

Keeping it private:

Financial reporting by large proprietary companies in Australia

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Abstract

Since 2010, proprietary companies have had a choice of preparing three types of financial reports that vary in scope. We find that between 2010 and 2015, most proprietary companies in our random sample chose the lowest scope option, with very low quality financial reports. Few adopted the new option provided by AASB 1053 *Application of Tiers of Australian Accounting Standards*. The characteristics of the firms that adopted each type of report are consistent with the regulator's intention. Our findings should provide a better understanding of how accounting standards impact practice, and should assist regulators to reform private company financial reporting.

1. Introduction

Relative to public listed companies the private sector is substantially larger as measured by number of entities.¹ How to regulate the production of financial reports by proprietary companies in the private sector to maximise social welfare is incredibly difficult because of the significant cost to private firms of producing reports for which the benefits vary substantially.² In 1990, Australia introduced a simple binary differential reporting framework which gave private firms the choice of preparing either general purpose financial reports or substantially shorter 'special purpose' financial statements. The Australian Accounting Standards Board (AASB) focus over the past decade on improving and simplifying the criteria for enacting differential approaches to reporting for proprietary companies aimed to ensure the optimum financial reporting benefit-cost trade-off (AASB 2010a, b and c). The outcome of this process was the adoption in 2010 of AASB 1053 *Application of the Tiers of Australian Accounting Standards*. This created a further simplified, third financial reporting option for proprietary companies of preparing general purpose financial reporting with substantially reduced disclosure requirements if they were deemed to be non-publicly-accountable reporting entities. This option is commonly referred to as 'Tier 2' general purpose financial reporting.

Allowing companies' the choice of three types of financial reports since 2010 created considerable flexibility. From greatest to least scope, the options are: (i) general purpose financial reports prepared in accordance with the full suite of Australian Accounting Standards (hereafter 'TIER1_GPFR'); or (ii) general purpose financial reports in accordance with the reduced disclosure requirements set out in AASB 1053 (hereafter, 'TIER2_GPFR'); or (iii) special purpose financial reports (hereafter SPFRs), which are substantially shorter and less complex than general purpose financial reports. A distinguishing feature of the criteria that determine which financial reporting option can be chosen is that it is not based on a bright-line threshold test but rather involves self-

¹ According to the latest counts of businesses released by the ABS (February 2018), there were 2,234,384 actively trading SME firms in Australia at the end of the 2016-17 financial period, making up 99.8 percent of all counts of businesses.

² As recognised by Minnis and Shroff (2017) financial reporting regulation is disproportionately costly for small firms because complying with regulation has large fixed costs elements and unlike larger firms, smaller firms do not benefit from economies of scale.

assessment by the firm and significant judgment as to the economic and social importance of the entity. The criteria and nature of each of these financial reporting options is explained in more detail in Section 2.

The objective of our study is to document and analyse the reporting choices of proprietary companies across the three forms of reporting since the introduction in 2010 of AASB 1053, which first created the opportunity to produce GPFRs containing reduced disclosure (TIER2_GPFRs). More specifically we examine and document for a random sample of large proprietary companies: (i) the frequency of the adoption of the TIER2_GPFR reduced disclosure alternative; (ii) whether the characteristics of the firms that adopted each of the three reporting choices: TIER1_GPFR; TIER2_GPFR or SPFRs are consistent with the intention of regulators; and (iii) to assess the quality of the financial reporting practices in SPFRs.

We find a low level of adoption of TIER2_GPFR during the 2010-15 period with only 7 percent of companies adopting this reporting choice. The majority of companies switching to TIER2_GPFR had previously prepared TIER1_GPFR, consistent with the suggestion that applying AASB 1053 presents a lower cost reporting option relative to the preparation of TIER 1_GPFR. We also find a low number of firms moving to TIER2_GPFR from SPFR and, while the reasons for this low level of adoption are unclear, the proprietary companies in our sample may view the costs of moving from SPFR to TIER2_GPFR to outweigh the benefits of doing so. The most frequent reporting choice is SPFRs, with 77 percent of companies choosing this reporting format. This presents a clear and significant challenge to the AASB in its very recent policy deliberations into the elimination of the practice of SPFRs (AASB 2018, paras.7-12).

Overall, we find that the characteristics of the firms that adopted each of the three reporting choices, namely, TIER1_GPFR, TIER2_GPFR or SPFRs, are consistent with the intention of regulators. We find that firms choosing to produce GPFRs (either TIER1_GPFR or TIER2_GPFR) are on average significantly larger, have greater debt, and have a larger number of shareholders than firms producing SPFRs. This suggests proprietary companies that are more likely to have external users of their reports are providing enhanced disclosure compared to SPFRs, a reporting pattern that is consistent with the intention of the AASB. However, we also find that those firms choosing TIER2_GPFR are larger and carry more debt than TIER1_GPFR firms. This could represent either an opportunistic reporting choice or simply that the benefits of the incremental disclosure between the TIER2_GPFR and TIER1_GPFR reporting choices are lower than the incremental costs of preparation.

We find that entities that prepare SPFRs produce reports of lower quality as proxied by poor quality disclosures in the accounting policy note and the lack of timeliness in the lodgement of SPFRs

with the regulator. This could either be consistent with little demand for information from entities that choose to prepare SPFRs or, alternatively, opportunistic reporting. These findings of high frequency of SPFRs that are of low quality provide important evidence for the AASB's recent policy deliberations in regard to the possibility of eliminating the option of preparing SPFRs.

The current study contributes to the private company reporting literature in two ways. Ours is the first study to examine reporting practices of proprietary companies since the introduction of AASB 1053 and therefore contribute to the current policy deliberations associated with the reporting of proprietary companies.³ This is a significant issue given that it is predicted that in the 21st century much of the growth in modern economies will be produced through private companies (Zimmerman 2015). The most closely related prior work is by Carey *et al.*, (2014b) who examined reporting practices of proprietary companies prior to the introduction of AASB 1053.

An important policy implication and contribution of our study is that we provide a basis for the Board to evaluate the likely costs for entities associated with the potential elimination of SPFRs as put forward in a recent policy proposal in ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Problems*. ITC 39 explores the adoption in Australia of the International Accounting Standards Board's (IASB) Revised Conceptual Framework for Financial Reporting.⁴ Significant in ITC 39 is that it also signals the Board's intention to eliminate the practice of preparing the less complex and shorter SPFRs (AASB 2018, paras.7-12). By doing so, it claims the result will be closer alignment with the terminology in International Financial Reporting Standards (IFRS) and better consistency, comparability and transparency of financial reports prepared by entities in Australia (AASB 2018, paras.7-8). Our results show that, notwithstanding the introduction of the TIER2_GPFR reduced disclosure reporting option, SPFRs remain the preferred reporting option of most proprietary companies. Under the condition this choice is not opportunistic, this represents a significant challenge to the AASB in eliminating the option of preparing SPFRs as the high incidence of this form of reporting implies the costs of increased disclosure requirements are greater than the benefits.

