial reports. [RG 22, RG 217]

Section [4.2.2.3](#) includes a discussion on the factors that directors should consider and guidance provided to them when making the solvency statement for the purpose of the directors' declaration in the financial report.

Solvency resolutions do not apply to registered schemes.

## 6.4 Continuous disclosure

All disclosing entities have continuous disclosure requirements under Chapter 6CA of the Act. The mechanisms for making these disclosures depends on the type of entity.

### 6.4.1 Listed entities

A listed disclosing entity, or the responsible entity of a listed scheme, must report to the market operator (either ASX or Chi-X) under the relevant listing rules which require entities to notify the market operator of information about specified events or matters as they arise. [S674] See sections [3.4.5](#).

### 6.4.2 Unlisted disclosing entities

An unlisted disclosing entity or the responsible entity of an unlisted scheme which is a disclosing entity that becomes aware of price sensitive information that is not generally available and which a reasonable person would expect, if generally available, to have a material effect on the price or value of the entity's securities, must lodge this information with ASIC. [S675]

For many unlisted entities the most efficient and effective way of disclosing this information will be to disclose this material information on their website. In accordance with ASIC RG 198 *Unlisted disclosing entities: Continuous disclosure obligations*, ASIC has stated that if an entity provides the disclosures on their website in accordance with the good practice guidance included in RG 198, then they do not need to lodge the information with ASIC.

If it is not disclosed on their website in accordance with the good practice guidance, the entity will still need to lodge that information with ASIC.

The good practice guidance in RG 198 intends to promote website disclosures that have the following features:

- all material information is included on the website
- investors are able to find the material information easily and determine its significance to them
- any new material information is included on the website as soon as practicable and
- information is kept on the website for as long as it is relevant and appropriate records are kept.

### 6.4.3 Disclosure by listed companies of information filed overseas

On top of the existing continuous disclosure requirements for listed companies, any listed company that discloses information in an overseas jurisdiction must disclose that information in English to the ASX on the next business day after making such disclosure. Relevant overseas bodies to which this requirement applies are:

- the Securities and Exchange Commission in the USA
- the New York Stock Exchange
- a financial market in a foreign country if that financial market is prescribed in the regulations.

This requirement applies despite anything in a listed company's constitution. [S323DA]

## 6.5 Dividend requirements

### 6.5.1 Solvency test

A solvency test applies to dividends declared on or after 28 June 2010. For dividends declared prior to 28 June 2010 and paid after 28 June 2010 the required dividend test is the old S254T, i.e. the dividend out of profits rule.

For dividends declared on or after 28 June 2010, a company must not pay a dividend unless all of the following are met:

- its assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend
- the payment of the dividend is fair and reasonable to its shareholders as a whole
- the payment of the dividend does not materially prejudice its ability to pay its creditors. [S254T]

However, that does not mean that a company can automatically pay dividends as long as the solvency test is met, as S256B and S256C of Chapter 2J of the Corporations Act, which govern share capital reductions, are still applicable, refer section [6.5.4](#).

The solvency test does not impact upon other regulatory requirements governing the payments of dividends or reduction of capital, which some companies (for example APRA regulated entities) may have to comply with, i.e. in the case of APRA regulated entities, APRA's own requirements are still in effect.

#### 6.5.1.1 Where constitution requires 'profits test'

If the constitution of a company states that dividends may only be paid out of accounting profits, the company will either need to amend its constitution to remove the requirement, or meet the old S254T 'profits test' and the S254T solvency test for payment of a dividend.

#### 6.5.1.2 Companies limited by guarantee

A company limited by guarantee must not pay dividends to its members. [S.254SA]

#### 6.5.1.3 Small proprietary companies

Given the solvency test requirement applies to small proprietary companies that may not be required to prepare financial statements in accordance with the Act, (see section [5.3.2.1](#)), the extent to which the recognition, measurement and classification requirements of Accounting Standards have not been applied and the quantum of the excess of assets over liabilities, should be considered in determining whether a dividend is appropriate. [Para 9.1, *Small Business Guide*]

Although there is no requirement that audited financial statements be prepared to enable the dividend declaration, directors should consider the level and quality of supporting evidence available to enable them to make their dividend declaration.

#### 6.5.1.4 Corporations Act interaction between 'solvency test' and 'profits test'

Although profits are no longer referred to in S254T of the Corporations Act, the concept of profits as the source of a dividend payment continues to be relevant for Corporations Act compliance purposes.

Some legal opinion argues that like the previous S254T of the Corporations Act, the new S254T does not authorise any act by a company; the section merely prohibits the payment of dividends in the specified circumstances. In particular, the new S254T does not 'otherwise authorise by law' a reduction of share capital for the purposes of S256B and Part 2J.1 of the Corporations Act.

S256B deals with reductions in share capital not in the form of a share buy-back or share cancellation. S256B requires that share capital reductions meet all of the following:

- it is fair and reasonable to the company's shareholders as a whole
- it does not materially prejudice the company's ability to pay its creditors
- it is approved by shareholders.



