Financial Requirements Policy Comparison

New Minimum Financial Requirements policy

The following table shows a comparison of the elements of the previous Financial Requirements for Licensing to the new Minimum Financial Requirements

Element	Financial Requirements for Licensing	Minimum Financial Requirements	Commentary
Title	Financial Requirements for Licensing (FRL) and Guidelines for the Application of the Financial Requirements for Licensing (Guidelines)	Minimum Financial Requirements (MFR)	This title is intended to assist with the understanding that the financial requirements are a minimum standard to meet.
Number of Pages	FRL: 68 Guidelines: 18 Total: 86	56	35% reduction in number of pages (56 pages). Wherever possible the wording of the policy has been simplified and repetition removed.
Categories	2 self certification categories and 8 reporting categories. SC1: up to $100,000 SC2: up to $300,000 Category 1: $300,001 to $600,000 Category 2: $600,001 to $3,000,000 Category 3: $300,000,001 to $12,000,000 Category 4: $12,000,001 to $30,000,000 Category 5: $30,000,001 to $60,000,000 Category 6: $60,000,001 to $120,000,000 Category 7: $120,000,001 to $240,000,000 Category 8: $>$240M	2 self certification categories and 7 reporting categories. SC1: up to $200,000 SC2: up to $600,000 Category 1: $600,001 to $3,000,000 Category 2: $300,000,001 to $12,000,000 Category 3: $12,000,001 to $30,000,000 Category 4: $30,000,001 to $60,000,000 Category 5: $60,000,001 to $120,000,000 Category 6: $120,000,001 to $240,000,000 Category 7: $>$240M	Increase in the turnover limits for self certification categories 1 & 2. Existing limits were doubled. Reduction of 1 reporting category. Remaining categories retained in order to maintain the NTA multiplier so as to ensure existing licensees do not have to increase their net assets to retain the same turnover limit.
Net Tangible Assets (NTA)	Must be at least $0.	Must be at least $0.	No change to requirements. Definitions clarified to resolve areas of confusion for licensees and accountants
Deeds of Covenant and Assurance	May be used to supplement NTA to achieve a higher turnover limit only where NTA is at least $0	May be used to supplement NTA to achieve a higher turnover limit only where NTA is at least $0	No change to requirements. Definitions clarified to resolve areas of confusion for licensees and accountants
Related Entity Loans	May be included in the calculation of NTA and Current Ratio only where the loan is assessed as collectible by the external accountant	May be included in the calculation of NTA and Current Ratio only where the loan is assessed as collectible by the external accountant	No change to requirements. Definitions clarified to resolve areas of confusion for licensees and accountants

Current Ratio	Calculated by dividing current assets by current liabilities. Minimum requirement is 1:1.	Calculated by dividing current assets by current liabilities. Minimum requirement is 1:1.	No change to requirements. Definitions clarified to resolve areas of confusion for licensees and accountants
Turnover	Called Allowable Annual Turnover. Calculated by the licensees NTA x the set multiplier (between 16.67 - 25 depending on category) The Allowable Annual Turnover is the limit on revenue that can be derived by the licensee in a specified period. For self certification categories this limit is for the licence year, i.e. the 12 month period between licence renewals. For reporting categories the limit is for the 12 month period immediately following the year end date of the last financial report submitted.	Called Maximum Revenue. Calculated by taking the licensee's NTA x the set multiplier (between 16.67 -25 depending on category). This limit applies to the licensee's financial year regardless of category.	The name should better explain what the limit applies to, i.e. revenue. The period of time the existing AATO applies to is confusing for licensees, accountants and many QBCC staff. By aligning the Maximum Revenue to the licensee's financial year the concept is simplified and aligns with tax and ASIC reporting obligations reducing red tape for licensees.
Financial Monitoring	Requirement to maintain internal management accounts. Different requirements exist for different categories of licensee as follows: Category 1: yearly Category 2: half yearly Category 3-8: quarterly Licensees must provide internal management accounts to QBCC if requested.	All licensees must prepare and maintain internal management accounts quarterly. This aligns with ATO requirements regarding BAS reporting. Licensees must provide internal management accounts to QBCC if requested after the end of a quarter. If a Licensee, or any company within the Licensee's group of companies, is required to provide an auditor's report or review report to ASIC or ASX, then within 30 days of the report being signed and/or submitted to ASIC or ASX, a copy of the report must be provided to QBCC.	These requirements are considered necessary to account for the reduction in reporting at renewal. By requiring licensees to at least view their financial statements throughout the year it should assist them to better understand how their business is performing financially. For those licensees who are required to provide financial information to ASIC or ASX, there is no increased burden or cost to the licensee by having to provide a copy of the same information to QBCC.
Professional Indemnity Insurance	Requirement for certain licence classes at different insured limits. Ability to seek an exemption from the requirement in the event insurance is not available in the marketplace or it is not economically viable to obtain. Conditions imposed on licences where insurance cannot be obtained.	Requirement for certain licence classes at different insured limits. Ability to seek an exemption from the requirement in the event insurance is not available in the marketplace or it is not economically viable to obtain. Conditions imposed on licences where insurance cannot be obtained.	No change from existing requirements. Definition of individual consumer updated to include the owner of the residence. This omission appears to have been an oversight in the existing policy.
Report Form when applying for a licence or seeking an increase to Maximum Revenue	Declarations only for self certification categories. 1 Report type for categories 1 - 3 called Independent Review Report. 3 different report types for categories 4-8 depending on their requirement to be audited by ASIC.	Declarations for self-certification categories. 1 report type only for categories 1-7.	Reduction in red tape achieved by reducing the report types from 4 to 1. Easier for licensees and accountants to determine which report type is required to be submitted.
Payment of Debts	Where licensees had a judgment awarded against them by a Court of competent jurisdiction and the debt related to goods or supplies for a building contract which became unsatisfied (unpaid for more than 28 days post date of order) licensee is deemed to fail to meet FRL and licence may be suspended or cancelled.	Where a licensee has a legally enforceable debt that is not the subject of a genuine dispute or not subject to legal proceedings that have not yet been finalised that is not paid within normal trading or specifically agreed terms, the licensee will be deemed to fail to meet MFR and licence may be suspended or cancelled.	More strict requirement to pay debts as and when they fall due. Reduces red tape for those industry participants or consumers who obtain an order in QCAT but then must register it in the Magistrates Court or higher for QBCC to act on the unpaid debt. Is anticipated to bring about behavioural change in the industry regarding the payment of debts and also will ensure QBCC can act quickly where a licensee is failing to pay their debts.
Application	Requirement to demonstrate compliance with the FRL by submission of either a declaration or one of 4 types of reports depending on category.	Requirement to demonstrate compliance with the MFR by either a declaration or 1 report depending on category or when required by QBCC.	No significant change to requirements except that there is only 1 report type that licensees in categories 1-7 must now submit.