Our study's second contribution is to the academic literature that attempts to examine the benefits and costs of financial reporting for private companies (Lisowsky and Minnis, 2013; Van Overfelt *et al.*, 2010, Allee and Yohn, 2009; Litjens *et al.*, 2012). A key characteristic of the Australian

³ When developing new standards and regulations, Australian government agencies such as the AASB have been required, since 2016, to assess *ex ante* the likely costs and benefits associated with any proposed standard, as well as evaluating *ex post*, the benefits and costs of implementation (PMC, 2016).

⁴ Since 2005, Australian Accounting Standards have been based on IFRS Standards issued by the International Accounting Standards Board (IASB).

setting for our study is that preparers of financial reports for proprietary companies can self-assess and thus retain considerable discretion regarding the scope of the financial reports they prepare. In contrast, in other jurisdictions such as the U.K., if a firm is above a bright-line size threshold they are required to produce financial reports regardless of the firm's own consideration of benefits and costs. Despite the opportunity provided in AASB 1053 to reduce disclosure in periodic financial reports, few companies changed from full disclosure reporting to the lower disclosure option, suggesting the perceived benefits to entities of switching were not clear and/or did not appear to exceed the associated costs.

We now briefly review the regulatory context, the literature relevant to this study, and develop some hypotheses. In the third section we describe our sample. In the fourth section we document the reporting practice of large proprietary companies and analyse the adoption of the alternative reporting choices. This is followed by an examination of the financial reporting practices in SPFRs. In the final section, we summarise our findings and identify a range of opportunities for further research.

2. Regulatory context and relevant literature

In this section, we briefly review the regulatory context for private company reporting and then examine the research literature to our setting. A summary of the definitions of regulatory variables referred to in this paper is provided in an Appendix.

2.1 Regulatory context for private company reporting

The *Corporations Act 2001* requires all large proprietary companies, unless grandfathered,⁵ to lodge a directors' report and audited financial statements with the Australian Securities and Investments Commission (ASIC). Under the *Corporations Act 2001* (Division 5A s.45A (3)), a large proprietary company is defined as one that is limited by share capital, has fewer than 50 non-employee shareholders and has not raised money from the public. These companies also satisfy at least two of three size conditions based on the value of sales or assets and the number of employees.

Large proprietary companies have the following reporting choices: (i) entities that have *public accountability* are required to prepare TIER1_GPFRs; (ii) entities that *do not have public accountability* can choose to prepare either TIER1_GPFRs or TIER2_GPFRs; or (iii) if the company self-classifies as a *non-reporting entity*, a SPFR can be prepared. *Public accountability* is defined in AASB

⁵ 'Grandfathered' describes a situation in which an old regulation continues to apply to some existing situation. In this case, ASIC Class Order 98/1417 provides relief for some large proprietary companies that were not audited for the financial year ending during 1993, or in any later financial year, from lodging audited financial statements based on criteria in section 319(4) of the *Corporations Act*.

1053 to mean accountability to existing and potential resource providers and to others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs (AASB 2010c). A *reporting entity* is defined as an entity in which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of scarce resources (AASB 2010c).

Under AASB 1053, TIER1_GPFRs are required to be prepared in accordance with all of the requirements of Australian Accounting Standards. TIER2_GPFRs are required to be prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards but have substantially reduced disclosure requirements.⁶

SPFRs have traditionally been broadly defined as financial reports prepared to meet the specialised information needs of specific users (AARF/AASB 1990b). SPFRs are subject to lower levels of disclosure requirements relative to GPFRs, with the relevant guidance provided by the ASIC Regulatory Guide 85 (RG 85) *Reporting Requirements for Non-reporting Entities* (ASIC 2005). Under RG 85, entities lodging SPFRs with the ASIC must prepare financial reports that apply recognition and measurement (R&M) requirements and techniques embedded in existing accounting standards, but these reports need only contain disclosures specifically in accordance with five standards. The five standards specifically mentioned in RG 85 are: AASB 101 *Presentation of Financial Statements*; AASB 107 *Cash Flow Statements*; AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; AASB 1031 *Materiality*;⁷ and AASB 1048 *Interpretation and Application of Standards*.⁸ Perhaps not surprisingly due to the lower level of disclosure guidance for SPFRs, AASB Research Report 1: *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements*, examining reporting by private companies in Australia, found significant variation in the information reported by entities producing SPFRs (Carey *et al.*, 2014a).⁹

A key rationale for introducing AASB 1053 was to reduce the compliance costs associated with the preparation of GPFRs in accordance with the full suite of Australian accounting standards. For

⁶ The reduced disclosure requirements in AASB 1053 are enacted through specific disclosure-related carve-outs included in numerous standards, allowing entities to prepare reports that apply the IFRS recognition and measurement principles but which contain significantly reduced quantity of disclosure.

⁷ AASB 1031 was superseded by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for periods beginning on or after 1 July 2015.

⁸ These standards directly reflect the content of the corresponding IASB standards: IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flow* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

⁹ For example, significant variation was observed across companies in the application of the reporting entity concept, and in the provision of information relating to their application of accounting standards and recognition and measurement approaches.

entities previously preparing SPFRs, creating a second tier of GPFR provided an opportunity to obtain the benefits of 'general purpose' reporting which flow largely from the application of Australian accounting standards R&M requirements, without incurring the reporting costs involved with disclosures required to comply with the full suite of Australian accounting standards. For non-publicly-accountable entities already preparing GPFRs in accordance with full Australian accounting standards, TIER 2_GPFR represents an opportunity to reduce reporting costs.

Despite the importance of both *public accountability* and the *reporting entity* concepts for differential reporting in Australia, there are no specific and quantitative ('bright line') tests articulated in Statement of Accounting Concept 1 (SAC 1) or elsewhere that assist in the application of these concepts. Rather, the application of the concepts remains principles-based. SAC 1 does provide a broad set of indicative factors in regard to the application of the reporting entity concept relating to whether it is reasonable to expect the existence of external users who will depend on GPFRs as their primary source of information about the entity. The indicative factors include: (i) *Separation of management from economic interest* (paragraph 20), to capture those entities that may experience agency problems due to management acting on behalf of the economic owners; (ii) *Economic or political importance/influence* (paragraph 21), to capture those entities that are more likely to have a greater impact on the welfare of external parties; and (iii) *Financial characteristics* (paragraph 22), to capture those entities of a certain size or with a high relative level of indebtedness to external parties (see Carey *et al.*, 2014b).

