Raising the reporting thresholds for large proprietary companies

Submission to the Australian Treasury

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Steven Watson FCA, GAICD
Managing Director
National Audits Group Pty Ltd
steven.watson@audits.com.au | 0459 053 620

Director
Digital Policy and Corporations Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Director,

Submission: Raising the reporting thresholds for large proprietary companies

National Audits Group welcomes the opportunity to comment on the proposed changes to the large proprietary company reporting thresholds. We support the objective of reducing unnecessary compliance costs and recognise the legitimate privacy concerns of privately owned businesses. We also recognise that public reporting and independent audit impose real costs, particularly where users can obtain suitable information privately.

Our support is conditional on the reform being evidence-led. The consultation proposes to double the consolidated revenue threshold from $50 million to $100 million and consolidated gross assets from $25 million to $50 million, while retaining the 100-employee limb within the existing two-of-three test. The proposal is intended to apply for financial years commencing on or after 1 July 2027. A change of this scale should be supported by more than the convenience of round numbers or a high-level gross savings estimate.

We therefore recommend that Treasury and ASIC first analyse the proprietary-company population, model the distributional and information effects of alternative thresholds, and publish the methodology and results. If that work supports the proposed thresholds, the Government should proceed. If it supports different settings, staged adjustment or targeted safeguards for public-interest outliers, the final design should follow the evidence.

This is not an argument for preserving every existing audit. It is an argument for a transparent basis of decision. Modern regulatory data, analytics and carefully governed artificial intelligence can make population-level stratification and scenario testing faster and more practical. They do not replace policy judgement, but they reduce the case for choosing thresholds without showing whom they include, whom they exclude and why.

We are content for this submission to be published in full.

Yours sincerely,





Steven Watson FCA, GAICD
Managing Director
National Audits Group Pty Ltd

Executive position

A balanced position: The present proposal may ultimately be the right answer. The public materials identified by National Audits Group do not, however, provide enough analysis to demonstrate that it is the best answer. Treasury should close that evidence gap before the settings are finalised.

Recommendations at a glance

No.	Recommendation	Practical effect
1	**Undertake and publish a stratified impact analysis**	Model the proprietary-company population under the current test, the proposed test and credible alternatives, showing entities moving out of reporting and the characteristics of affected users.
2	**Explain the basis for the selected numbers**	State whether the thresholds reflect inflation, economic growth, compliance cost, international comparison, policy coverage or another measure, and why the 100-employee limb remains appropriate.
3	**Test public-interest outliers**	Identify whether a narrow, administrable safeguard is needed for companies below the size test whose activities create unusually broad reliance on public financial information.
4	**Publish a genuine net-benefit assessment**	Separate preparation, audit, lodgement and sustainability costs; identify costs that continue contractually; and assess information costs shifted to creditors and other users.
5	**Preserve clear existing safeguards**	Explain ASIC and member powers, continuing recordkeeping and directors' duties, and the difference between statutory, contractual and voluntary reporting.
6	**Address sustainability consequences separately**	Quantify and explain the interaction with section 292A, including entities potentially moving outside the Chapter 2M gateway and the operation of alternative triggers.
7	**Provide prospective transition guidance**	Apply the reform to financial years commencing on or after 1 July 2027 and publish worked examples covering groups, employee counts, threshold crossings and modified financial years.
8	**Review outcomes after three years**	Measure realised savings, information availability, safeguard use and unintended consequences; thereafter review thresholds periodically against published evidence rather than automatically doubling or indexing them.

1. About National Audits Group

National Audits Group is an Australian independent audit and assurance practice. Our work includes external and statutory audit, SMSF audit, compliance and other assurance, government internal audit and not-for-profit engagements. We apply Australian Auditing Standards across organisations of differing size, complexity and reporting capacity. This submission draws on current implementation experience and our established policy focus on audit quality, independence, proportionality, transparent regulatory data and audit-market capacity.

2. The proposal and the policy question

Under section 45A of the Corporations Act 2001, proprietary-company size is assessed on a consolidated basis using a two-of-three test. The consultation proposes the following settings:

Criterion	Current	Proposed	Change
Consolidated revenue	$50m	$100m	Doubled
Consolidated gross assets	$25m	$50m	Doubled
Employees at financial year end	100	100	Unchanged

The consultation materials describe the reform as a simplification and targeting measure, and the ministerial material identifies estimated annual compliance savings of more than $210 million. The core policy question is not whether compliance costs exist; they plainly do. It is whether the proposed boundary identifies the companies for which mandatory public reporting and audit no longer produce benefits commensurate with those costs.

