

## **EXPLANATORY STATEMENT for**

### **ASIC Corporations (Non-Reporting Entities) Instrument 2015/841**

Prepared by the Australian Securities and Investments Commission

*Corporations Act 2001*

The Australian Securities and Investments Commission (ASIC) makes *ASIC Corporations (Non-Reporting Entities) Instrument 2015/841* under subsection 341(1) of the *Corporations Act 2001* (the Corporations Act). Subsection 341(1) provides that ASIC may make an order in writing in respect of a specified class of companies, registered schemes or disclosing entities, relieving any of the directors, the companies, registered schemes or disclosing entities themselves, or the auditors of the companies, registered schemes or disclosing entities from all or specified requirements of Parts 2M.2, 2M.3 and 2M.4 (other than Division 4) of the Corporations Act.

#### **1. Background**

Section 296(1) of the Corporations Act requires all entities that prepare financial reports under Chapter 2M to comply with accounting standards. Some accounting standards are stated to apply to all entities reporting under Chapter 2M and others are stated to apply only to entities reporting under Chapter 2M that are ‘reporting entities’.

Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85) outlines our 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 Corporations Act.

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

- concessions available under Australian Accounting Standard AASB 1 *First-time adoption of Australian accounting standards* (AASB 1); and
- transitional provisions or other concessions under a non-mandatory accounting standard.

For example, AASB 1 provides some concessions from reworking information to comply with the recognition and measurement requirements when an entity adopts the 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.

## **2. Purpose of the instrument**

It would be inconsistent for non-reporting entities to not have the advantage of concessions available to reporting entities. *ASIC Corporations (Non-Reporting Entities) Instrument 2015/841* ensures that non-reporting entities can take advantage of concessions or other modifications of the recognition and measurement standards of accounting standards that are available to reporting entities.

Class Order [CO 05/639] is repealed by Schedule 2 to the *ASIC Corporations (Amendment and Repeal) Instrument 2015/843*.

## **3. Operation of the instrument**

A company or registered scheme which is not a reporting entity is allowed to comply with the recognition and measurement requirements of accounting standards as if it is a reporting entity provided it takes all reasonable steps to ensure that the financial report complies with all recognition and measurement requirements that apply to a reporting entity. That is, the company or registered scheme is able to take advantage of concessions and transitional provisions in accounting standards that are otherwise only available to reporting entities.

## **4. Consultation**

ASIC has consulted with stakeholders through Consultation Paper 233 which was issued on 16 June 2015 and was open for comment to 17 August 2015.

ASIC has assessed that a Regulatory Impact Statement is not necessary for this instrument as it is operating effectively and efficiently, as informed by the consultation process, and is being remade without significant changes.

## **Statement of Compatibility with Human Rights**

*Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

### **ASIC Corporations (Non-Reporting Entities) Instrument 2015/841**

*ASIC Corporations (Non-Reporting Entities) Instrument 2015/841* is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

#### **Overview**

The objective of this legislative instrument is to allow non-reporting entities to prepare their financial statements using the recognition and measurement requirements of accounting standards which apply to reporting entities.

#### **Human rights implications**

This legislative instrument does not engage any of the applicable rights or freedoms.

#### **Conclusion**

This legislative instrument is compatible with human rights as it does not raise any human rights issues.

**Australian Securities and Investments Commission**