Although the indicative factors outlined in SAC 1 leave much discretion to companies to determine the form of reporting they adopt, the factors are consistent with an established body of research that predicts higher quality reporting by entities for which there is a greater demand for financial information for external monitoring of performance and accountability (Ball and Shivakumar, 2005). We discuss elements of this research below and then develop some predictions in regard to factors that predict the choice of financial reporting between TIER1_GPFRs, TIER2_GPFRs or SPFRs.

2.2 Drivers of Financial Reporting Choices and Disclosure

Despite the economic and social significance of the private company sector,¹⁰ surprisingly little is known about the financial reporting choices by private companies. A small collection of studies focus on either the supply-side or demand-side drivers of financial reporting and on the consequences of financial reporting choices by private companies across a number of countries

¹⁰ A number of studies provide evidence of the social and economic significance of private companies worldwide, see for example Allee and Yohn (2009), Carey *et al.*, (2014b).

including the U.S., U.K., Belgium, the Netherlands and Germany. In general, the findings suggest that the nature and quality of disclosure by companies typically varies with the demand for information by external stakeholders. For example, capital structure and sources of finance effect financial reporting (Hope and Vyas, 2017, 2013). Where there is more external monitoring of performance and accountability, particularly by foreign investors or lenders, higher quality reporting by private companies is more likely (see for example, Allee and Yohn, 2009; Ball and Shivakumar, 2005; Bharath *et al.*, 2008; Eirle and Helduser, 2013; Hope *et al.*, 2017; Lisowsky and Minnis, 2013; Minnis, 2011; Watts, 2003a, 2003b). More specifically, voluntary disclosures are positively related to the separation of ownership and control, and negatively related to the perceived level of competition in the industry (Ceustermans and Breesch, 2016).

Consistent with the above, there is also evidence that the quality of financial reporting by small companies in less-regulated settings does matter to external parties such as debt providers and equity holders. For example, based on interview and survey data, Kitching *et al.*, (2013) find that small company performance is enhanced because important stakeholders are more likely to provide scarce economic resources. Research examining both publicly-listed companies and unlisted private companies suggests that the quality of financial reporting has a positive influence on investment efficiency (e.g., Healy and Palepu, 2001; Bushman and Smith, 2001; Lambert, 2001; Chen *et al.*, 2011; Gomariz *et al.*, 2014). Allee and Yohn (2009) find that small U.S. private companies with better quality financial reporting can more easily access debt finance at a lower cost (see also Chen *et al.*, 2011; Hope *et al.*, 2011, Minnis, 2011).

An implication of this brief review of the literature is that the nature and quality of reporting by private companies are important for decisions made by myriad stakeholders (Soderstrom and Sun, 2007). However, a limitation of this stream of research is that it generally focuses on examining the financial reporting quality of private firms by using measures such as accruals quality and timely loss recognition. As is well-documented, accrual quality is difficult to measure because true economic performance is unobservable. The setting for this study provides two advantages that allow us to contribute to the existing literature focusing on reporting choices by private companies. First, there is a directly observable public disclosure decision: the choice between (i) TIER1_GPFRs; (ii) TIER2_GPFRs, and; (iii) SPFRs. In contrast to a number of overseas jurisdictions (e.g., U.K., E.U.), where unlisted proprietary companies are faced with mandatory reporting requirements and have no choice regarding disclosure level, our study provides a unique opportunity to examine financial reporting in an environment where preparers of financial reports retain considerable discretion regarding the nature and level of the accounting standards they apply. Secondly, over our sample period, a change occurs in the available financial reporting alternatives without a concurrent change

in enforcement. Confounding factors such as enforcement and assurance are often difficult to isolate from the changes to an accounting standard (e.g. Barth *et al.*, 2008, Leuz and Wysocki, 2016).

2.3 Hypotheses

The premise underpinning the introduction of the TIER2_GPFR option was to lower the cost of preparing financial reports. Therefore, our first prediction is that we should observe some switching from TIER1_GPFRs to TIER2_GPFRs under the condition that the benefits of full disclosure are lower than the costs of preparation. We will observe switching from SPFRs to TIER2_GPFRs under the condition there are some benefits to preparing general purpose financial statements and the cost of this has now been lowered.

Private firms could have both informative and opportunistic incentives to vary the level of public disclosure of financial information. The choice between the three available types of financial reports is based on self-assessment and professional judgment giving rise to the potential for opportunistic behaviour. To provide some preliminary evidence about whether the choices that are made are consistent with the regulator's intention, rather than for opportunistic reasons, we examine whether the level of financial report disclosure chosen increases with the demand for information by external stakeholders as measured by the principles in the reporting entity concept.¹¹ We approach this by developing and testing proxies for each of the reporting entity indicative factors set out in *Statement of Accounting Concept One, Definition of A Reporting Entity (SAC1)*, and examine whether observed reporting practice (e.g. preparation of TIER1_GPFRs, TIER2_GPFRs and SPFRs) can be explained by those factors. This enables us to provide insights into the reasons for the adoption of the recently-introduced TIER2_GPFR reduced disclosure alternative.

SAC 1 identifies three factors that can be used to identify a reporting entity. To proxy for the reporting entity indicative factor 'separation of management from economic interest' outlined in SAC 1, we use (i) the number of members (shareholders); and (ii) 'more than one member', a measure filtering out entities that have only one member. With multiple members/shareholders there is potential for agency conflict, suggesting a greater demand for enhanced transparency through higher quality financial reporting, possibly leading to a higher likelihood that either TIER2_GPFRs or TIER1_GPFRs will be prepared. When there is only one member/shareholder, the likelihood of agency conflict is low, suggesting *ex ante* a higher likelihood of SPFRs being sufficient.

We use entity size and number of employees to proxy for both the economic influence and financial characteristics factors. Variables identified to proxy for size are trading revenue and total

¹¹ 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 (AARF/AASB, 1990a).

assets. Dedman and Lennox (2009) find evidence that private firms are more likely to voluntarily disclose information when they have contracting incentives to do so. This is because when firms have a large number of counterparties they often find it less costly to disclose information publicly rather than privately. As size increases, it is more likely that firms will choose a higher level of reporting disclosure to meet the needs of users and for those entities we expect a higher incidence of GPFs.