That question cannot be answered from entity size alone without understanding the affected population. The two-of-three test can capture different company profiles: high-revenue businesses with relatively few assets, asset-intensive businesses with modest revenue, and employers whose scale is reflected primarily in workforce. Doubling two limbs while leaving the third unchanged changes the relative role of each criterion. Treasury should show the result, rather than assume that the existing balance remains suitable.

3. Establish the evidence before fixing the threshold

3.1 The proposed figures require a transparent rationale

The monetary thresholds were doubled for financial years beginning on or after 1 July 2019. A further doubling from 1 July 2027 would occur only eight years later. National Audits Group has not identified, in the public materials reviewed for this submission, a published analysis demonstrating that prices, economic scale, compliance costs or another relevant measure have doubled across that period. That does not prove the proposed figures are wrong. It means the rationale should be stated and tested.

Treasury should identify whether the purpose of the test is to capture a target share of companies, a target share of economic activity, entities above a specified public-accountability level, or some combination. Each objective can produce a different threshold. A sound process should begin with the

intended coverage and user need, then derive the settings; it should not begin and end with round-number multiplication.

3.2 Gross savings are not the same as net public benefit

The savings estimate should be accompanied by the affected population, cost assumptions and counterfactual. Costs should be separated into financial statement preparation, audit, lodgement and sustainability reporting. Treasury should also identify which costs are likely to continue because of financing agreements, shareholder arrangements, constitutions, group reporting or other contracts.

Some cost may be transferred rather than eliminated. A lender with bargaining power may require private audited information. A trade creditor or smaller supplier may have no equivalent access and may instead bear greater credit-assessment risk. The analysis should not assume that every dollar no longer spent by the company is a dollar of economy-wide benefit.

3.3 The 2019 experience should be used

The 2019 threshold change provides a natural evidence base. Treasury and ASIC should examine the number and profile of companies that moved out of mandatory reporting, the realised compliance savings, the continued use of contractual audits, any material use of ASIC or member reporting powers, and evidence of information loss or avoidance behaviour. Even imperfect administrative data would be more informative than selecting a second doubling without evaluating the first.

4. A practical Treasury-ASIC stratification exercise

National Audits Group recommends a time-limited, de-identified analysis using information already held by government, supplemented where necessary by a targeted data request or statistically valid sample. The exercise should be proportionate and should not become a new recurring reporting burden.

4.1 Stage 1 - map the population and model threshold scenarios

- Build a de-identified company-level dataset, aggregated to the relevant controlled group where the law requires consolidated assessment.
- Band companies by consolidated revenue, consolidated gross assets and employees, with particular focus around the current and proposed thresholds.
- Model the current test, the proposed test and credible intermediate settings. Show how many companies change classification and which limb combinations drive the result.
- Segment outcomes by broad industry, group complexity, ownership concentration and geographic footprint where data quality permits.
- Show not only entity counts but also relevant economic measures, without treating economic size as a substitute for public interest.

4.2 Stage 2 - test information reliance and public-interest outliers

A full PIE-style classification system would risk complexity and uncertainty. We do not recommend importing the professional ethics definition of a public interest entity wholesale into section 45A. Instead, Treasury should test a short list of objective indicators to identify whether the size test produces clear outliers requiring a separate, narrow safeguard.

Indicator to test	Why it may matter	Design caution
Regulated or licensed activity	Some activities already reflect broader stakeholder reliance.	Avoid duplicating sector-specific reporting that already provides adequate transparency.
Government funding or contracting	Large public exposure may create accountability needs.	Use material and objective thresholds; ordinary procurement should not trigger reporting.
Widely dispersed or minority ownership	Owners unable to obtain information privately may rely on statutory rights.	Existing member rights may be sufficient if they are accessible and effective.
Creditor and supply-chain reliance	A company may support many parties without being listed.	Difficult to measure administratively; test before adopting.
Essential or economically significant services	Failure may affect users beyond shareholders.	Define narrowly; avoid subjective ministerial designation without process and review.
Complex group or cross-border structure	Opacity and information asymmetry may be greater.	Complexity alone should not create a public filing duty.

