



## **Submission on AASB Exposure Draft Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities**

**30 November 2019**

The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission on the Australian Accounting Standards Board Exposure Draft, Removal of Special Purpose Financial States for Certain For-Profit Private Sector Entities. The TJN-Aus welcomes the AASB Exposure Draft as a step forward to greater transparency and accountability of Australian for-profit entities. As noted in the Exposure Draft document the proposal of the AASB will improve the:

*consistency, comparability, transparency and enforceability of publicly lodged financial statements. This will better meet the needs of users who are accessing these publicly lodged financial statements or specifically requesting financial statements that comply with AAS or accounting standards as referred to in legislation. It will also simplify financial reporting requirements and reduce risks for directors, auditors and regulators which arise due to uncertain reporting requirements.*

Members of the TJN-Aus use financial statements to assess compliance of companies with tax legislation and to make investment decisions. There has been considerable frustrations that some large corporations have changed to SPFSs to make their tax and financial affairs less transparent to the general public, employees and investors, while other large businesses have become more transparent in their tax and financial affairs. As noted in the AASB's previous consultation papers, companies that seek finance from external financial institutions are already providing very detailed financial information to the financial institutions (far more than they provide to equity investors), usually under a non-disclosure agreement with the financial institution. Thus, shifting reporting from SPFSs to General Purpose Financial Statements would not represent significant extra work for many companies.

As noted by Professor Peter Wells, SPFSs mean “consolidated reports are not presented and related party transactions are not disclosed, but this may only be the tip of the iceberg. Accordingly, special purpose financial statements may be of limited value in capturing the activities of the company, and lack comparability.”<sup>1</sup> He further stated “Inconsistency in accounting practices across firms is problematic as it undermines how easily accounts can be understood and compared. It also renders computer-based analysis and use of financial statement information impossible.”

The TJN-Aus has been deeply frustrated by the Australian subsidiaries of large multinational corporations being able to hide behind SPFSs to conceal the details of their business, creating an unfair advantage over their Australian competitors that filed GPFs. For example, the TJN-Aus was frustrated in attempts to understand the financial activities for Glencore and Google Australia by their use of SPFSs.

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<sup>1</sup> Peter Wells, 'Challenges surface over 'special purpose' reports', *The Australian Financial Review*, 11 July 2018, p. 9.

As noted by the AASB, the Australian Government is the only government in the world that permits entities to self-assess what type of financial reporting is required when a regulator requires the preparation and lodgement of financial statements. This means that similar entities can report differently, with some preparing General Purpose Financial Statements (GPFs) and others preparing SPFSs based on different self-assessments. The TJN-Aus has agreed with the AASB that “This reduces comparability for entities of similar economic circumstances and undermines the fundamentals of trust and transparency.”

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### **Background on the Tax Justice Network Australia**

The Tax Justice Network Australia (TJN-Aus) is the Australian branch of the Tax Justice Network (TJN) and the Global Alliance for Tax Justice. TJN is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. TJN works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. TJN's objective is to encourage reform at the global and national levels. The Tax Justice Network aims to:

- (a) promote sustainable finance for development;
- (b) promote international co-operation on tax regulation and tax related crimes;
- (c) oppose tax havens;
- (d) promote progressive and equitable taxation;
- (e) promote corporate responsibility and accountability; and
- (f) promote tax compliance and a culture of responsibility.

In Australia the current members of TJN-Aus are:

- ActionAid Australia
- Aid/Watch
- Anglican Overseas Aid
- Australian Council for International Development (ACFID)
- Australian Council of Social Service (ACOSS)
- Australian Council of Trade Unions (ACTU)
- Australian Education Union
- Australian Manufacturing Workers Union
- Australian Nursing & Midwifery Federation
- Australian Services Union
- Australian Workers Union, Victorian Branch
- Baptist World Aid
- Caritas Australia
- Centre for International Corporate Tax Accountability and Research
- Community and Public Service Union
- Electrical Trades Union, Victorian Branch
- Evatt Foundation
- Friends of the Earth
- GetUp!
- Greenpeace Australia Pacific
- International Transport Workers Federation
- Jubilee Australia
- Maritime Union of Australia
- National Tertiary Education Union
- New South Wales Nurses and Midwives' Association
- Oaktree Foundation
- Oxfam Australia
- Save the Children Australia
- Save Our Schools
- SEARCH Foundation
- SJ around the Bay
- Social Policy Connections
- TEAR Australia
- The Australia Institute
- Union Aid Abroad – APHEDA
- UnitedVoice
- Uniting Church in Australia, Synod of Victoria and Tasmania

- UnitingWorld
- Victorian Trades Hall Council
- World Vision Australia