We also expect the number of employees to proxy for increasing demand for information and thus the existence of a reporting entity. As recognised by Australian legal scholars, when companies become insolvent and are liquidated, it is common for employees to lose both their jobs and their unpaid entitlements, often comprising annual and long service leave, wages and redundancy pay (Anderson, 2013). The current regime for dealing with payment of outstanding wages and entitlements to employees of insolvent groups of companies is still not fully effective (Gronow, 2003; Anderson, 2014). To counter the ineffectiveness of the legal system, employees may demand financial reporting information to understand the risk associated with non-payment of their entitlements, leading us to predict that, as the number of employees increases, it is more likely that firms will choose a higher level of reporting disclosure.

Finally, we also examine measures of the level of indebtedness to proxy for the existence of a reporting entity, because higher levels of indebtedness could indicate the existence of more external users who are dependent on financial information (see Minnis, 2011). For example, creditors, financial institutions, and other debt-holders will seek reliable and understandable information about an entity to assist in making lending decisions, suggesting a greater likelihood that the entity will classify as a reporting entity and lodge GPFs. On the other hand, it is also possible that banks and other lending institutions require borrowers to provide specific information so that their accountability and compliance with the terms of the loan contract can be monitored. This may mitigate any need to rely on the entity's 'general purpose' statements as the primary source of information. To test our expectation that the likelihood of a company lodging GPFs increases with the level of indebtedness, we use the amounts owing to creditors, the amount of bank debt, the amount of total liabilities and the natural log of all three measures as proxies for 'indebtedness'. While there are limited reasons to expect differences in bank debt between the groups (Allee and Yohn, 2009; Baber and Gore, 2008), we have a stronger expectation of differences in amounts owing to creditors.

A SPFR is prepared by those companies that self-classify as a *non-reporting entity*. This self-classification implies there are no users that need to rely on general purpose financial report to make economic decisions. In general, the findings from the prior literature summarised in Section

2.2 suggest that the nature and quality of disclosure by companies typically varies with the demand for information by external stakeholders. This leads us to predict that, as there is little demand for SPFRs, the quality of the report prepared will be low. To examine this hypothesis we examine the quality of SPFRs in two ways: (i) we investigate disclosures in the accounting policy note, and; (ii) we examine the timeliness of the lodgement of SPFRs.

3. Sample Construction and Timeline

To examine reporting practice by SMEs, we sought from the ASIC annual lodgements of a random sample of 340 companies between the period 2010 and 2015. We began in 2010 as that was the first year in which large proprietary companies had the choice to adopt AASB 1053. We ended in 2015 as this was the most recent year available when we began the study.¹² Table 1 shows a breakdown of the total sample of 1221 annual report lodgements made by 340 companies during the period 2010-15.

Table 1 here

4. Results

4.1 Frequency distribution of reporting choice

Table 1 reports the format of reporting chosen by the sampled entities. There are three levels of financial reporting that vary in their scope of application of accounting standards. Approximately 15 per cent of companies chose to prepare TIER1_GPFRs, 7 per cent of companies chose TIER2_GPFRs and 78 percent of companies chose the less complex SPFRS. The results indicate that when given a choice, a large majority of entities choose to prepare less complex and shorter financial reports containing the lowest level of application of accounting standards. This is consistent with private companies perceiving limited benefits from the public disclosure of their financial reports.¹³ A possible implication for the AASB is that any attempt to eliminate the practice of preparing SPFRs will be less effective unless the opportunity to do so is removed. We also might ponder the extent to which, in the absence of RG 85, entities producing SPFRs would apply the R&M requirements contained in specified standards.

¹² A possible limitation of this time period is that it may be too short and we may initially observe no switching due to the stickiness or slow pace of change in accounting practices (Kvaal and Nobes, 2010, 2012; Nobes and Stadler, 2013; Stadler and Nobes, 2014). Nobes and co-authors identify the tendency for companies to continue with their prior accounting policy, even in the face of change in national policy.

¹³ Although SPFRs are publicly available from the ASIC upon request, there is a cost associated with obtaining each annual report. The average cost of an annual financial report is around \$45, determined by the length of the report regardless of its quality and completeness of information.

Table 2 Panel A examines the switching behaviour of companies between the three reporting options. Table 2 Panel B reports the years over which that switching occurred. The results, in Panel A, show that 75 per cent of the companies that switched to TIER2_GPFRs previously produced TIER1_GPFRs, while the remaining 25 per cent of companies that switched to TIER2_GPFRs had formerly prepared SPFRs. Panel B in Table 2 shows that 67 per cent of the companies that switched from TIER1_GPFR to TIER2_GPFR did so in 2011 and 2012, whereas 50 per cent of companies that formerly prepared SPFRs switched to TIER2_GPFR in 2014. Interestingly, in 2010, one company switched from preparing SPFRs to TIER2_GPFRs, while in 2012 this same company switched from preparing TIER2_GPFRs to TIER1_GPFRs. The substantial difference in the number of firms choosing to disclose less (shifting from TIER1_GPFRs to TIER2_GPFRs) rather than more (shifting from SPFRs to TIER2_GPFRs) is consistent with private companies perceiving limited benefits from public disclosure of their financial reports.

Table 2 here

4.2. *Descriptive analysis of the reasons for financial reporting choices by large proprietary companies*

In this section we examine whether the financial reporting choices and disclosures made by companies can be explained by the indicative factors for reporting entities outlined in SAC 1. As demand for financial reporting increases, we should observe a higher level of disclosure (see for example Allee and Yohn, 2009; Hope *et al.*, 2017).

Table 3 reports results based on our proxies for demand for high quality financial reporting developed from the definition of the reporting entity in SAC 1 outlined earlier. We test whether there are a statistically significant differences in the mean (median) values for the reporting entity concept proxies among companies lodging TIER1_GPFRs, TIER2_GPFRs and SPFRs. If our proxies appropriately capture larger, more economically- and more socially-significant companies, we expect to observe higher values for these proxies for the companies that have chosen TIER1_GPFRs or TIER2_GPFRs instead of SPFRs.

Table 3 here

Panel A in Table 3 reports differences among TIER1_GPFR, TIER2_GPFR and SPFR firms on financial variables that proxy for size, including trading revenue, total assets, and number of employees. Overall, the results support our expectation that, on average, larger entities lodge either TIER1_GPFRs or TIER2_GPFRs rather than SPFRs. However, contrary to expectations, TIER2_GPFR

companies are significantly larger in terms of both the mean and median levels of trading revenue and total assets compared to companies producing either TIER1_GPFRs or SPFRs. Similarly, based on the mean and median number of employees (i.e., reported head-count and the natural log of the head-count), TIER2_GPFR companies are also larger than TIER1_GPFR and SPFR companies. This could represent either an opportunistic reporting choice or simply that the benefits of the incremental disclosure between the TIER2_GPFR and TIER1_GPFR reporting choices are lower than the incremental costs of preparation.

