Australian Government

Dashboard Impact Analysis (IA) – Financial reporting relief for wholly-owned companies

Australian Securities and Investments Commission

The proposed policy approach and policy problem addressing

Proposed approach

ASIC proposes to provide relief so that entities that are a part of a closed group of wholly-owned companies, and are a party to a deed of cross-guarantee, do not have to prepare and lodge individual audited financial statements if their holding entity lodges a consolidated financial report.

This approach balances the compliance savings for companies that take advantage of the relief, while ensuring that creditors and other stakeholders have access to financial information about the group through the consolidated financial report of the holding company and there is a deed of cross guarantee for the benefit of creditors.

ASIC has provided financial reporting relief for wholly-owned companies for many years, most recently under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* ('the 2016 Instrument'). The 2016 Instrument is scheduled to sunset on 1 October 2026.

We propose to continue the existing relief while the Government progresses law reform for simplified reporting relief for group entities, announced as part of the Whole-of-Government Regulatory Reform Agenda in the 2026-27 Budget.

Policy problem

Part 2M.3 of the *Corporations Act 2001* requires companies (except most small proprietary companies), disclosing entities and registered managed investment schemes to prepare and lodge a financial report, directors' report and auditor's report for a financial year.

Financial reporting provides information about an entity's performance, financial position and cash flows. This helps creditors and other stakeholders evaluate risks when transacting with the entity.

However, the cost of preparing an audited financial report is significant. If entities are wholly-owned within a group of companies and there is a deed of cross guarantee within the group, the information needs of creditors and other stakeholders may be sufficiently met by the holding entity lodging consolidated financial statements. Further, consolidated financial statements may provide more useful financial information because the financial position and performance of an entire economic entity is aggregated. This is usually preferable to stand-alone financial reports of individual group entities because inter-group transactions that do not give rise to any real economic benefit are eliminated. Consolidation ensures that only real profits and losses incurred by the group are recognised.

Summary of impacts and methodology

The Australian Government Impact Analysis Framework requires ASIC to assess the potential impact of a new legislative instrument compared with the legislative status quo if the instrument did not exist. We have therefore estimated the decrease in regulatory burden as if there was no financial reporting exemption available for wholly-owned entities through a legislative instrument but such entities were able to apply for individual relief on similar terms.

If we assessed the new instrument compared with the position that existed under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, the impact and decrease in regulatory burden would be minimal because there has been no significant change to terms of the 2016 instrument.

Option	Benefits	Other costs	Net impact	Regulatory burden
Proposed: Financial reporting relief for wholly-owned companies by legislative instrument rather than individual relief	Upfront cost savings for industry from not having to apply for individual relief estimated at $61,650,000.	Although there are compliance costs associated with complying with the legislative instrument, these costs would be the same if ASIC granted relief on similar terms under individual relief instruments.	**Industry**: Reduction in compliance costs of $61,650,000 **Creditors and other stakeholders**: Net impact is estimated to be minimal	Decrease in regulatory burden estimated at a one off $61,650,000.

Economic and social impacts

Status quo	Proposed option
The status quo is that each entity in a group may have an obligation to prepare audited financial statements under s292 of the Corporations Act. This can involve a significant regulatory burden. However, individual relief would be available where ASIC is satisfied that complying with those requirements would make the financial report, sustainability report or other reports misleading, or would be inappropriate in the circumstances, or would impose unreasonable burden. Consolidated financial statements may provide more useful financial information because the financial position and performance of an entire economic entity is aggregated. This is usually preferable to stand-alone financial reports of individual group entities because inter-group transactions that do not give rise to any real economic benefit are eliminated. Consolidation	The proposed option will provide relief by legislative instrument so that entities that are a part of a closed group of wholly-owned companies, and are a party to a deed of cross-guarantee, do not have to prepare and lodge individual audited financial statements if their holding entity lodges a consolidated financial report. This will have a significant economic impact on entities that would otherwise be required to prepare a financial report. The compliance cost savings from not having to prepare a financial report or apply for individual relief will allow relevant entities to use their resources in a more efficient manner. The proposed option requires adequate disclosure about the corporate group's financial position and performance in the holding entity's consolidated financial statements. Some stakeholders prefer to assess a corporate group's financial position and performance through consolidated financial statements for the reasons outlined above. The group must also enter a deed of cross guarantee for creditors' benefit.