An alternative legal view of the new S254T is that it does otherwise authorise by law a company to reduce its share capital for the purposes of S256B and Part 2J.1 of the Corporations Act. Under this view the company could pay a dividend out of share capital in compliance with the new S254T. The ATO does not support this alternative view. KPMG would advise companies to seek appropriate specific legal advice if seeking to rely on this alternative view.

#### 6.5.2 Determination of net assets

The assets and liabilities must be calculated in accordance with Accounting Standards in force at the relevant time.

Furthermore, ASIC considers that the determination of the net assets should be based only on the net assets of the parent, not the group, and that an entity should use the accounting policy choices made in the financial statements rather than other accounting policy choices available under the Accounting Standards.

#### 6.5.3 Date of declaration of dividends

When an entity declares a dividend it is important to decide the date on which solvency must be assessed. A company should look to its constitution to determine when a dividend is declared. A number of company constitutions provide for the board to 'determine' that dividends are payable rather than 'declare' a dividend. If the dividend is 'declared' it is a debt owing to the shareholders at the time it is declared rather than the payment date. If the dividend is 'determined' it is a debt owing to the shareholders only at the time of payment. When using 'determined', the date of declaration of the dividend for solvency assessment will generally be when it is paid.

#### 6.5.4 Further changes to Corporations Act?

Treasury is still considering a number of further amendments to the Corporations Act to resolve a number of practical implementation issues including:

- whether to move to a more 'pure' solvency test for the payment of dividends, (i.e. remove the requirement to consider the 'profits test')
- clarifying when any dividend solvency tests should be completed (i.e. at time of declaration, time of determination, time of payment)
- the requirement for all small proprietary companies to calculate assets and liabilities in accordance with accounting standards
- whether all accounting standards need to be applied by entities preparing special purpose financial statements.

The above considerations are, at present, still very much a work in progress.

#### 6.5.5 Franking dividends

Dividends are taxed differently depending on whether the shareholder is a resident or non-resident of Australia. Dividends paid to shareholders by Australian resident companies are taxed under a system known as 'imputation'. It is called an imputation system because the tax paid by a company may be imputed or attributed to the shareholders. The tax paid by the company is allocated to shareholders by way of franking credits attached to the dividends they receive.

Dividends can be fully franked (meaning that the whole amount of the dividend carries a franking credit) or partly franked (meaning that the dividend has a franked amount and an unfranked amount). No franking credit is attached to an unfranked dividend.

Where a company wishes to pay a franked dividend, at present, not only must it meet all the Corporations Act requirements discussed above but it must also have 'profits' under ATO ruling TR 2015/5.

On 27 June 2012, the ATO released TR 2012/5 *Income tax: section 254T of the Corporations Act 2001 and the assessment and franking of dividends paid from 28 June 2010*. The tax ruling aims to clarify the ATO's position on the ability of a company to pay franked dividends, given the changes to the Corporations Act relating to payments of dividends.

The following is a summary of the key points of the tax ruling:

- The tax ruling focuses on the situation where the company has carried forward accumulated accounting losses, current year profits and wishes to pay a franked dividend out of the current year profits.
- Where current year profits are not offset against accumulated losses, but rather, those profits are appropriated to a specific profits reserve (and there are no other circumstances which preclude the profits being available for distribution as a dividend) then any dividends paid out of the specific profits reserve are prima facie capable of being franked. Moreover, those profits held in the reserve in excess of the current year dividend will prima facie remain distributable profits for future years. See section [6.5.5.1](#) – **Example 1** below.
- Where there has not been a separation of current year profits to a specific profits reserve, current year profits may nevertheless be still available for paying a franked distribution, in circumstances where the directors determine/declare to pay the dividend out of current year profits at the same time as they approve the financial statements for the relevant year. See section [6.5.5.2](#) – **Example 2** below.
- The ruling also confirms that a franked dividend may be paid out of unrealised capital profits of a permanent character recognised in its financial report and available for distribution, provided that the company's net assets exceed its share capital by at least the amount of the dividend. See section [6.5.5.3](#) – **Example 3** below.
- For consolidated financial statements, the parent company as a stand-alone entity must have profits available for appropriation in accordance with the Corporations Act and the company's constitution. Further, paying dividends within an accounting consolidated group to the top company will require due consideration to be given as to what is occurring at each level in the chain.
- The ruling reinforces that proprietary companies, including small proprietary companies, are required to apply the recognition and measurement requirements of AASBs in full when determining/declaring dividends. It is needed to determine net assets for Corporations Act purposes.

The tax ruling defines profits to include:

- revenue profits from ordinary business and trading activities
- dividends received from other companies
- realised capital profits recognised in the statement of financial performance
- unrealised capital profits of a permanent character.

The ruling states that 'profits' do not include amounts of income or loss included in other comprehensive income (OCI). This results from the inclusion of realised and unrealised capital profits in the above definition of 'profits'. For example, if property was revalued during the year, then if the revaluation increase (OCI amount) was also considered a 'profit' it would be effectively 'double-counted' when the balance of the unrealised asset revaluation reserve was considered for inclusion in 'profits'.

### 6.5.5.1 Example 1 – Separate reserve for current year profits

Prior to any dividend being determined/declared the directors would need to consider and pass an appropriately worded resolution. The extracts below assume this has happened.