Our proxies for the 'separation of management from economic interest' are: the number of members (shareholders); the number of directors; and an indicator variable for entities that have 'more than one member'. Overall, the results reported in Table 3 (Panel B) support our expectation that entities with multiple members/shareholders and/or multiple directors are, on average, more likely to lodge GPFRs. GPFR companies have a significantly (at the 1% level) higher mean and median number of members, and a significantly (at the 1% level) higher mean and median number of directors. Typically, companies lodging GPFRs have more directors (mean = 6.1) compared to companies lodging SPFRs (mean = 3.9). Companies lodging TIER2_GPFRs also have more multiple members/shareholders and/or multiple directors compared to companies lodging SPFRs. Similarly, the indicator measure of 'more than one member' is significantly different ($\chi^2_{2,df} = 16.36, p < .0000$) among entities that adopt TIER1_GPFRs, TIER2_GPFRs and SPFRs. There is a monotonic increase in the number of members across the three report levels consistent with the supply of financial reporting quality increasing in line with increasing agency problems.

Our third set of tests focuses on whether the level of indebtedness of entities differs among companies lodging TIER1_GPFRs, TIER2_GPFRs and SPFRs. We expect greater levels of indebtedness to indicate the existence of more external users who are dependent on financial information, resulting in higher quality reporting and a greater incidence of GPFRs (see Allee and Yohn, 2009; Hope *et al.*, 2017; Lisowsky and Minnis, 2013; Minnis, 2011).

All mean (median) values for the proxies that measure indebtedness are significantly higher for TIER1_GPFR companies than for SPFR companies (Panel C, Table 3). This is consistent with our expectation that companies lodging TIER1_GPFRs have higher levels of indebtedness. However, firms that have elected to report TIER2_GPFRs have higher levels of debt than those preparing TIER1_GPFRs.

In summary, all variables that proxy for factors indicating the existence of a reporting entity in SAC 1 show higher mean (median) values for entities that prepare GPFRs than for entities preparing SPFRs, while our proxies are less helpful in distinguishing between those entities producing TIER

1_GPFRs and TIER 2_GPFRs. Providing a third alternative reporting approach via TIER 2_GPFR may result in unintended and adverse financial reporting outcomes. While TIER 1_GPFR entities are typically larger than SPFR entities, it is possible that entities may choose the reduced disclosure alternative of TIER2_GPFR for opportunistic reasons, to keep aspects of their company information private. We provide some preliminary insights into this possibility.

In Table 4, we report the distribution of firm characteristics of companies adopting TIER2_GPFR that had previously chosen to prepare TIER1_GPFRs. The descriptive statistics show these entities that previously lodged TIER1_GPFRs are very large companies. For nine firm-years, the companies involved reported trading revenue and total asset values greater than \$200 billion. Five companies reported more than 500 employees, and four companies reported trading revenue in excess of \$400 billion. Five of the nine companies that produced TIER 2_GPFRs reports had more than \$11.5 million in bank debt, and the largest three companies had gearing (debt/assets) in excess of 90 per cent.

In addition, as reported in Table 4, one of the companies lodging Tier 2 GPFRs is considerably larger than the rest, reporting the highest number of members (78) and employees (6356), and the highest level of trading revenue (\$10.2 billion), assets (\$26.9 billion), liabilities (\$23.9 billion), bank debt (\$21.7 billion), creditors (\$4.71 billion) and operating cash flow (\$116 million). Even after truncating extreme observations at the 95th percentile for companies preparing TIER2_GPFRs (i.e. excluding three companies), the mean values for most of the variables remain high: the average number of employees is 530, the mean level of trading revenue is \$485 million, mean assets is \$523 million, mean liabilities is \$354 million, mean bank debt is \$330 million, and mean creditors is \$168 million, while average operating cash flow is a negative \$1.04 billion. Overall, the fact that the average entity adopting TIER2_GPFR is considerably larger exposes a potential concern with companies self-assessing to determine their level of disclosure.

Table 4 here

4.3 Descriptive analysis of large proprietary companies that lodge SPFRs

In this section we provide preliminary insights into the quality of the financial reporting practices of companies that have lodged SPFRs since the release of AASB 1053. Concerns about the quality of financial reporting by private companies lodging financial statements were first highlighted by the ASIC in 2005 (see RG 85). For example, the ASIC identified that a number of standards were often not being applied by companies and that R&M requirements of the accounting standards had not been applied by a number of companies lodging SPFRs. *Ceteris paribus* there is an absence of incentive for non-publicly-accountable entities to disclose higher quality information via the

preparation of GPFs. Accordingly, we examine aspects of reporting practices in SPFRs to provide insight into the quality of these reports. This will assist the AASB in establishing the likely costs and benefits of enacting the fundamental changes to private company financial reporting as proposed in ITC 398.

To investigate the disclosures made by companies lodging SPFRs, we examine the content of the 'significant accounting policies' note (Note 1) reported by companies in relation to the application of R&M requirements and the disclosures recommended by RG 85.¹⁴ Applying RG 85, companies must follow at least three of the five accounting standards that are required of companies lodging under the *Corporations Act 2001* (i.e., AASB 101, AASB 107, AASB 108, AASB 1031, and AASB 1048). We classify each company as 'State application' or 'Do not state application', according to whether they state compliance with R&M requirements and the standards referred to in RG 85. At the same time, we note that, contrary to our intuition, it is possible that even though companies may not state that they apply R&M requirements or follow the disclosures recommended by RG 85, they may be doing so anyway. Accordingly, our classification is based on the information reported in Note 1, and we make no judgement as to whether the statement reflects the actual level of compliance by the company.

A two-stage process was used to determine and verify the classification of companies into either the 'State application' or 'Do not state application' group. Research assistants in close collaboration with the researchers classified and coded the companies into the two groups and, after the coding was completed by the research assistants, the second stage of the research employed an independent coder with extensive experience as an auditor to independently verify the classification of companies. The independent coder provided his/her own set of codes to classify the companies into the two groups. These codes were then reviewed and subjected to reliability assessment, that is, the researchers verified the extent to which the research assistants' codes of 'State application' and 'Do not state application' concurred with the codes adopted by the independent coders.¹⁵

¹⁴ While AASB 101 requires companies to disclose (in a summary of significant accounting policies) the measurement basis (or bases) used in preparing the financial statements and any other accounting policies that are relevant to an understanding of the financial statements, it does not specifically require them to disclose whether they have applied IFRS R&M or whether they have applied RG 85.

