



Submission on proposed Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements

19 August 2019

The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission on the Australian Accounting Standards Board proposed amendments to the Australian Accounting Standards in relation to greater transparency around the use of Special Purpose Financial Statements (SPFSs).

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.”¹ 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.

As noted in the consultation paper, 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

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

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.”

The TJN-Aus continues to urge that the use of SPFSs be eliminated, as they make it hard to compare companies and to fully understand their financial activities. They also mean there is not a level playing field between the financial reporting of businesses.

The removal of SPFSs will create greater financial transparency for the general community, which in turn will hopefully increase confidence that businesses are paying the taxes they should pay in Australia. It will also make it easier for investors to assess and compare companies, leading to better investment decisions which in turn will benefit the Australian economy. It is also fair for employees to be able to assess the financial situation of the businesses they work for, given their livelihoods are dependent on those financial situations.

While the TJN-Aus continues to seek an end to the use of SPFSs, it supports the proposals for greater transparency outlined by the AASB as an important step forward.

1. Do you agree that an amendment to AAS to require entities to disclose the information about their SPFS, including whether or not the entity has complied with all the R&M requirements in AAS, is needed to provide more transparency to users of publicly lodged SPFS and improve the comparability of SPFS? If not, please provide reasons.

The TJN-Aus supports the amendment to AAS to require entities to disclose the information about their SPFS, including whether or not the entity has complied with all the recognition and measurement (R&M) requirements in AAS. These amendments go some way towards greater transparency around SPFS, while not removing the need to eliminate the use of SPFSs.

The TJN-Aus supports all three proposed amendments to require entities lodging SPFSs to disclose:

- (a) the basis on which the decision to prepare a SPFS was made;
- (b) where the entity has subsidiaries, investments in associates or investments in joint ventures, whether or not they have been consolidated or equity accounted in a manner consistent with the requirements set out in AAS. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact, and the reason why. However, if the entity is a not-for-profit entity, and it has not determined whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, the entity shall instead disclose that fact; and
- (c) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the R&M requirements in AAS and, if not, an indication of where they do not comply. Where an entity's accounting policies do not comply with the R&M requirements in AAS, the AASB is NOT proposing and does not expect a qualification or reconciliation of the extent of non-compliance.

2. Do you agree that the proposed amendments should apply only to those entities lodging SPFS with:

- a. ASIC under Part 2M.3 of the *Corporations Act 2001*; or
- b. The ACNC?

If not, please provide reasons.

Given the limited requirements made in the proposed amendments, the TJN-Aus would prefer the requirements apply to all entities that produce SPFSs. The TJN-Aus is basing this on an assumption that the costs to comply with the amendments will be minimal for most entities to which they will apply and are far less than if an entity was required to produce a GPFS. The TJN-Aus notes the consultation paper states (pages 20-21) that the Board of the AASB has been in conversation already with the APESB about amending APES 205 to be consistent

with the proposed amendments relating to SPFSs in the AAS. The TJN-Aus would support such amendments being made to APES 2015.

3. Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:

- a. the basis for the preparation of the SPFS (reflected in the proposed amendment to paragraph 9 of AASB 1054);
- b. information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (reflected in proposed new paragraphs 9A(a) and (b));
- c. an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the R&M requirements in AAS (including the requirement to disclose an indication of where they do not comply) (reflected in the proposed new paragraph 9A(c))?

If you disagree with an aspect, please provide reasons.

The TJN-Aus strongly supports the proposed amendments to AASB 1054 to enhance transparency around the use of SPFS for users of such statements, including investors, employees and the wider community.

5. If the Amending Standard is issued before December 2019, do you agree with the proposed effective date of annual periods ending on or after 30 June 2020 (with early adoption permitted)? If not, please explain why.

The TJN-Aus agrees that if the Amending Standard is issued before December 2019 then the proposed effective date of annual periods should not be later than on or after 30 June 2020, given the limited extra work required to comply with the proposed requirements. The TJN-Aus notes the consultation paper reports that it is estimated that 66% of for-profit non-disclosing entities preparing and lodging SPFSs already state they followed the R&M requirements in the AAS. A further 10% were assessed to have complied with R&M requirements in the AAS based on a qualitative review of accounting policies, despite the absence of an explicit statement to that effect. The proportion of compliance with R&M requirements is much lower for charities preparing and lodging SPFSs, with only 26% stating explicit compliance with R&M requirements.

For entities that currently do not comply with R&M requirements, the most significant requirement will be determining which parts of the R&M requirements it does not comply with.

The TJN-Aus supports allowing for and encouraging voluntary early adoption of the proposed amendments to the AAS.

6. Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide reasons.

The TJN-Aus believes that even where an entity has not subsidiaries, investments in associates or investments in joint ventures it should be required to disclose the basis on which the decision to prepare a SPFS was made, given the limited cost of being required to do so.

11. Whether, overall, the proposals would result in SPFS that would be more useful to users?

The proposed amendments would be more useful to users, to give greater understanding as to why an entity has prepared a SPFS, the level of consolidation covered by the SPFS and if the SPFS complies with all the recognition and measurement requirements in the Australian Accounting Standards. This is worthwhile information for users of financial statements.

12. Whether the proposals are in the best interests of the Australian economy?

The proposed amendments to the AAS will result in greater financial transparency for the general community, which in turn will hopefully slightly increase confidence that businesses are paying the taxes they should pay in Australia. It will also make it easier for investors to assess and compare companies, leading to better investment decisions which in turn will benefit the Australian economy. It is also fair for employees to be able to assess the financial situation of the businesses they work for, given their livelihoods are dependent on those financial situations.

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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