Status quo	Proposed option
ensures that only real profits and losses incurred by the group are recognised. It is therefore likely that ASIC would grant individual relief to wholly-owned companies that are part of a group, provided that certain conditions are met to ensure creditors and other stakeholders are protected, such as each company in the group entering into a deed of cross guarantee. Individual relief would involve significant cost to ASIC. In circumstances where a large number of companies are likely to require relief, ASIC generally considers it is more efficient to grant relief by legislative instrument. It also helps to ensure a level playing field for companies that have financial reporting relief on the same terms.	The relief requires the notes to the consolidated financial statements to set out details of the deed of cross guarantee and specific information in respect of the consolidation of members of the closed group (after eliminating transactions between members of the closed group). **Stakeholder views:** ASIC consulted publicly on our proposal to provide financial reporting relief for wholly-owned entities by legislative instrument. Submissions supported the proposal to reduce duplicative financial reporting and audit requirements for group entities. Further, this type of financial reporting relief for wholly-owned entities has been available for many years and is an important aspect of corporate financial reporting arrangements. On this basis, ASIC concluded that the relief is operating efficiently and effectively.

Regulatory burden

Status quo	Proposed option
Under the status quo, companies (except most small proprietary companies), disclosing entities and registered managed investment schemes are required to prepare and lodge a financial report, directors' report and auditor's report for a financial year, unless they have applied for and obtained individual relief While the costs of preparing a financial report and having it audited will depend on the size of the company and the complexity of its operations, they are likely to be significant. Given the cost of individual financial reports, it is likely that many wholly-owned companies would seek individual relief. There are costs associated with such applications, including a fee of $3,487 payable per company under the *Corporations (Fees) Act 2001*, plus potentially advisor fees of an estimated $5500 per group. Assuming an average of 4-5 companies per group, the cost of seeking individual relief is therefore approximately $5,000 per company ($3,487 + approximately $1,500). It is likely that ASIC would impose conditions on the relief to protect creditors, such as requiring the holding entity to lodge consolidated financial reports and the entities to be party to a deed of cross guarantee regime similar to that applying under the legislative instrument.	Under the proposed option, ASIC would make a legislative instrument so that companies in a wholly-owned group would be relieved from the requirement to prepare and lodge a financial report, directors' report and auditor's report for a financial year. Wholly-owned companies would not need to apply for an individual exemption. Based on lodgements of documents indicating reliance on the previous relief in *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* as at April 2026, ASIC estimates that 12,330 companies will take advantage of the relief in the legislative instrument. ***Compliance cost savings for industry*** The one-off compliance cost savings arising from not having to apply for individual relief are therefore estimated to be 12,330 x $5,000 = $61,650,000. There will likely be additional savings with additional companies making use of the relief provided by the Instrument over time, without the need to seek individual relief. As a condition of the relief, the holding company is required to lodge consolidated financial reports and each wholly-owned company in the group, and the holding company, is required to enter into a deed of cross-guarantee. These costs are the same as would apply if ASIC was to grant companies individual relief under a similar deed of cross guarantee regime. ***Impact on other stakeholders*** We estimate that the impact of the legislative instrument on creditors and other stakeholders will be minimal compared with the status quo of granting individual relief.

Other considerations and implementation

The proposal remakes long standing relief that is scheduled to sunset on 1 October 2026. Our review of the existing relief has shown it to be effective and efficient and there have been no significant issues raised by stakeholders in relation to the operation of the relief. This being the case, exploration of another option would likely result in more cost than benefit.

What success looks like

The policy will be a success if wholly-owned companies save significant regulatory costs associated with preparing and lodging individual reports while creditors and other stakeholders continue to have access to consolidated financial information about group entities.

Implementation approach

ASIC will make *ASIC Corporations (Wholly-owned Companies) Instrument 2026/*533 before 1 October 2026. We will also amend and update all associated forms, pro formas and regulatory guidance.

Planned evaluation

The wholly-owned companies relief will be reviewed by ASIC after 5 years to ensure it is operating effectively and efficiently and continues to form a necessary and useful part of the legislative framework.

Statement of Sufficiency

I confirm that this Dashboard Impact Analysis (IA) prepared for financial reporting relief for wholly-owned companies meets the requirements set out in the *Australian Government Impact Analysis Framework*.

I confirm that the level of analysis is proportionate to the policy issue being considered.

I note the Dashboard IA provides analysis of the impacts of the proposal using the 7 IA questions and:

- a high-level summary of costs and benefits and an estimate in the change in the regulatory burden, of the policy options under consideration
- high-level analysis of the policy option against the government's key strategic priorities
- a summary of relevant distributional effects and evidence of key stakeholder feedback incorporated into the policy design
- other details required to understand and assess the proposal.

Certified by

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