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4 March 2026

Housing, Building & Land Delivery Group
Department of Transport and Planning
VICTORIA

Via online submission: https://engage.vic.gov.au/clear-and-fair-financial-standards-for-builders
Via email: building.policy@transport.vic.gov.au

**PROPOSED BUILDING AMENDMENT (MINIMUM FINANCIAL REQUIREMENTS) REGULATIONS 2026**

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 175,000 members working in over 100 jurisdictions and regions around the world, working in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. Our members regularly advise small and medium-sized enterprises, including builders, on financial reporting, governance, solvency and regulatory compliance matters.

This submission responds to the Proposed Building Amendment (Minimum Financial Requirements) Regulations 2026 (MFR Regulations) and is made on behalf of our members and in the broader public interest. We provide the following high-level observations and recommendations:

**Economic and regulatory impact**

Introducing new financial thresholds and reporting obligations represents a material regulatory change for many builders. Based on our experience with the similar regime for Queensland building licensees, CPA Australia notes that:

- initial and ongoing implementation can be onerous and costly, particularly for small operators
- complexity associated with accounting-standards-based requirements can create an unnecessary and excessive burden, particularly for smaller builders.

The Queensland MFR regime, which commenced in 2019, initially proved to be very onerous and expensive to comply with. Following several years of advocacy to reduce the regulatory burden associated with its reporting requirements, the regime has been amended to reduce some of the issues arising from its original design. However, aspects of the reporting requirements remain onerous and warrant further reform. These matters have informed our recommendations below.

It should be noted that the Queensland Productivity Commission has recommended the removal of the Queensland MFR regime, unless it can be demonstrated that the regime delivers net benefits to the community.

It is essential that the Victorian government produces a Regulatory Impact Statement that clearly sets out the costs and benefits of the new regime and supporting evidence that demonstrates that the benefits from the regime will exceed the costs associated with it.

We also make the following additional recommendations for which further detail is provided in the **Attachment**:

- **Simplicity, guidance and regulatory approach –** it is essential that the requirements in the draft MFR Regulations are further simplified to ensure most building licensees can comply with the requirements with minimal disruption to their current practices. There will also be a need for comprehensive educational campaign to be delivered to

both licensees and their advisers, including qualified accountants. The initial regulatory approach should be focused on education and support to the building industry rather than a strict, penalties-based approach.

- **Tiers for annual reporting requirements –** We recommend the proposed three tiers be further subdivided to ensure the compliance requirements are more nuanced and fit-for-purpose. We recommend:
    - increasing the maximum revenue threshold (and corresponding net tangible assets threshold) for Tier 1 from $1m to $2m
    - increasing the maximum revenue threshold (and corresponding net tangible assets threshold) for Tier 3 from $30m to the large proprietary companies threshold in the *Corporations Act 2001* (currently revenue of $50m)
    - subdividing Tier 2 into two further tiers. The lower tier being maximum revenue of $2m up to $30m and the higher tier being maximum revenue of $30m up to the large proprietary companies threshold in the *Corporations Act 2001* (currently revenue of $50m).
- **MFR reporting requirements –** Rather than an automatic trigger to prepare and lodge an MFR Report in certain circumstances as currently proposed, we recommend a risk-based and discretionary approach to the requirement to lodge a MFR Report for applicable 'notifiable and significant changes'. Furthermore, our discussions with industry stakeholders indicate that some 'notifiable and significant changes' can occur regularly in the normal course of business. Accordingly, some flexibility needs to be built into the regulations to allow for this.
- **Reference to Australian Accounting Standards –** The draft MFR Regulations contain references to Australian Accounting Standards (AAS) in many places. Given that many building licensees are unlikely to have an understanding of the requirements of AAS, and nor are those standards generally fit for purpose for most licensees, we recommend these references be removed and replaced with simple to use steps for the required financial calculations.

Our responses to questions posed in the consultation document supporting the draft MFR Regulations are included in the **Attachment** to this letter. Should you have any questions or wish to discuss further, please contact me at ram.subramanian@cpaaustralia.com.au.