4.3 Stage 3 - test user effects and costs

- Survey a representative sample of companies likely to move out of scope, separating preparation, audit, lodgement and sustainability costs.
- Seek structured evidence from lenders, trade-credit providers, minority investors, employee representatives and credit-information users about reliance on lodged reports.
- Establish the proportion of affected companies likely to retain audits or financial reporting because of contracts or governance choice.
- Assess audit-market capacity effects, including whether capacity released from lower-risk statutory work can be redeployed to higher public-interest assurance.
- Publish assumptions, limitations and sensitivity analysis so stakeholders can understand the confidence that should be placed on results.

4.4 Technology should support, not decide, the analysis

Modern data matching, analytics and responsibly governed AI can assist with entity resolution, group mapping, segmentation, anomaly detection and scenario modelling. This is a practical reason to expect more rigorous analysis than was historically possible. The technology should operate under clear data-quality, privacy, validation and human-review controls. Policy choices - including what counts as public interest and how competing costs are weighted - remain decisions for accountable government.

5. Policy options and our preferred design

Option	Advantages	Risks	NAG assessment
Proceed with $100m / $50m now	Immediate certainty and larger compliance reduction.	Evidence gap; reduced public information; altered balance of employee limb.	Not preferred without published analysis.
Evidence-based recalibration	Settings follow observed population and user effects.	Requires analytical work and may delay final certainty.	Preferred. Complete promptly before finalisation.
Automatic indexation	Avoids long periods of bracket creep.	Price indices may not track accountability or company scale; false precision.	Consider only if the evidence supports a defined index and review mechanism.
Size test plus narrow safeguard	Captures clearly significant outliers below monetary thresholds.	Complexity, uncertainty and administrative burden if drafted broadly.	Use only for objectively evidenced gaps.
Tiered reporting or assurance	May align assurance intensity with user need.	Adds framework complexity and may not deliver savings.	Potential longer-term reform, not a substitute for this decision.

Our preferred approach is therefore conditional reform: complete and publish the analysis; select the thresholds that best fit the stated policy objective; add only those safeguards demonstrated to be necessary; and proceed prospectively with clear guidance. This approach neither presumes that the present thresholds must remain nor treats the proposed figures as self-validating.

6. Balance the benefits and the information trade-offs

6.1 Legitimate benefits

- Reduced preparation, audit and lodgement costs where the statutory requirement produces limited incremental value.
- Less public disclosure of commercially sensitive information to competitors.
- Greater freedom for owners, boards and financiers to choose the reporting and assurance that fits their circumstances.
- Potential release of scarce audit capacity for engagements carrying greater public-interest risk.

6.2 Legitimate risks

- Loss of comparable, independently audited information for creditors, suppliers and other users unable to negotiate access.
- Reduced visibility for minority owners and employees, subject to the effectiveness and accessibility of existing statutory rights.
- Less external discipline around year-end reporting processes and accounting judgements.
- Unintended contraction of sustainability-reporting coverage because of the statutory linkage to Chapter 2M and section 45A amounts.
- Confusion about group aggregation, employee counting and continuing obligations if implementation guidance is incomplete.

6.3 Be precise about what audit does

A statutory financial statement audit provides reasonable assurance that the financial report as a whole is free from material misstatement, whether due to fraud or error. It is not a guarantee of solvency, fraud prevention, cybersecurity, regulatory compliance or sound management. It may nevertheless bring independent challenge to reporting, estimates, going concern, controls relevant to the audit and communications with those charged with governance.

Companies moving outside statutory audit may still choose financial statement audit, review or targeted assurance because lenders, owners or boards value it. Targeted work over controls, cyber governance, fraud risk, AI governance or regulatory compliance may be useful where it is properly scoped and performed under an applicable assurance framework. It should not be presented as a like-for-like replacement for a financial statement audit, nor should voluntary assurance be assumed to arise automatically merely because the statutory obligation is removed.

7. Preserve effective safeguards and improve transparency

Reclassification as a small proprietary company does not eliminate every reporting obligation. Treasury and ASIC guidance should clearly explain the continuing framework, including:

- ASIC's power under section 294 to direct a small proprietary company to prepare and lodge financial and directors' reports, with audit where required;
- eligible members' power under section 293 to direct the company to prepare and send financial and directors' reports, with an audit if specified;
- financial recordkeeping, directors' duties and other Corporations Act obligations;
- reporting or audit required because of foreign control, crowd-sourced funding, another statutory regime, a constitution, shareholder agreement, financing arrangement or other contract; and
- the distinction between company classification, the reporting obligation for a particular financial year, and the form of financial statements required.

Treasury should also assess whether existing member and ASIC powers are sufficiently accessible and timely for the users most likely to lose public information. Any new safeguard should be separately justified, narrowly drafted and supported by procedural fairness. It should not create a discretionary parallel classification system more burdensome than the test it is intended to improve.