¹⁵ The inter-rater reliability estimate (Inter-rater reliability = (number of coding agreements)/(number of coding agreements + number of coding disagreements) (see Tashakkori and Teddlie, 1998) was 0.92, suggesting that the rate of disagreement between the codes derived by the research assistants and the codes provided by the independent coder was approximately eight per cent. The majority of disagreements occurred where it was difficult to tell whether companies had applied any of the recognition and measurement requirements contained in accounting standards and thus most of these disagreements were classified into the 'Unclear' group.

The results of this classification are shown in Table 5. In around 53 per cent of the 953 SPFR lodgements made over the period 2010-15, companies clearly disclosed in their significant accounting policies note to the financial statements that they had applied R&M requirements. Approximately 47 per cent did not state that they had done so and thus it was difficult to determine whether they had applied R&M requirements. In summary, a substantial proportion of companies lodging SPFRs did not adequately disclose their accounting policies. To the extent that there is an association between the quality of disclosure and the quality of reported numbers, the measurement of financial performance and position provided in SPFRs is likely to be of lower quality.

Table 5 here

Disclosures by the 503 companies lodging SPFR that stated application of R&M requirements were further analysed to identify whether companies explicitly reported the number of standards they applied, based on the five standards identified in RG 85. Table 6 shows that nearly 58 per cent of company-year observations clearly stated all five standards had been applied, about 14 per cent of company-year observations stated they applied four of the five standards, while 28 per cent of company-year indicated they applied three of the five standards. In summary, a substantial proportion of lodged SPFRs reported the application of less than five standards identified in RG 85. This is consistent with either poor quality disclosure or poor quality application of accounting standards.

Table 6 here

We also examine the timeliness of the lodgements of SPFRs compared to TIER1_GPFRs and TIER2_GPFRs to further understand the quality of SPFRs. According to Section 319(3) (a) and (b) of the *Corporations Act 2001*, reporting entities must lodge financial reports within 90 days of the end of the financial year, whereas non-reporting entities have a lodgement period of 120 days. Financial statements lodged after this period are subject to nominal late fees. Results reported in Table 7 show that nearly 64 per cent of companies lodge late and that the average number of days for lodgement – for both reporting and non-reporting entities – is 167 days.

Table 7 here

Although the median number of days late is comparable between TIER1_GPFRs, TIER2_GPFRs and SPFRs, the mean number of days for report lodgement is higher for SPFRs. A comparison among the three groups shows that the SPFR group is significantly more likely to lodge late ($\chi^2_{2\ df} = 15.97, p < .0000$) than the TIER1_GPFR and TIER2_GPFR groups. Specifically, 66% of the SPFR group lodge late compared to 52% and 54% respectively of the TIER1_GPFR and TIER2_GPFR groups (see Table

7). The lack of timeliness of the lodgement of SPFRs compared to TIER1_GPFRs and TIER2_GPFRs is further evidence that SPFRs are of lower quality.

The evidence of a positive association between the scope of report chosen (TIER1_GPFR v TIER2_GPFR v SPFR) and the quality of reporting is consistent with the public disclosure decision and financial reporting quality decision being determined simultaneously (Bernard *et al.*, 2016). It is not possible to determine definitively whether the decision to provide lower quality disclosure is a potential *determinant* or *consequence* of the choice to produce SPFRs. This remains a significant issue for the AASB, as it continues its efforts to improve financial reporting by private companies.

5. Conclusions and Further Research

This study provides the first insight into the impact of the implementation of AASB 1053 on the reporting practices and reporting choices of large proprietary companies in Australia. The results reported will be useful for the AASB as it seeks to improve private company financial reports by eliminating the preparation of SPFRs. Our evidence not only contributes to further enhancing the regulations related to the two tiers of GPFRs and to recommendations surrounding financial reporting alternatives, but it also raises new issues for future research.

We find that 78 per cent of companies in our sample prepare SPFRs, 15 per cent prepare TIER1_GPFRs and only seven per cent prepare TIER2_GPFRs, which highlights the low rate of adoption of TIER2_GPFRs (Tier 2 of AASB 1053). The low level of take-up of AASB 1053 fails to support the key justification given for the standard, which is to reduce the cost of reporting for non-publicly-accountable entities relative to the preparation of TIER 1_GPFRs. Of those companies switching to TIER2_GPFRs, 75 per cent took the opportunity to reduce their disclosure levels by switching from TIER1_GPFRs, where only 25 per cent used the opportunity to enhance disclosure by switching from SPFRs to TIER 2_GPFRs.

Our results show the application of the reporting entity concept among large proprietary companies is helpful in understanding the decisions made by companies to produce GPFRs, although it is less helpful in explaining the decision to switch between tiers of GPFR. We find that companies preparing GPFRs are larger and more economically significant entities with more debt and thus more potential for agency problems compared to those that prepare SPFRs. However, we find evidence that some larger companies with more debt prepare TIER2_GPFRs rather than TIER1_GPFRs. We cannot exclude the possibility that some large proprietary companies use TIER2_GPFR opportunistically to keep their company information private. Consistent with Carey *et al.*, (2014a, b), we also provide evidence of the lower quality of reporting by companies producing SPFRs and similarly find that these reports vary in the nature and extent of disclosures made, particularly

around the application of accounting standards R&M requirements. In addition, SPFRs are more likely to be less timely in lodgement than GPFRs, suggesting that the usefulness of information provided in SPFRs may be lower.

These results have several implications for regulators and standard-setters. The motivation for the introduction of AASB 1053 was the potential to reduce the costs of reporting relative to TIER1_GPFRs. However, if this were the case, we should have observed more entities electing to switch from TIER1_GPFRs to TIER 2_GPFRs. The large number of companies preparing SPFRs raises questions about whether SPFRs should be lodged publicly, particularly where such entities do not clearly have users dependent on the financial information. However, it may be the case that some entities are opportunistic in preparing SPFRs as it is a convenient way for these entities to avoid external monitoring and scrutiny as well as the costs associated with more extensive financial reporting.