**Yours sincerely**

**Ram Subramanian FCPA**
**Financial Reporting Lead**
**CPA Australia**

# Attachment

**1. Is the proposed treatment of asset and liabilities clear and appropriate?**

As noted in our response to Q6 below, the references to Australian Accounting Standards (AAS) for the calculation of assets and liabilities are likely to be extremely difficult to apply in practice for most smaller building licensees. We do not believe the calculations as proposed can be undertaken without the support of professional accountants. To avoid the unnecessary cost building licensees would have to incur in seeking external professional help, we recommend the references to AAS be removed and replaced with simple to use steps developed specifically for the relevant calculations.

We also make the following recommendations on specific provisions relating to the treatment of assets and liabilities:

- s5 definition of *current assets:*
    - it is not clear as to why the definition specifies that it 'means net tangible assets'. The term 'net tangible assets' has a broader meaning in the draft MFR Regulations beyond the definition of current assets. We suggest this is clarified
    - this includes a 'loan given by the person to a related entity that has current assets sufficient to repay the loan in full'. Such loans may or not be current assets and will entirely depend on the loan agreement (if any) associated with the loan. We suggest this is clarified
    - Although the definition includes 'an asset that is realised, sold or consumed in the ordinary course of carrying on the person's business', the definition should specifically include 'work in progress' and 'inventory', as these are commonly held current assets in the building industry.
- s5 definition of *value* is to be determined in accordance with accounting standards. Whilst terms like *fair value* and *value in use* are defined in the AAS, the term *value* itself is not specifically defined. We suggest this is clarified.
- s6 9C Meaning of *disallowed assets* – Rather than providing an exhaustive list for what a *recreational vehicle* means, we recommend an overarching definition be developed, with examples that could include those currently listed.
- s6 9F Meaning of *liabilities* – whilst we recognise that the definition is not intended to be an exhaustive list, we recommend such a list should be developed and provided, at least as guidance, to assist building licensees better apply the requirements.
- s6 9C Meaning of *net tangible assets* – includes a requirement that 'the statement of financial position of the guarantor must be prepared by the same accountant who prepares an MFR report for the person, if it is reasonably practicable to do so'. It is not uncommon that the entity and guarantor have different accountants. In such a circumstance, it is not feasible for the entity's accountant to prepare the statement of financial position of the guarantor. We suggest this provision is reconsidered.

**2. Is the proposed approach and 2-year transition period appropriate?**

We recommend a longer transition period than the currently proposed 2-year transition for the following reasons:

- Provide sufficient time, particularly for smaller building licensees to prepare for the new regime, including seeking professional advice on their business structure and activities
- Allow sufficient time for business restructuring where needed

- Ensure there is sufficient time to develop and provide the necessary guidance and supporting educational campaign to the building industry and qualified accountants.

To accommodate the above, a 3 to 5 year phased transition period may be appropriate. We recommend a suitable transition period is developed in consultation with the building industry.

**3. Is the ratio of maximum revenue being 20 times net tangible assets appropriate?**

As noted in our response to Q7 below, we believe some flexibility needs to be built into the relationship between net tangible assets and maximum revenue. It is entirely possible for a threshold to be breached in the normal course of business, which does not necessarily indicate adverse financial conditions.

We also note that many regulatory regimes refer to annual revenue when setting reporting thresholds. Using a net tangible assets-based approach adds confusion for licensees, who are already required to be familiar with other thresholds for regulatory purposes, most of which are based on revenue. For greater simplicity, we recommend the reporting thresholds be based on revenue rather than net tangible assets.

