Financial
INSIGHT
The latest news on Financial Reporting
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New Rules for 30 June 2010 Financial Reporting

Recently finalised changes to the Corporations Act 2001 and the differential reporting framework in Australia will affect financial reporting requirements for 30 June 2010 year ends.

Reduced Disclosures for financial reports

Entities who currently prepare general purpose financial statements (GPFS) who do not have publicly accountability are likely to be able to apply the Reduced Disclosure Regime (RDR) for financial years ending 30 June 2010.

1. Background

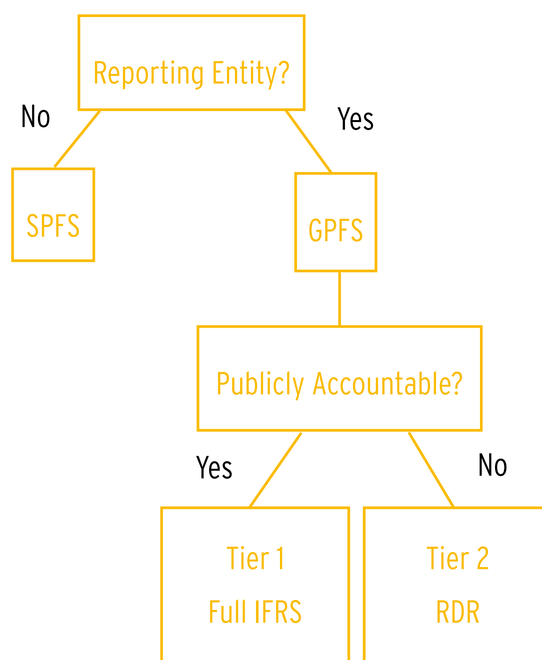
In Issue 13 (March 2010) of *Financial INSIGHT*, the impacts of the Australian Accounting Standards Board (AASB) Exposure Draft *Revised Differential Reporting Framework* (ED 192) were outlined and discussed. In this exposure draft the AASB called for submissions to a range of questions on their proposed reforms to determine both the support and potential problems in their application. A large number of responses were received by the AASB including the submission prepared by RSM Bird Cameron. After reviewing the submissions and further deliberations, the AASB made a decision at its June 2010 meeting that the revised differential reporting framework should be established in two stages and are expected to approve standards and amending standards to implement this.

2. The Revised differential reporting framework - Changes to the Exposure Draft

As a whole the differential reporting framework set out in ED 192 has remained unchanged with one major exception, being the retention of the 'reporting entity concept' applied in the current Australian financial reporting framework. Under ED 192 all entities whose financial statements were in accordance with accounting standards and publicly available would have been required to prepare General Purpose Financial Statements (GPFS). The retention of the reporting entity concept as part of the differential reporting framework is a response to submissions on ED 192 which identified a major negative impact of the proposals as being a significant increase in the disclosure burden for entities who currently prepare Special Purpose Financial Statements (SPFS). Respondents argued that these types of entities, which include large privately owned proprietary companies, have limited users of their financial statements. Therefore the additional disclosures required under the reduced disclosure regime are not required by the users of those accounts, and therefore irrelevant. By retaining the reporting entity concept it has allowed these entities to continue preparing SPFS at least for the time being.

Reporting entities will prepare GPFS under a 2 tier framework with the amount of required disclosures being dependant on whether or not the entity has public accountability. Publicly accountable entities will be required to continue to prepare GPFS in accordance with all requirements of IFRS. Entities without public accountability will prepare GPFS under a Reduced Disclosure Regime (RDR).

Revised Differential Reporting Framework



3. Transition to the Revised Differential Reporting Framework

The AASB has decided that the revised framework will be established in two stages:

Stage 1.

In the first stage, the RDR will be introduced as a second tier of reporting requirements for preparing GPFS. The mandatory application of its revisions for the differential reporting framework is annual reporting periods beginning on or after 1 July 2013, with early adoption permitted for financial years ending on or after 30 June 2010.

Stage 2.

In the second stage of the project the AASB agreed further research should be carried out on the potential impact on those entities currently preparing SPFS if they were to be required to produce GPFS.

4. Action for 30 June 2010

Entities who are reporting entities and who currently prepare GPFS should determine whether they qualify for application of the RDR. The following entities are Tier 1 entities and therefore cannot apply the RDR:

- For-profit private sector entities with public accountability;
- Federal, State, Territory and Local Governments.

Essentially a for-profit private sector entity will have public accountability if:

(a) 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) 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 following are deemed to have public accountability:

(a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
(b) cooperatives that issue debentures;
(c) registered managed investment schemes;
(d) superannuation plans regulated by the Australian Prudential Regulation Authority other than 'small APRA funds'; and
(e) authorised deposit-taking institutions.

If an entity is in Tier 2, they can then determine whether to adopt RDR for the financial year ending 30 June 2010.

RSM Bird Cameron can provide you with a disclosure checklist to assist with the application of the RDR.

Corporations Amendment (Corporate Reporting Reform) Bill 2010

As a result of the Corporate Law Reform Bill being passed through Parliament there will be some significant changes in financial reporting which will be available for application as at 30 June 2010.