When reconsidering the type and extent of reporting by private for-profit entities, regulators should also take a wider view of the public interest and include in their decision making corporate social responsibility and environmental matters such as the use of natural resources and agriculture assets,¹⁶ as these issues will better inform the debate about the nature and extent of financial disclosure that should be required of private companies. If regulators persist in accepting the lodgement of SPFRs, entities will require greater encouragement to enhance the quality of disclosure if significant improvement in transparency is to be achieved. Timely reporting will also need to be strongly encouraged and this could be achieved by introducing enhanced enforcement by regulators as well as by significantly increasing penalties.¹⁷

The results presented in this study suggest several opportunities for further research. An advantage of examining reporting around the introduction of AASB 1053 is that it represents a clean setting, without any other changes in enforcement or assurance that typically accompany a change in standards. Clearly, more research is needed to better understand why companies decide to lodge financial reports that embed different levels of disclosure. Future research could extend to assessing whether such choices are based on the perceived costs and benefits of disclosure. Prior research consistently identifies a number of benefits to private firms reporting higher quality information,

¹⁶ We thank an anonymous referee for this suggestion.

¹⁷ The theory of responsive regulation provides guidance regarding a range of penalties to maximise compliance with regulations without imposing unnecessary costs on either the regulator or the regulated. Ayers and Braithwaite have published work on this theory: Ayers and Braithwaite, 1992; Braithwaite, 1985.

including improved access to equity markets via IPOs,¹⁸ improved access to debt capital (Hope and Vyas, 2017, 2013), and enhanced investment efficiency (Chen *et al.*, 2011; Gomariz *et al.*, 2014).

Nevertheless, there may be a number of other reasons why disclosure decisions are made by entities. A large majority of companies continue to produce less detailed SPFRs, suggesting those companies may perceive the costs of enhanced disclosure to outweigh the benefits. It is possible that the costs of moving to GPFRs may be higher than imagined, and/or the benefits oversold. Addressing such questions could usefully include discussions with the companies involved to better understand why they adopt a particular form of reporting.

A second and related line of enquiry is to examine the factors affecting a company's decision to adopt, or not, the requirements in AASB 1053. If, as suggested by accounting standard setters, a new standard prescribing less disclosure will lower the costs of reporting, then it is not clear why private companies would persist in preparing TIER1_GPFRs. In this setting, researchers could usefully investigate the drivers and consequences of the decision to change. This would provide direct evidence of arguments put forward by Nobes and colleagues suggesting that major accounting policy choices by entities are typically 'sticky' (Stadler and Nobes, 2014).

Finally, in light of the AASB efforts to remove the reporting entity concept as the cornerstone of differential reporting, researchers and standard setters could explore developing definitions of economic and social significance to better delineate which private companies should report using full IFRS and which entities could use a less detailed standard. If such an alternative is considered by standard setters, at least two things are certain. First, the level at which any such tests are set will be subject to widespread debate, so notions of consistency and transparency in developing requirements are crucial. Secondly, empirical research can be conducted to inform such debate by providing insights into the likely consequences of the tests that might be developed.

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¹⁸ Both Ball and Shivakumar (2008) and Boulton *et al.*, (2007) show an association between IPOs and the demand for high quality financial reporting information.

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Appendix A

Definitions of Acronyms and Labels used in the paper

Label	Definition
GPFrs	Full GAAP-based general purpose financial reports that are 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 needs
Public Accountability	Public accountability means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs (AASB 1053)
Reporting Entity	An entity in which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of scarce resources (SAC 1)
R&M	Recognition and measurement requirements under Australian Accounting Standards
RG85	ASIC Regulatory Guidance 85 <i>Reporting requirements for non-reporting entities</i>

SAC1	Statement of Accounting Concepts One <i>Definition of a Reporting Entity</i>
SPFRs	Are special purpose financial reports that have traditionally been broadly defined as financial reports prepared to meet the specialised information needs of specific users (AARF/AASB 1990). They are less complex and shorter than GPFRs.
TIER1_GPFRs	General purpose financial reports prepared in accordance with the full suite of Australian Accounting Standards.
TIER2_GPFRs	General purpose financial reports prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards but with reduced disclosure requirements.

Table 1: Reporting Choices made by Large Proprietary Companies 2010-2015

	Company-Years		Companies	
	Frequency	Percentage	Frequency	Percentage
TIER1_GPFR	185	15.15	51	15.01
TIER2_GPFR	63	5.16	24	7.05
SPFR	973	76.69	265	77.94
Total:	1,221	100	340	100

This table reports the frequency distribution of financial reporting choices made by large proprietary companies over the period from 2010 to 2015. The choices are between TIER1_GPFR, TIER2_GPFR and SPFR all of which are defined in the Appendix and text.

Table 2: Large Proprietary Company Lodgement Switching Behaviours to Reduced Disclosure 2010-2015

Panel A: Frequency by Type of Lodgement		
	Frequency	Percentage
TIER1_GPFR to TIER2_GPFR	18	75
SPFR to TIER2_GPFR	6	25
Total:	24	100

Panel B: Frequency by Year		
	TIER1_GPFR to TIER2_GPFR Frequency	SPFR to TIER2_GPFR Frequency
2010	1	1*
2011	10	
2012	2*	1
2013	3	1
2014	1	3
2015	1	
Total:	18	6

The Table reports the frequency of switching between the three available financial reporting options over the period from 2010 to 2015.

The choices are between TIER1_GPFR, TIER2_GPFR and SPFR all of which are defined in the Appendix and text.* In 2010, one company switched from preparing SPFR to TIER2_GPFR, while in 2012 this same company switched from preparing TIER2_GPFR to TIER1_GPFR.

Table 3: Oneway ANOVA Tests on Reporting Entity

		TIER1_GPFR	TIER2_GPFR	SPFR	TIER1_GPFR vs SPFR	TIER2_GPFR vs SPFR	TIER1_GPFR vs TIER2_GPFR
Panel A: 'Size' test							
Trading Revenue	Mean	\$329,000,000	\$934,000,000	\$163,000,000	t = -2.29**	t = 4.63***	t = 6.64***
	Median	\$67,000,000	\$216,000,000	\$50,600,000	z = 39.22***		
InTrading Revenue	Mean	\$17.97	\$19.06	\$17.66	t = 2.00	t = 3.93***	t = 5.67***
	Median	\$18.03	\$19.21	\$17.79	z = 36.18***		
Total Assets	Mean	\$740,000,000	\$1.84 ^b	\$360,000,000	t = -2.11*	t = 3.36***	t = 5.07***
	Median	\$77,200,000	\$191,000,000	\$41,300,000	z = 56.42***		
In Total Assets	Mean	\$18.65	\$19.17	\$17.79	t = 6.09	t = 1.99	t = 5.99***
	Median	\$18.16	\$19.07	\$17.54	z = 55.90***		
No. Employees	Mean	623.6	717.5	322.2	t = 3.70***	t = 0.64	t = 3.06***
	Median	116	417.5	113	z = 28.18***		
In No. Employees	Mean	5.26	6.07	4.94	t = 2.47***	t = 3.51***	t = 5.57***
	Median	5.08	6.21	4.91	z = 38.17***		
Panel B: 'Separation of Management from Economic Interest' Test							
No. Members	Mean	6	5.2	2.6	t = 4.86***	t = 0.65	t = 2.38*
	Median	2	1	1	z = 12.09***		
> 1 Member	%	63.00%		47.00%			