**4. Are the proposed reporting thresholds and requirements for domestic builders appropriate for Tier 1, Tier 2 and Tier 3 builders in practice?**

**Tiers of reporting**

CPA Australia is of the view the proposed three tiers need to be reconsidered to adequately address the need for proportionality in reporting requirements by licensed builders. The following tables 1 and 2 provide our recommended improvements. We make these recommendations based on revenue rather than net tangible assets, the latter of which forms the basis for the tiers proposed in the draft MFR Regulations:

**Table 1 – recommended tiers for annual reporting**

| | **Proposed tiers in draft MFR regulations** | **CPA Australia recommendation** | |
|---|---|---|---|
| Tier 1 | Up to $1m maximum revenue | Up to $2m maximum revenue | |
| Tier 2 | $1m to $30m maximum revenue | Tier 2a | $2m to $30m maximum revenue |
| | | Tier 2b | $30m to large proprietary company threshold for revenue in the *Corporations Act 2001* (currently $50m and above) |
| Tier 3 | Over $30m maximum revenue | Over the large proprietary company threshold for revenue in the *Corporations Act 2001* (currently $50m and above) | |

**Table 2 – recommended annual reporting for the tiers proposed by CPA Australia**

| | **CPA Australia recommended tiers** | **Recommended reporting requirements** |
|---|---|---|
| Tier 1 | Up to $2m maximum revenue | Financial declaration as currently proposed |
| Tier 2a | $2m to $30m maximum revenue | Simple accruals-based financials in a form developed by the regulator, that does not require compliance with Australian Accounting Standards (AAS). This could include a profit and loss |

| | | |
|---|---|---|
| | | statement, a balance sheet and some selected notes. |
| Tier 2b | $30m to large proprietary company threshold for revenue in the *Corporations Act 2001* (currently $50m and above) | Special Purpose Financial Statements (SPFS) that comply with specified AAS. This requirement could be set out similarly to s60.30 of the *Australian Charities and Not-for-profits Commission Regulations 2022,* which stipulates minimum applicable AAS when SPFS are prepared. |
| Tier 3 | Over the large proprietary company threshold for revenue in the *Corporations Act 2001* (currently $50m and above) | General Purpose Financial Statements (GPFS) as currently proposed. |

The rationale for our recommended approach to the tiers for annual reporting are as follows:

- increasing the smallest tier to $2m maximum revenue will provide relief from additional compliance burden to many smaller building licensees. This recommendation is based on feedback we have received from stakeholders including building industry representatives. We understand that due to the significant increase in building costs, unless a building licensee is only engaged in small-scale building work such as renovations, many small building licensees are likely to breach the $1m revenue threshold with one to two annual new building projects. Whilst cognisant of the need for consumer protection, we believe the benefits of this proposed threshold increase outweigh any adverse impacts.
- Dividing tier 2 into two further tiers introduces proportionality to a very large spread that currently captures very small builders at the lower end of this threshold, to some large builders at the higher end.
  For proposed tier 2a, we recommend a simple, accruals-based set of financials that are based on a form developed by the regulator. These financials should not be required to be prepared in accordance with AAS. Instead, they should incorporate a profit and loss statement, a balance sheet and note disclosures to support the information presented in the aforementioned. We are happy to assist the regulator in developing the reporting requirements for proposed tier 2a. Since a statutory requirement to prepare 'financial statements' would automatically result in a requirement for such financial statements being prepared in accordance with AAS (see our guide 'can I still prepare special purpose financial statements'), we recommend an alternative term such as 'prescribed financial information' for the annual reporting requirement for tier 2a entities.
  For tier 2b, we recommend a requirement for Special Purpose Financial Statements (SPFS) that are prepared in accordance with specific AAS. As noted in Table 2 above, this requirement could be set out along the lines of s60.30 of the Australian Charities and Not-for-profits Commission Regulations 2022, which stipulates minimum applicable AAS when SPFS are prepared. Similar to our proposals for annual reporting by tier 2a entities above, and for the same reasons as noted above, we recommend an alternative term such as 'prescribed financial information' for the annual reporting requirement for tier 2b entities.
- Increasing the tier 3 threshold to the same revenue threshold for large proprietary companies under the *Corporations Act 2001* ensures annual reporting requirements for building licensees of this size are aligned with their existing annual reporting requirements under the Corporations Act. Referencing the Corporations Act threshold rather than an absolute number also ensures any future changes to the Corporations Act threshold is automatically reflected in the applicable threshold for tier 3 under the MFR Regulations. It is worth noting that there is some discussion about the current financial reporting thresholds in the Corporations Act as it applies to large proprietary companies, with a suggestion that the current reporting thresholds should be doubled. This is on the basis that since the thresholds were last increased in 2019, there is justification for the doubling of financial

reporting thresholds applicable under the Corporations Act 2001. Please see the submission from the Australian Securities and Investments Commission to the Australian Treasury (page 2) on this matter.