#### *Extract of Statement of Changes in Equity*

<i>In thousands of dollars</i>	<b>Share capital</b>	<b>Revaluation reserve</b>	<b>Profits reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
Balance at 30 June 2012	120,000	19,690	–	(49,106)	90,584
<b>Total comprehensive income for the year</b>					
Profit/(loss)	–	–	–	20,450	20,450
Total other comprehensive income	–	6,000	–	–	6,000
Transfer between reserves	–	–	20,450	(20,450)	–
Total other comprehensive income for year	–	6,000	20,450	–	26,450
<b>Transactions with owners of the Company recognised directly in equity</b>					
Share options exercised	5,000	–	–	–	5,000
Dividends to owners	–	–	–	–	–
Total contributions by and distributions to owners	5,000	–	–	–	5,000
Balance at 30 June 2013	125,000	25,690	20,450	(49,106)	122,034

#### *Extract from Notes to the financial statements*

##### *Profits Reserve #*

The profits reserve represents current year profits transferred to a separate reserve to preserve their profit character. Such profits are available to enable payment of franked dividends in the future should the directors declare\* by resolution.

##### *Dividends*

No dividends were declared\* and paid by the company during the current or prior year.

After 30 June 2013 a final dividend of xx cents per share (100% franked) has been declared\* by the directors. The dividend is to be paid out of the Profits Reserve. The record date for determining entitlement to the final dividend is 14 September 2013 and the dividend is payable on 28 September 2013.

A provision for dividends has not been recognised in the Statement of Financial Position as at 30 June 2013 as the dividend was not declared\* until after the end of the financial year.

# Description of nature and purpose of reserve as required by AASB 101 *Presentation of Financial Statements* paragraph 79(b).

\* The same would apply if the directors “determine” (rather than “declare”) dividends in accordance with the company’s constitution.

Similar disclosures of dividends determined/declared after year end are also required in the directors’ report under S300(1)(b) of the Corporations Act and should follow the above wording.

6.5.5.2 Example 2 – No separate reserve for current year profits

Prior to any dividend being determined/declared the directors would need to consider and pass an appropriately worded resolution. The extracts below assume this has happened.

Extract of Statement of Changes in Equity

<i>In thousands of dollars</i>	Share capital	Revaluation reserve	Accumulated losses	Total
Balance at 30 June 2012	120,000	19,690	(49,106)	90,584
<b>Total comprehensive income for the year</b>				
Profit/(loss)	–	–	20,450	20,450
Total other comprehensive income	–	6,000	–	6,000
Total other comprehensive income for year	–	6,000	20,250	26,450
<b>Transactions with owners of the Company recognised directly in equity</b>				
Share options exercised	5,000	–	–	5,000
Dividends to owners	–	–	–	–
Total contributions by and distributions to owners	5,000	–	–	5,000
Balance at 30 June 2013	125,000	25,690	(28,656)	122,034

Extract from Notes to the financial statements

Dividends

No dividends were declared\* and paid by the company during the current or prior year.

After 30 June 2013 a final dividend of xx cents per share (100% franked) has been declared\* by the directors out of profits for the year ended 30 June 2013<sup>^</sup>. The record date for determining entitlement to the final dividend is 14 September 2013 and the dividend is payable on 28 September 2013.

A provision for dividends has not been recognised in the Statement of Financial Position as at 30 June 2013 as the dividend was not declared\* until after the end of the financial year.

\* The same would apply if the directors “determine” (rather than “declare”) dividends in accordance with the company’s constitution.

<sup>^</sup> The resolution must clearly state payments are out of current year profits.

Similar disclosures of dividends determined/declared after year end are also required in the directors’ report under S300(1)(b) of the Corporations Act and should follow the above wording.

6.5.5.3 Example 3 – Dividends paid from reserves

In the example below the company has opening accumulated losses and no current year profits. However the company pays a distribution sourced out of a credit reserve account (considered permanent and unrealised). When the reserve is unrealised then directors need to ensure that the reserve will not reverse in the future, for example an asset revaluation reserve for land in Australia. Here it would be expected that the value of the land is highly unlikely to fall.

Extract of Statement of Changes in Equity

<i>In thousands of dollars</i>	Share capital	Revaluation reserve	Accumulated losses	Total
Balance at 30 June 2012	20,000	19,690	(10,000)	29,690
<b>Total comprehensive income for the year</b>				
Profit/(loss)	–	–	(4,000)	(4,000)
Total other comprehensive income	–	6,000	–	6,000
Total other comprehensive income for year	–	6,000	(4,000)	2,000
<b>Transactions with owners of the Company recognised directly in equity</b>				
Share options exercised	5,000	–	–	5,000
Dividends to owners	–	–	–	–
Total contributions by and distributions to owners	5,000	–	–	5,000
Balance at 30 June 2013	25,000	25,690	(14,000)	36,690

Extract from Notes to the financial statements

Dividends

No dividends were declared\* and paid by the company during the current or prior year.

