

ASIC CLASS ORDER [CO 05/0639]

EXPLANATORY STATEMENT

Prepared by the Australian Securities and Investments Commission

Corporations Act 2001

Subsection 341(1) - Order

Subsections 341(1) of the *Corporations Act 2001* (the Act) provides that the Australian Securities and Investments Commission (ASIC) may make an order in respect of a specified class of companies, registered schemes or disclosing entities that relieves the entities in question, their directors and/or auditors from specified requirements of Parts 2M.2, 2M.3 or 2M.4 (other than Division 4) of the Act.

1. Background

Subsection 296(1) of the Act requires all entities that are required to prepare financial reports under Chapter 2M of the Act to comply with accounting standards. Some accounting standards are stated to apply to all entities preparing financial reports under Chapter 2M and others are stated to apply only to such of those entities that are “reporting entities”. “Reporting entities” are entities for which it is reasonable to expect the existence of users of their financial reports who cannot command the information they specifically require to meet their information needs.

ASIC Guide “Reporting requirements for non-reporting entities” issued in July 2005 outlines ASIC’s view that non-reporting entities preparing financial reports under Chapter 2M must comply with the recognition and measurement requirements of accounting standards in order to meet a number of general obligations under the Act. This replaced ASIC Information Release 00/025 “Reporting requirements for non-reporting entities”, which took a similar view.

Non-reporting entities that apply the recognition and measurement requirements of accounting standards may not be able to take advantage of certain concessions from those requirements that are available to reporting entities. These concessions include:

- (a) Concessions available under accounting standard AASB 1 “First-time Adoption of Australian Equivalents to International Financial Reporting Standards”.

AASB 1 provides some concessions from reworking information to comply with new recognition and measurement requirements on the adoption of new accounting standards that apply for years commencing on or after 1 January 2005. These concessions would appear to be available only to entities that apply all of the requirements of the new standards, including all disclosure requirements. As non-reporting entities may not be required to comply with all disclosure requirements, the concessions may not be available to them.

- (b) Transitional provisions or other concessions available under a non-mandatory accounting standard.

It would be anomalous for non-reporting entities not to have the advantage of concessional treatments available to reporting entities.

2. ASIC Class Order [CO 05/0639] “Application of accounting standards by non-reporting entities”

ASIC Class Order [CO 05/0639] “Application of accounting standards by non-reporting entities” ensures that non-reporting entities can take advantage of concessions or other modifications of the recognition and measurement requirements of accounting standards that are available to reporting entities.

3. Consultation

As [CO 05/0639] is minor and machinery in nature, ASIC did not undertake any consultation with stakeholders before that class order was made.