Financial Requirement at Renewal	Requirement to demonstrate compliance with the FRL by submission of either a declaration or one of 4 types of reports depending on category.	No requirement to provide financial report or declaration to QBCC. Licensees to notify QBCC at time of renewal if they do not meet the minimum requirements	100% reduction in regulatory burden and red tape for licensees who meet the financial requirements. This will also mean significant cost savings for licensees who are in the current categories 1-8 and who have previously had to have a financial report prepared for renewal purposes by an independent external accountant. Estimated that this will save industry approximately $32 million per year in fees. It also estimated that the Commssion will save approximately $100,000 per year in forensic accounting fees associated with reveiwng financial information at renewal.
Renewal Process	The QBCC Act and the FRL sets out the process for renewal which starts with the issuing of a renewal notice at least 28 days prior to the renewal date. Licensees must complete the renewal notice updating any of their listed contact details and complete a declaration about whether they have been involved in an insolvency event or convicted of a criminal offence in the last 12 months. Depending on their licence type and financial category they must also either complete a declaration about their NTA and turnover or engage their external accountant to complete an Independent Review Report or an Audit Report. The licence must then submit the renewal notice along with the applicable fee and after the Commission has received all required information and it has been assessed as meeting the requirements the licence is renewed. On renewal the licensee is sent correspondence advising them of their Allowable Annual Turnover for the next licence year or applicable period depending on their financial category or report type and they are sent a new licence card. Options also exist to renew the licence through on-line services.	Under the proposed MFR the only financial requirement at renewal relates to a licensee who does not meet the requirements. They will be required to notify the Commission of this failure either in writing, online or verbally at the time of renewal. For all other licensees who meet the requirements no information is required. The requirements to provide a declaration about whether the licensee has been involved in an insolvency event or convicted of a criminal offence falls outside the scope of the proposed MFR.	It is considered the requirement for licensees to notify the QBCC at renewal only if they do not meet the requirements reduces the regulatory burden regarding financial requirements to nil for those licensees who continue to comply with the policy. This requirement is the absolute minimum requirement that can be imposed and is considered necessary until such time as section 53A of the QBCC Act is amended.
Reporting period	Licensees in categories 1 - 8 must provide reports for full 12 months within certain timeframes, i.e. year end date no older than 3 months for categories 4-8	Period end accounts allowed and for all categories reports balance date should be no older than 4 months unless MFR allows otherwise or QBCC gives approval.	Reduction in regulatory burden by allowing period end accounts rather than only 12 months. This resolves many issues experienced in the past under the existing FRL that relate to companies who are audited, overseas companies with different year end dates and where licensees need to provide updated accounts to meet requirements or upgrade their turnover. It is not anticipated that QBCC accepts any increase in risk by allowing period end accounts and the reduction in regulatory burden for licensees is significant.

Requirement to notify increases in turnover (s.35 QBCC Act)	Licensees are subject to the condition that they must not exceed their turnover limit by more than 10% without reporting to the QBCC	Licensees are subject to the condition that they must not exceed their Maximum Revenue by more than 10% without reporting to the QBCC	No change in requirements
Requirement to notify decreases in NTA	Licensees are subject to the condition that their NTA must not decrease by more than 10% for more than 1 month unless they report to the QBCC.	Licensees are subject to the condition that their NTA must not decrease by more than 30% from their last advised and QBCC accepted NTA position without reporting the decrease to QBCC.	The new requirements account for the volatility in the industry where it is not uncommon for licensees asset position to change over short periods of time.