After 30 June 2013 a final dividend of xx cents per share (100% franked) has been declared\* by the directors out of the revaluation reserve. The record date for determining entitlement to the final dividend is 14 September 2013 and the dividend is payable on 28 September 2013.

A provision for dividends has not been recognised in the Statement of Financial Position as at 30 June 2013 as the dividend was not declared\* until after the end of the financial year.

\* The same would apply if the directors “determine” (rather than “declare”) dividends in accordance with the company’s constitution.

Similar disclosures of dividends determined/declared after year end are also required in the directors’ report under S300(1)(b) of the Corporations Act and should follow the above wording.

Where the dividend does not result in net assets (based on AASBs) being less than share capital either before or after the distribution payment, the distribution will be assessable under paragraph 11(1)(a) of the Tax Act 1936, and will be frankable as it will not be sourced indirectly from the share capital account (assuming it satisfies all the other criteria in section 202-45 of the Tax Act 1997).

Where the dividend does result in net assets (based on AASBs) being less than share capital either before or after the distribution payment, the distribution will be sourced indirectly from share capital. Accordingly, any such distribution either would not be considered to be a dividend and would be taxable under the capital gains tax provisions; or if a dividend, it would be assessable under paragraph 44(1)(a) of the Tax Act 1936 as a result of the deeming in subsection 44(1A) of the Tax Act 1936 and considered an unfrankable distribution sourced indirectly from a company’s share capital account.

**KPMG would recommend obtaining appropriate legal and tax specialist advice before proceeding with a resolution to declare/determine a franked dividend under this tax ruling.**

#### 6.5.5.4 What if the company does not have accumulated losses?

Assume that the company has opening retained profits and has made a current year profit. The company may still be able to utilise the profits reserve discussed in section [6.5.5.1](#) above.

It is important to note that this tax ruling only applies to profits earned on a go-forward basis.

If a company applies this concept for the first time at 30 June 2013 and has an opening retained earnings position, it may be possible to transfer the opening balance at the start of the 2013 financial year into a separate profits reserve, subject to obtaining legal and tax advice. Any profit made during the year can be transferred into the separate profits reserve.

However, it is not possible to split the opening retained earnings balance between those years that a profit was made and those years that a loss resulted. The company cannot transfer the sum of the profits earned (based on the above split) into the profits reserve and leave behind accumulated losses due to the fact that such profits were previously 'appropriated' against the losses by virtue of including them in one equity account. The maximum that might be available for transfer at the start of the financial year is the balance of retained profits. Any treatments involving prior year retained earnings should be the subject of legal and tax advice.

## 6.6 Share capital reductions

Part 2J.1 of the Corporation Act outlines various means by which share capital can be reduced, including share buy-backs, forfeiture and reductions because of 'lost' capital.

Depending on the type of share capital reduction, the number of shares may require alteration and/or cash may flow, which may create further regulatory requirements. The accounting for the share capital reduction in the financial statements will follow the type of share capital reduction undertaken.

### 6.6.1 Lost capital

S258F allows companies to cancel paid-up capital that is lost or not represented by available assets of the company. The provision is intended to allow companies to write down the value of the company's capital in situations where a company incurs certain types of losses.

The key for applying this section of the Act is determining when the share capital has been lost, (i.e. where share capital is not represented by available assets due to the existence of accumulated losses). Determining when share capital has been lost is a matter of legal interpretation. The law requires there to be a permanent loss. Further, the cause or reason for the loss should no longer be present. KPMG recommends that companies facing this issue consult with their legal advisors.

In the case of a reduction in share capital due to lost capital, there would be no alteration to the number of shares on issue nor would there be any cash flow. Instead, for example, the company would simply debit share capital and credit accumulated losses.

If a company qualifies under S258F it can write off accumulated losses to share capital. However, companies are not allowed to take expenses directly to share capital, as this would breach Australian Accounting Standards.



## 7. Differences between AASBs and IFRS

### Overview

- Discusses the key differences between AASBs and IFRSs applicable to private sector entities that could result in non-compliance with IFRS.
- Highlights Australian disclosures additional to IFRS and the Australian differential financial reporting framework for general purpose financial statements.
- The AASB has revised AASB 1031 *Materiality* in December 2013 removing Australian specific guidance on materiality.

## 7.1 For-profit private sector entities

### 7.1.1 Key differences between AASBs and IASBs

The following is a summary of the only remaining difference between AASBs and IFRSs applicable to for-profit, private sector tier 1 entities for financial years beginning on or after 1 July 2013:

Standard	Addition	Comment
AASB 6 Exploration for and Evaluation of Mineral Resources	AASB 6 Aus7.1, 7.2, 22.1	The level identified by the entity for testing exploration and evaluation assets for impairment shall be no larger than the area of interest to which the exploration and evaluation asset relates. In contrast, IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> is less restrictive in that the level identified by the entity for the purposes of testing exploration and evaluation of <i>mineral resources</i> assets for impairment, may comprise one or more cash-generating units, each of which could be larger than an area of interest, but less than a segment.

While the above Australian addition does not result in non-compliance with IFRSs, applying the guidance in IFRS 6 could result in non-compliance with AASBs.