8. Explain the complete two-of-three test

Guidance should state prominently that the proposal changes two monetary amounts; it does not replace the consolidated two-of-three test. Practical Treasury and ASIC material should cover:

- control and group aggregation, including the use of consolidated figures;
- calculation of revenue and gross assets under applicable accounting standards;
- employee counting at financial year end, including common group scenarios;
- entities close to a threshold and the effect of crossing between years;
- modified or short financial years and restructures;
- earlier-period obligations where a later year falls below the new test; and
- interaction with any applicable relief, member direction, ASIC direction or contractual audit.

If Treasury proposes an additional multi-year qualification rule, anti-avoidance measure or deeming provision, it should identify that as a policy change and consult on it expressly rather than describe it as part of the existing law.

9. Assess sustainability-reporting consequences separately

Section 292A links part of the sustainability-reporting size framework to amounts prescribed for section 45A. Changing those amounts can therefore alter more than the population of large proprietary companies lodging audited financial reports. Treasury should publish a separate coverage analysis that explains:

- how the Chapter 2M financial-reporting gateway interacts with the sustainability size tests;
- how many entities may move outside sustainability reporting solely because the section 45A amounts change;
- the continuing operation of the National Greenhouse and Energy Reporting and asset-owner pathways where their statutory conditions are met;
- whether affected supply chains are likely to continue requesting climate information contractually; and
- the savings estimate attributable specifically to sustainability reporting and assurance, rather than combining it with financial reporting and audit.

Small proprietary company status is not a universal sustainability exemption. Guidance should avoid that implication and should clearly distinguish financial reporting, financial statement audit, sustainability reporting and sustainability assurance.

10. Implementation, consultation and review

10.1 Prospective commencement

National Audits Group supports prospective application to financial years commencing on or after 1 July 2027, as proposed. Earlier-period reporting, audit and lodgement obligations should not be treated as cancelled merely because a later financial year is assessed under new thresholds. Guidance should be available well before commencement so companies, auditors, lenders and other users can amend contracts and governance processes where necessary.

10.2 Consultation quality

The consultation period is compressed for a reform with financial reporting, audit and sustainability consequences. That makes publication of the Government's underlying analysis particularly important. If material evidence cannot reasonably be gathered and tested within the initial period, Treasury should use targeted follow-up consultation on the impact analysis or publish an exposure draft with a clear basis for conclusions before final settings are made.

10.3 Post-implementation review

A review three years after commencement should assess realised compliance savings, continued contractual reporting, access to reliable information, use of member and ASIC powers, sustainability coverage, avoidance behaviour, audit-market effects and unintended consequences. The review should seek evidence from reporting entities and information users. Thereafter, thresholds should be reviewed

periodically against published criteria. Automatic indexation should be adopted only if Treasury demonstrates that the selected index remains a sound proxy for the policy objective.

11. Proposed decision pathway

Step	Lead	Output	Timing principle
1	Treasury / ASIC	De-identified population map and data-quality statement.	Before final thresholds
2	Treasury	Scenario analysis for current, proposed and intermediate settings.	Before final thresholds
3	Treasury / stakeholders	Targeted user and cost evidence, including contractual continuation.	Focused consultation
4	Treasury	Published impact assessment and basis for conclusions.	With draft/final law
5	ASIC / Treasury	Worked guidance on classification, transition and safeguards.	Well before 1 July 2027
6	Government	Three-year post-implementation review.	Built into reform plan

12. Conclusion

Proportionate regulation is not achieved merely by raising a number. It is achieved by setting the boundary where the public benefit of mandatory reporting and audit no longer justifies the cost, while retaining workable protections for users who cannot obtain reliable information privately.

The proposed $100 million revenue and $50 million gross-assets thresholds may prove defensible. Treasury should demonstrate that conclusion through transparent stratification, scenario analysis and a genuine net-benefit assessment. If the evidence supports the proposal, National Audits Group would support proceeding with clear safeguards and transition. If it supports different settings or a narrow treatment for public-interest outliers, the final law should reflect that evidence instead.

Australia now has the regulatory data and analytical tools to make this decision on a more practical basis than simple doubling. Using those tools carefully - with sound data governance, human judgement and published reasoning - would improve both the policy and public confidence in the reform process.

References

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[7] Corporations Amendment (Proprietary Company Thresholds) Regulations 2019 (Cth) and explanatory material - 2019 threshold change. Source

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