Currently, s6 9K notes that the Authority **may** exempt a Tier 1 or 2 entity from preparing financial information in accordance with AAS. We recommend the exemptions from applying AAS should be built into the regulations, rather than being left to the discretion of the regulator.

**Internal management accounts**

In our experience, internal management accounts are generally not prepared in accordance with AAS and is very unlikely to be the case for the building licensees to whom this will apply to. AAS are usually applied to periodic (e.g., annual) financial reports for external users primarily, not management.

Businesses normally prepare management accounts to inform management and others on current/recent financial performance and to assist with future budgeting and forecasting. Any requirements in respect of internal management account reporting should not be in excess of what businesses are already preparing.

Instead of requiring internal management accounts for annual reporting purposes, we have made alternative recommendations under Table 2 in the section 'tiers for annual reporting requirements' above for your consideration.

s256AAG requires that a 'registered building practitioner must keep internal management accounts'. It is common for legislative requirements to stipulate that adequate financial records are maintained (e.g., s286 of *Corporations Act 2001*), to enable an entity to prepare financial reports or management accounts. We recommend amending this provision to align with the Corporations Act and require that adequate accounting records are maintained. Whilst many businesses will prepare some form of internal management accounts to have visibility over business performance, we do not believe it is appropriate to require building licensees to "prepare internal management accounts for each quarter of the reporting year". If the regulator requires a building licensee to provide a set of internal management accounts, the building licensee should be able to do so from the accounting records they maintain.

**5. Are the proposed reporting thresholds and requirements for domestic builders appropriate for related entities, groups and trusts?**

See our response to Q4 above.

**6. How should the accounting standards apply to financial information requirements, including reporting the valuation of assets, liabilities and intangible assets? The regulations enable the BPC to exempt requirements from compliance with the accounting standards - should any accounting standards not apply, and when?**

The draft MFR Regulations require various financial calculations to be undertaken in accordance with Australian Accounting Standards (AAS). We highlight some of the requirements below:

- s5 Definitions – the definition of *current assets*
- s5 Definitions – the definition of *value.* Also, whilst terms like *fair value* and *value in use* are defined in the AAS, the term *value* itself is not specifically defined.
- s9A Meaning of *assets*
- s9C Meaning of *disallowed assets*
- s9E Meaning of *internal management account* (also see below)
- s9G Meaning of *MFR report* (also see above)

- s9H Meaning of *net tangible assets*

It is highly unlikely that most smaller building licensees will have knowledge of AAS, and how to apply them in undertaking different financial calculations. It is likely that in many cases, such building licensees will have to approach a qualified accountant for assistance with these calculations. This is likely to be an expensive exercise that adds to regulatory burden and contribute little to improving the financial management of licensees or enhancing consumer protection. We therefore strongly recommend that the various references to AAS are removed and the MFR Regulations instead provide the clear and simple steps to undertake the financial calculations. Additional plain language guidance will also be needed to assist with the calculations, as most building licensees are unlikely to refer to or comprehend the MFR Regulations.

**Signed financial statement**

The requirement to provide an aged debtors and creditors report that includes the date on which each invoice is due to be paid or received appears excessive. This information could be quite lengthy and normally does not form part of financial statements that are prepared in accordance with AAS. If the regulator wishes to receive such information, we recommend this is required as a separate document in addition to the financial statements.