### 7.1.2 Specialist industries

#### *Insurance industry*

The following standards contain Australian specific requirements additional to AASB 4 *Insurance Contracts*:

- AASB 1023 General Insurance Contracts
- AASB 1038 Life Insurance Contracts.

AASB 2013-07 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders* removes the specific consolidation requirements from AASB 1038, and thereby leave AASB 10 *Consolidated Financial Statements* as the sole source for consolidation requirements applicable to life insurer entities. AASB 2013-07 applies to annual reporting periods beginning on or after 1 January 2014, but maybe early adopted. Prior to this amending standard AASB 1038 required a life insurer to recognise in its financial statements the assets, liabilities, income, expenses and equity of the entity, whether they are designated as relating to policyholders or to shareholders.

#### *Extractive industry*

The Australian equivalent of IFRS 6, AASB 6 *Exploration for and Evaluation of Mineral Resources* contains additional Australian specific requirements for entities in this sector (as discussed above).

In addition, the following AASB interpretation applies:

- AI 1003 *Australian Petroleum Resource Rent Tax*.

### 7.1.3 Additional Australian disclosures

AASB 1054 *Australian Additional Disclosures* includes disclosure requirements and definitions which are additional to IFRSs. Compliance with AASB 1054 is not needed for IFRS compliance.

Details of the additional Australian disclosures can be found in the *Australian Disclosure Checklist*.

### 7.1.4 Australian differential financial reporting framework

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: Tier 1: Australian Accounting Standards; and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 incorporates International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and include requirements that are specific to Australian entities.

Tier 2 comprises the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position under Tier 1, the presentation requirements under Tier 1 and Tier 2 are the same.

Each Australian Accounting Standard specifies the entities to which it applies and, where necessary, sets out disclosure requirements from which Tier 2 entities are exempt.

Refer to section [5.2](#) for further details.

#### *Comparison with IFRSs for SMEs*

The disclosures required by Tier 2 and the disclosures required by the IASB's *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* are highly similar. However, Tier 2 requirements and the *IFRS for SMEs* are not directly comparable as a consequence of Tier 2 including recognition and measurement requirements corresponding to those in IFRSs, whereas the *IFRS for SMEs* includes limited modifications to those requirements.

In addition, the recognition, measurement and disclosure requirements that apply in accordance with Tier 2 are to be revised as Australian Accounting Standards are revised, whereas the *IFRS for SMEs* will be revised only periodically for revisions of IFRSs.

## 7.2 Not-for-profit private sector entities

Most AASBs contain additional guidance for not-for-profit entities in the form of 'Aus' paragraphs. These paragraphs provide alternate recognition and measurement requirements which not-for-profit entities generally must apply. As a result it is unlikely that a not-for-profit entity will be able to claim compliance with IFRS.

In addition, as discussed in section [1.2.4.4](#), for some AASBs, the application date for not-for-profit entities for new or amending AASBs has been delayed compared to the application date for for-profit entities. See section [1.2.4.4](#) for further details.

A not-for-profit entity is defined by accounting standards as an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls. This definition can be found in the *AASB Glossary* and AASB 102.Aus6.1.

Refer to the AASB website ([aasb.gov.au](http://aasb.gov.au)) for further details on the additional 'Aus' paragraphs that deal with not-for-profit entities.

### 7.3 Materiality

The AASB has revised AASB 1031 *Materiality* in December 2013 removing the Australian specific guidance on applying materiality.

The revised AASB 1031 is effective for annual reporting periods beginning on or after 1 January 2014 and early adoption is not permitted.

The revised AASB 1031 is an interim standard that cross-references to other standards and the *Framework for the Preparation and Presentation of Financial Statements* (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all standards and interpretations, and once all these references have been removed, AASB 1031 will be withdrawn.

In KPMG’s view, the removal from AASB 1031 of specific quantitative guidance is not expected to significantly change practice, as AASB 1031 still requires consideration of both quantitative and qualitative factors in assessing materiality.

Upon revision to AASB 1031, the definition of materiality outlined in AASB 101 *Presentation of Financial Statements* and also included in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* will be the basis for assessing whether an omission or misstatement is material.

Materiality per AASB 1031	Materiality per AASB 101
<i>“Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to: (a) influence the economic decisions of users taken on the basis of the financial statements; or (b) affect the discharge of accountability by the management or governing body of the entity.”</i>	<i>“Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”</i>

The definition of materiality in AASB 101 is consistent with that in AASB 1031, with the exception of the explicit reference in AASB 1031 to the omission, misstatement or non-disclosure of information being material if it affects the discharge of accountability by the management or governing body of the entity. The removal of this reference to accountability is not expected to significantly change the application of materiality in practice.

## 8. Forthcoming requirements

### Overview

- Removal of the reporting entity concept.
- Financial reporting of stapled entities.
- Replacement standard to AAS 25 *Financial Reporting by Superannuation Plans*.