1. Background

In Issue 11 (December 2009) of Financial INSIGHT, the proposed impacts of the ***Corporations Amendment (Corporate Reporting Reform) Bill 2010*** (the Corporate Reporting Reform Bill) were outlined and discussed. The draft bill proposed such amendments as introducing a differential reporting framework for companies limited by guarantee, removing the requirement for separate parent entity financial statements and replacing the "profits test" for payments of dividends by companies to a solvency-based test. The aim of the reforms is to reduce regulatory burden and improve disclosure requirements for companies.

The Corporate Reporting Reform Bill was passed through Parliament on 24 June 2010 and will receive Royal Assent shortly. The accompanying Regulations were approved on 29 June 2010. As such the majority of reforms will be available for application for 30 June 2010 year end reporting.

2. COMPANIES LIMITED BY GUARANTEE

There were no changes to the proposals discussed in Issue 11 of ***Financial INSIGHT***. The new law contains the following requirements:

- a three tiered differential reporting framework has been introduced for companies limited by guarantee;
- companies limited by guarantee will be prevented by legislation from paying a dividend.

Differential Reporting for Companies Limited by Guarantee:				
Revenue[1]	**Deductible Gift Recipient**	**Tier**	**Financial Report**	**Audit / Review**
$0 - $249,999	No	1	Not required	Not required
$0 - $249,999	Yes	2	Required	Audit or review
$250,000 - $999,999	No	2	Required	Audit or review
$250,000 - $999,999	Yes	2	Required	Audit or review
> $1,000,000	No	3	Required	Audit
> $1,000,000	Yes	3	Required	Audit

In addition, tier 2 and tier 3 companies will be able to prepare a streamlined directors report and will also be subject to a streamlined process for distributing the annual report to members.

These reforms will be available for years ended 30 June 2010, subject to Royal Assent being received.

[1] where a company limited by guarantee is required to be included in consolidated financial statements, revenue means consolidated revenue of the consolidated entity

OTHER PROPOSED REFORMS - ALL COMPANIES

Parent Entity Financial Statements

The new law provides that entities are required to prepare financial statements either:

- in relation to the entity itself (where consolidated financial statements are not required by accounting standards); or
- in relation to the consolidated entity (where consolidated financial statements are required by accounting standards).

Regulations require that the following information about the parent entity be disclosed in a note to the consolidated financial statements:

- current and total assets and liabilities
- shareholders' equity, showing separately issued capital and each reserve
- profit or loss
- total comprehensive income
- details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries
- details of any contingent liabilities and
- details of contractual commitments for the purchase of property plant and equipment.

This information is also expected to be required to be disclosed in half year financial statements. These requirements apply for periods ended 30 June 2010. It is expected that ASIC will soon issue a Class Order clarifying application.

RSM Bird Cameron will issue further guidance on disclosures when this occurs.

Requirements for paying dividends

Companies are currently only allowed to pay a dividend out of company profits. Under the new law dividends will only be able to be paid if a solvency-based test is met. As such, a company may only pay a dividend if:

- the company's assets exceed its liabilities immediately before the dividend is declared by at least the amount of the dividend;
- it is fair and reasonable to the company's shareholders as a whole; and
- it does not materially prejudice the company's ability to pay its creditors.

The existing directors' duty to prevent insolvent trading under s588G of the ***Corporations Act 2001*** continues to apply.

For the purposes of the section, assets and liabilities are to be calculated in accordance with accounting standards.

A consequential amendment will be made to the income tax law in order to maintain the current taxing arrangements for dividends.

This change applies to dividends declared on or after the date Royal Assent is received.

Changing reporting periods

The initial draft reforms proposed that an entity would be able to have a financial year of up to 18 months provided that in the previous financial years there had not been a financial year of other than a 12 month period, and the change is in good faith in the best interests of the entity.

A change was made in the final reforms such that under the new law an entity will be permitted to vary the length of a financial year subsequent to its first provided that:

- the financial year is not longer than 12 months;
- the previous five financial years have all been of 12 months duration; and
- the change is in good faith in the best interests of the entity.

Under these circumstances approval from ASIC is not required for the change. Entities will still be able to apply to ASIC for changes in financial years which do not meet these requirements. This change in the law will apply to years commencing on or after 1 July 2010.

Other proposals for all companies

- Section 299A of the ***Corporations Act 2001*** has been extended to require a review of operations and financial condition in the director's report of listed registered schemes as well as listed companies.
- Where the notes to the financial statements include an explicit and unreserved statement of compliance with IFRS, the directors' declaration must indicate that this statement has been included in the notes to the financial statements.
- Clarification that a company may not reduce its share capital by cancelling any paid-up capital that is lost or not represented by available assets if the cancellation is not inconsistent with the requirements in Australian accounting standards. This will still allow companies to write off accumulated losses to share capital but will not allow companies to take expenses directly to share capital.
- The proposals also contain amendments to remove obsolete provisions in the ***ASIC Act*** in relation to FRC functions and funding. Finally it is proposed to modify the membership requirements of the CALDB.

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