**7. Are the proposed triggers for reporting changes in a business appropriate?**

**MFR Reports**

We recommend a risk-based and discretionary approach to the requirement to lodge a MFR Report for applicable 'notifiable and significant changes'. Consequently, rather than an automatic requirement to prepare and lodge an MFR report as currently proposed when certain 'notifiable and significant changes' occur, an MFR Report will only be required if the regulator considers it appropriate following a risk-based assessment of the circumstances surrounding the notification by the building licensee. We make this recommendation for the following reasons:

- In most cases, the regulator will have received financial information for the most recent reporting period from the building licensee, which should provide an overview of the financial standing of the building licensee at that point in time. We note that if the MFR Report is submitted within four months of the reporting period, it relates to that reporting period. Given this also satisfies the annual reporting requirements for the building licensee, we expect this will satisfy both the annual financial reporting and MFR reporting requirements.
- If the regulator believes further financial information is needed in addition to the annual financial information, to obtain a better understanding of the circumstances that led to the 'notifiable and significant change', we suggest this is in a form developed by the regulator that is designed to provide further details pertaining to the specific circumstances.
- AAS are designed for periodic reporting (usually for a full year) and are not designed for ad-hoc reporting purposes, such as those envisaged for MFR Reporting. Businesses in general do not maintain accounting records that are readily convertible into financial statements that comply with AAS. The time and effort to prepare financial statements that comply with AAS for an MFR Report is likely to be very high, even for larger building licensees. We are of the view that the costs associated with preparing such financial statements will likely exceed the benefits associated with the same.
- Our discussions with building industry stakeholders indicates that some of the circumstances that could give rise to a 'notifiable and significant change' (e.g., exceeding maximum revenue) could occur in the normal course of business and may not necessarily be a sign of adverse financial conditions. To avoid unnecessary compliance burden on the building industry and to ensure the regulator only receives information where and when it is

genuinely required, we recommend further consultation to clarify what constitutes 'notifiable and significant changes' and ensuring appropriate safeguards are built into the triggers for notification.

**Initial reports**

For new entrants, rather than an MFR Report, we recommend either the most recent annual financial information prepared by the building licensee (if it is less than four months from the reporting period) or a reporting form developed by the regulator (if it is more than four months from the reporting period) to provide appropriate financial information. Since the new entrant will also lodge their first set of annual financial information within the first year of obtaining a building licence, this should provide additional comfort to the regulator. Where the new entrant does not regularly prepare annual financial information and therefore has no previous annual financial information that can be provided, annual financial information for the previous 12 months should be provided in a form developed by the regulator.

**Notifiable and significant changes**

As noted above, in our discussions with industry stakeholders, we are led to understand that some of the 'notifiable and significant changes' could occur in the normal course of business. This is particularly the case for exceeding maximum revenue (s256AA) and the current ratio falling below 1 (s256AAB). We can envisage circumstances that could arise in the normal course of business that could give rise to these conditions without necessarily also being an indicator of adverse financial conditions. To address this, we suggest the government engage with building industry stakeholders to develop sufficient flexibility into the reporting conditions.

**8. Do you have comments about the proposed grandfathering approach and stepped implementation timetable?**

We have no further comments.

**9. What should the financial and reporting requirements for new applicants for registration be during the transition period for builders with an existing Letter of Eligibility?**

See our response to Q7 above.

**10. What resources would most assist domestic builders and accountants during the transition? This may include guidance notes, worked examples, templates, calculators, webinars, hotline support.**

**Simplicity, guidance and regulatory approach**

Many of the requirements in the draft MFR regulations are underpinned by accounting concepts and accounting standards that may not be comprehensible to small-to-medium-sized building licensees, hindering their ability to adequately comply with the requirements. Further, many small accounting practices that service builders may not be sufficiently familiar with AAS , as they are primarily applied by large businesses, which are unlikely to be their clients. Accordingly, simplification of these references is essential to ensure successful compliance with the requirements. The recommendations set out above seek to address these matters in more detail.

In addition to simplicity, comprehensive and easy-to-understand guidance must be developed and provided to assist with initial and ongoing compliance with the requirements. An educational campaign will be necessary during the implementation period to ensure there is a good understanding of the requirements across all relevant stakeholder groups, including our members.

In the initial years of implementation, and in addition to the transitional provisions built into the draft MFR Regulations, the regulator should take an educational rather than punitive approach to compliance.