## 8.1 Removal of the reporting entity concept

When considering the introduction of the differential reporting framework discussed in [5.2](#), the AASB also considered removing the reporting entity concept. The proposals included:

- clarifying that financial statements that satisfy the following two conditions are general purpose financial statements:
  - they are publicly available, whether under a legal mandate or voluntarily and
  - they are either:
    - prepared in accordance with Australian Accounting Standards under a legal mandate or held out to be so prepared; or
    - required to be general purpose financial statements under a legal mandate or held out to be general purpose financial statements.
- clarifying that preparation in accordance with Australian Accounting Standards means application of all applicable Australian Accounting Standards in a particular Tier and not a subset of them
- ceasing to use the reporting entity concept to operationalise the use of accounting standards and focus on application of Australian Accounting Standards (whether Tier 1 or Tier 2) from reporting entity' to general purpose financial statements.

Accordingly, the AASB proposals would require all entities lodging financial statements with ASIC to prepare general purpose financial statements in accordance with all relevant Australian Accounting Standards. Further, entities lodging with ASX also need to lodge general purpose financial statements.

Comments received by the AASB on the above proposals from constituents lead the AASB to defer a decision on the above pending further research into the incidence and nature of special purpose financial reporting.

A research project has been actioned with a draft final research report considered by the AASB in December 2012. The AASB continued to discuss the results emerging from the research in February and April 2013.

From the above deliberations the AASB tentatively decided the following:

- in light of the high incidence of special purpose financial statements amongst lodged financial statements, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1 *Definition of the Reporting Entity*, i.e. in identifying entities that should prepare general purpose financial statements
- a proportion of special purpose financial statements lodged with ASIC appear not to have applied the recognition and measurement requirements of all applicable Australian Accounting Standards
- the reporting entity concept should continue to be used as the basis for identifying entities that, in concept, should be subject to general purpose financial reporting requirements
- the reporting entity concept would be used by the AASB as the basis for its own deliberations with others in the financial reporting environment
- SAC 1 would not be part of the AASB Framework if there were to be a change of application focus from reporting entity to general purpose financial statements – but that material based on SAC 1 could be made available in another form for use in the identification of entities that should be required to prepare and lodge general purpose financial statements (whether under Tier 1 or Tier 2)
- the AASB's mandate should be to set accounting standards for preparing general purpose financial statements (whether under Tier 1 or Tier 2) – as such reporting requirements for special purpose financial statements should be outside the AASB mandate (i.e. should be a matter for preparers, identified users and regulators)
- AASB staff should liaise with regulators including the Treasury, ASIC, ACNC and relevant state government bodies with a view to coordinating efforts in dealing with emerging issues.

The AASB is still continuing the above research and is expecting to publish a number of papers, including the research findings. This should include an exposure draft on the above tentative decisions in relation to the change of the application focus of Australian Accounting Standards from reporting entity to general purpose financial statements.



## 8.2 Financial reporting of stapled entities

ASIC expressed a view in October 2013 that with the introduction of AASB 10 *Consolidated Financial Statements* (applicable 1 January 2013) there may no longer be a basis within accounting standards to allow the preparation of consolidated financial statements for a stapled group.

Based on the above, ASIC issued Consultation Paper 217 *Presentation of financial statements by stapled entities* (CP 217) which proposes that a class order allowing stapled entities to present combined (not consolidated) financial statements covering all of the entities whose securities are stapled. Under the proposals in CP 217 the stapled group will not be able to claim IFRS compliance in the combined financial statements.

Based on constituents feedback and the consideration of the issue by the IFRIC, ASIC extended the application of CO 13/1050 on 14 January 2014 by the issue of CO 13/1644. CO 13/1050 allows issuers of stapled securities to present consolidated or combined financial statements where it is determined that compliance with accounting standards would prevent the preparation of consolidated or combined financial statements.

In its announcement to extend CO 13/1050, ASIC indicated that it would reconsider the issue once deliberated by IFRIC. IFRIC dealt with the topic in its January 2014 meeting and issued a tentative agenda decision. This decision concluded that the combining entity in a stapled arrangement that is identified as the acquirer for the purposes of IFRS 3 *Business Combinations* should prepare consolidated financial statements of the stapled group in accordance with IFRS 10 *Consolidated Financial Statements*.

Under IFRIC processes agenda decisions reached are first published as tentative decisions. Interested parties are then invited to comment on the tentative decisions, including if they disagree with the reasons proposed for the decision. This feedback along with the tentative decisions is then reconsidered at a future IFRIC meeting and either confirmed as final or amended.

We anticipate that ASIC will not proceed further with the proposals contained in CP 217. At the date of finalising this publication ASIC had not as yet taken action. We anticipate that ASIC will wait until the IFRIC tentative agenda decisions is published as 'final'.

The amended CO 13/1050 contains specific disclosure requirements where relief is sought by a stapled group. This includes stapled entities in a stapled group presenting their respective financial statements together in a single financial report.

CO 05/642 which allows stapled entities in a stapled group to present their respective financial statements together in a single financial report is not impacted by CO 13/1050 or the amendments contained in CO 13/1644. It therefore operates unchanged from prior years where relief under the amended CO 13/1050 is not obtained.

If accounting standards require the preparation of consolidated financial statements by the stapled group then it is KPMG's view that the stapled group does not need to apply the relief provided in the amended CO 13/1050. That is, in prior years it would have been argued that accounting standards required the preparation of consolidated (or combined) financial statements.