No. Directors	Mean	6.1	3.9	t = 11.17***	t = 2.50	t = 4.54***
	Median	5	4	Z = 91.09***		

The Table reports differences in size, indebtedness and separation of management from economic interest between companies choosing TIER1_GPFR, TIER2_GPFR and SPFR type of financial reports.
 ***p<0.01, **p<0.05, *p<0.10

Table 3: Oneway ANOVA Tests on Reporting Entity (cont.)

		TIER1_GPFR	TIER2_GPFR	SPFR	TIER1_GPFR vs SPFR	TIER2_GPFR vs SPFR	TIER1_GPFR vs TIER2_GPFR
Panel C: 'Indebtedness' Test							
Creditors	Mean	\$340,000,000	\$300,000,000	\$120,000,000	t=-3.27***	t=-0.32	t = 1.64
	Median	\$22,500,000	\$68,600,000	\$10,300,00	z= 38.22***		
In Creditors	Mean	\$17.04	\$17.68	\$16.26	t=-4.48***	t = 2.03	t = 5.00***
	Median	\$16.93	\$18.04	\$16.17	z = 34.54***		
Bank Debt	Mean	\$470,000,000	\$1.15 b	\$84,000,000	t = -4.56***	t = 4.49***	t = 7.90***
	Median	\$17,000,000	\$30,700,000	\$5,359,916	z = 45.84***		
In Bank Debt	Mean	\$17.23	\$17.35	\$15.69	t = -6.78***	t = 0.29	t = 4.51***
	Median	\$16.93	\$17.47	\$15.97	z = 45.36***		
Total Liabilities	Mean	\$560,000,000	\$1.53 b	\$191,000,000	t =-2.87***	t = 4.16***	t = 6.43***
	Median	\$43,200,000	\$110,000,000	\$20,000,000	z = 68.91***		
In Total Liabilities	Mean	\$18.07	\$18.72	\$17.01	t = -6.46***	t = 2.20*	t = 6.48***

Median \$17.80 \$18.49 \$16.85 z= 64.23***

***p<0.01, **p<0.05, *p<0.10

Table 4: Entities applying AASB 1053

Percentile	Members	Employees	Trading Revenue (000's)	Total Assets (000's)	Liabilities (000's)	Bank debt (000's)	Gearing	Creditors (000's)	Operating Cash Flow (000's)
1	1	0	(130,000)	9,876	6,099	0	0.268	737	(727,000)
5	1	0	11,500	14,300	7,439	0	0.297	1,209	(89,100)
10	1	0	13,100	18,900	9,205	0	0.360	2,404	(22,300)
25	1	165	54,300	58,800	27,100	1,209	0.499	7,176	(6,370)
50	1	417.5	216,000	191,000	107,000	30,700	0.637	68,600	3.5
75	3	807	441,000	603,000	373,000	195,000	0.882	162,000	4,351
90	12	1,846	1,490,000	1,700,000	1,530,000	781,000	0.968	814,000	14,000
95	30	2,978	7,820,000	15,200,000	11,350,000	9,420,000	0.999	1,720,000	62,600
99	78	6,356	10,200,000	26,900,000	23,900,000	21,700,000	0.999	4,710,000	116,000
N	59	58	60	63	63	63	63	60	62
Mean	5.20	717.47	934,000	18,400,000	1,530,000	1,150,000	0.716	300,000	(14,000)
Std Dev.	11.71	1,031.64	2,250,000	54,000,000	4,710,000	4,000,000	0.413	735,000	101,000

Skewness	4.64	3.37	3.20	3.53	3.71	3.98	2.651	4.24	-5.91
N*	56	55	57	59	59	60	57	57	54
Mean	3.00	530.87	485,000	523,000	354,000	330,000	0.611	168,000	(1,040)
Std Dev.	4.48	548.74	1,110,000	1,440,000	762,000	1,320,000	0.192	342,000	2,470,000
Skewness	3.72	1.66	4.60	6.30	4.56	5.93	0.118	3.49	-3.00

The table reports descriptive statistics for companies electing to report TIER2_GPFR under AASB 1053. TIER2_GPFR is defined in the Appendix and text. *Observations truncated at the 95th percentile.

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Table 5: Large Proprietary Companies Lodging Special Purpose Financial Reports - Disclosures Relating to Application of R&M 2010-2015

Application of R&M	SPFR (Firm Years)	
	Frequency	Percentage
Do Not Clearly State Application	450	47.22
State Application	503	52.78
Total:	953	100.00

The table reports the frequency with which firms preparing Special Purpose Financial Reports clearly state in 'significant accounting policies' note (Note 1) that they applied the R&M requirements in the relevant accounting standards.

Table 6: Large Proprietary Companies Lodging Special Purpose Financial Reports - Disclosures Relating to Stated Application of the Number of R&M Standards 2010-2015

State Application of R&M	SPFR (Firm Years)	
	Frequency	Percentage
Stated Application of 3 of the 5 R&M standards	142	28.23
Stated Application of 4 of the 5 R&M standards	70	13.92
Stated Application of 5 of the 5 R&M standards	291	57.85
Total:	503	100.00

The table reports the number of R& M standards disclosed in 'significant accounting policies' note (Note 1) by those companies that prepared Special Purpose Financial Reports and had some R&M disclosure in Note 1.

Table 7: Large Proprietary Companies - Late Lodgements 2010-2015

	TIER1_GPFR		TIER2_GPFR		SPFR		Overall	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Lodgement No. Days	153.48	121	159.92	121	169.69	123	166.69	122
% Late Lodgers Within Group	51.89%		53.97%		66.08%		63.61%	
% Late Lodgers Across 3 Groups	12.42%		4.04%		81.18%		100.00%	
No. Observations	180		62		948		1,191	

The first row in this table reports the mean and median number of days a company takes to lodge their financial reports. The second and third row report the percentage of companies that lodge after the statutory deadline.

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