If an entity determines that it needs to apply CO 13/1050 (as its view is that accounting standards do not permit preparation of consolidated financial statements) it should consider its ability to continue to claim compliance with IFRS, given the IFRIC tentative agenda decision.

## 8.3 Replacement standard superannuation entities

In December 2013, the AASB has approved a new standard applying to superannuation entities, which is subject to fatal flaw review (AASB 105X). The final standard will replace AAS 25 *Financial Reporting by Superannuation Plans* and is expected to apply to annual reporting periods beginning on or after 1 July 2016. Following the fatal flaw process, the final standard is expected to be made by the AASB in the 2<sup>nd</sup> quarter of 2014. Fatal flaw comments were due by 28 February 2014. At the time of finalising this publication the AASB had not as yet considered any comments received in a public meeting.

AASB 105X has been developed in light of significant changes in recent years, including developments in the superannuation industry and Australia's adoption of IFRS. AASB 105X also addresses deficiencies in AAS 25 and makes the requirements for superannuation entities more consistent with current requirements in Australian Accounting Standards.

AAS 25 required superannuation entities to apply, where appropriate, Australian Accounting Standards, but with some significant exceptions. AASB 105X takes a similar approach, but is far more integrated with other Australian Accounting Standards (and therefore with IFRSs).

Under AAS 25, superannuation plans whose only assets (other than temporary deposits at call with a bank) are endowment, whole of life or other long-term insurance policies which match and fully guarantee the benefits to be paid to individual members were not required to comply with a number of the recognition, measurement, presentation and disclosure requirements of AAS 25 [AAS 25.66]. The general purpose financial report of such plans needed only to report a limited amount of information. No equivalent exemption is provided in AASB 105X.

### *Income statement*

AASB 105X regards contributions from employers and members and benefits to members as affecting member liabilities, not as income and expenses. AAS 25 required contributions from employers and members and benefits to members were accounted for as income and expenses.

### *Assets and liabilities measured at fair value*

AASB 105X requires the measurement approach of 'fair value through profit or loss' with specific exceptions. The exceptions include member liabilities and tax balances. AAS 25 required assets and financial liabilities to be measured at 'net market values' with similar exceptions to those applying under the AASB 105X.

### *Member liabilities*

AASB 105X requires both defined contribution and defined benefit member liabilities to be recognised and measured as the amount of accrued benefits. The measurement principle in AASB 105X for a defined benefit member liability is the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would meet accrued benefits when they are expected to fall due.

AASB 105X requires defined benefit member liabilities to be measured at each reporting date. However, it does not identify any particular methodologies that might be employed in measuring defined benefit member liabilities, for example, when an actuary is not engaged to conduct a full actuarial valuation, and superannuation entities may use estimates, averages and computational shortcuts provided that any shortcut techniques used yield a reliable approximation of the defined benefit member liabilities.

AAS 25 required defined contribution member liabilities to be determined as the difference between assets and 'other' liabilities. It required defined benefit member liabilities to be determined as the present value of expected future payments (remeasured at least once each three years).

# Appendices

## Example directors' resolutions and minutes of meetings

### Example disclosures

The following pages provide an example of:

For a statutory non-reporting entity:

- directors' resolution to confirm status of company as a non-reporting entity
- minutes of a meeting of directors to adopt the financial report.

For a small proprietary company:

- directors' resolution to confirm status of company as a small proprietary company
- minutes of a meeting of directors of a foreign controlled small proprietary company to apply ASIC CO 98/98

For a small company limited by guarantee:

- directors' resolution to confirm status of company as a Tier I (small) company limited by guarantee.

It should be noted that these are examples only, and the various reports and documents will have to be tailored to special situations.

Refer to *Example Proprietary (Reduced Disclosure Regime) Limited Annual Financial Report* for further illustrations of required disclosures, such as:

- statement of compliance note
- basis of preparation note
- directors' declaration for special purpose financial reports which are prepared in accordance with the *Corporations Act 2001*.
- significant accounting policies.

This Appendix also applies to small proprietary companies directed to prepare financial reports under S293 or S294, where the direction does not require compliance with all accounting standards.

## Statutory non-reporting entity

### Example directors' resolution to confirm status of company as a non-reporting entity<sup>1,2</sup>

The directors resolved:

To the best knowledge and belief of the directors, the company is not publicly accountable as defined in AASB 1053 *Application of tiers of Australian Accounting Standards* nor a reporting entity because there are no users of its financial statements who are dependent on general purpose financial statements for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

To the best knowledge and belief of the directors the company is unlikely to become a reporting entity in the forthcoming financial year.

The company's annual financial statements will be drawn up in accordance with the *Corporations Act 2001* as special purpose financial statements designed to meet the information needs of the shareholders [and for lodgement with ASIC].<sup>3</sup>

The special purpose financial statements will be drawn up in accordance with the accruals basis of accounting using the historical cost convention and a going concern assumption. The recognition, measurement and classification aspects of all applicable AASBs will be applied. The special purpose financial statements will include only the disclosure requirements of the following AASBs and those disclosures we consider necessary to meet the needs of members:<sup>4</sup>

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1054 *Australian Additional Disclosures*

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<sup>1</sup> Directors are required to make a declaration as to whether a company's financial statements comply with accounting standards under S295(4).

<sup>2</sup> This resolution should be tailored, as appropriate to the client.

<sup>3</sup> Delete if not applicable. See [3.3](#) for further details of class orders.

<sup>4</sup> Amend as applicable.

## Statutory non-reporting entity (continued)

### Example minutes of a meeting of directors to adopt the financial report

#### Example Statutory Proprietary Company Pty Limited

ABN: 99 999 999 999

#### Minutes of a meeting of directors

Reference	<b>Held</b>	At 23 Thomas Street, City at 10:00am, on 6 February 20XX.
	<b>Present</b>	Susan V Park (Chairperson) Peter G Smith Harold James
	<b>Apology</b>	Ross T Stephens
	<b>Minutes</b>	The minutes of the previous meeting of directors were read and confirmed as a true and correct record.
S292, S295, S296	<b>Financial Report</b>	<p>The Chairperson tabled the annual financial report for the year ended 31 December 20XX consisting of the financial statements, the notes to the financial statements and the directors' declaration about the statements and notes.</p> <p>The Chairperson reported that the financial statements and notes complied with the relevant prescribed requirements of the <i>Corporations Act 2001</i>, and applicable AASBs.</p>
S295(4), S296, S297	<b>Directors' declaration</b>	<p>The directors, having considered the circumstances that have arisen and the information that has become available since the end of the financial year, have formed the opinion that at the date of this declaration no adjustments, further information or explanations are required to prevent the financial statements and notes thereto from being misleading.</p> <ul style="list-style-type: none"><li>• the financial statements and notes comply with accounting standards</li><li>• the financial statements and notes give a true and fair view<sup>1</sup> of the financial position of the company and its performance, as represented by the results of its operations and cash flows</li><li>• there are reasonable grounds to believe the company can pay its debts as and when they become due and payable and</li><li>• the financial statements and notes comply with the <i>Corporations Act 2001</i>.</li></ul>

<sup>1</sup> Amend if not statutory financial statements. The directors' opinion will generally be that the financial statements and notes 'present fairly'.

## Small proprietary company

### Example directors' resolution to confirm status of company as a small proprietary company

The directors resolve the following:

To the best knowledge and belief of the directors, the company is a small proprietary company as defined under S45A of the *Corporations Act 2001*.

The company is not controlled by a foreign company and has not for any part of the financial year been controlled by a foreign company.

The company has not been directed by shareholders holding 5% or more of the voting shares (under S293) to prepare or have audited a financial report for the financial year ended 31 December 20XX.

The company has not received a request from ASIC (under S294) to prepare, lodge or audit a financial report for the year ended 31 December 20XX.

Accordingly, the company is not required by the *Corporations Act 2001* to prepare, lodge or have a financial report audited for the year ended 31 December 20XX, and has not done so.

## Small proprietary company (continued)

### Small proprietary company reporting exemptions

#### Example minutes of a meeting of directors of a foreign controlled small proprietary company to apply ASIC CO 98/98

##### Example Statutory Proprietary Company Pty Limited ABN: 99 999 999 999

###### Minutes of a meeting of directors

<b>Held</b>	At 23 Thomas Street, City at 10:00am, on 6 November 200X.
<b>Present</b>	Susan V Park (Chairperson) Peter G Smith John A Smith Harold James
<b>Apology</b>	Ross T Stephens
<b>Minutes</b>	The minutes of the previous meeting of directors were read and confirmed as a true and correct record.
<b>Dispensing with accounting and audit requirements for the current financial year</b>	<p>The Chairman referred to ASIC CO 98/98 issued by ASIC.</p> <p>That class order relieves foreign controlled proprietary companies that are part of a “small group” from preparing and lodging an audited financial report. The class order applies to the company, so long as certain conditions are met.</p> <p>One condition is that the directors of the company resolve that the company should utilise the class order for a particular financial year, and that notification for which this relief is applied of the resolution is sent to ASIC before the commencement of the financial year.</p> <p>It was resolved that the relief available under ASIC CO 98/98 should apply to the company for the financial year ending 31 December 20XX and that the company should immediately inform ASIC of the resolution.</p> <p>Signed as a correct record.</p> <p>Susan V Park</p> <p>Chairperson</p> <p>Date</p>



## Tier I (small) company limited by guarantee

### Example directors' resolution to confirm status of company as a Tier I (small) company limited by guarantee

The directors resolve the following:

To the best knowledge and belief of the directors, the company is a Tier I (small) company limited by guarantee as defined under S45B of the *Corporations Act 2001*.

The company has not been directed by members holding 5% or more of the voting shares (under S294A) to prepare or have audited financial report for the financial year ended 31 December 20XX.

The company has not received a request from ASIC (under S294B) to prepare, lodge or audit a financial report for the year ended 31 December 20XX.

Accordingly, the company is not required by the *Corporations Act 2001* to prepare, lodge or have a financial report